

VIRALYTICS LTD

ABN 12 010 657 351

APPENDIX 4E

Preliminary Final Report

Year ended 30 June 2017 (current period)
and the year ended 30 June 2016 (previous corresponding period)

Results for announcement to the market

Results	30 Jun 17 (\$,000)	30 Jun 16 (\$,000)	% movement	
Revenue from ordinary activities	543	513	up	6%
(Loss) from ordinary activities after tax attributable to members	(12,294)	(9,066)	down	36%
(Loss) for the period attributable to members	(12,294)	(9,066)	down	36%
	30 Jun 17	30 Jun 16		
Net tangible asset backing per ordinary security	16.0 cents	20.3 cents		
Basic (Loss) cents per share	(5.1 cents)	(4.3 cents)		

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

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

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

Viralytics Limited

ABN 12 010 657 351

Annual Report for the Year Ended 30 June 2017

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CORPORATE INFORMATION

Directors

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

Managing Director

Dr Malcolm McColl

Company Secretary

Ms Sarah Prince

Chief Financial Officer

Mr Robert Vickery

Principal Place of Business

Suite 305, Level 3
66 Hunter Street
SYDNEY NSW 2000

Registered Office

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

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Auditors

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

Share Registry & Register

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

CHAIRMAN'S LETTER

Dear Fellow Shareholders

The momentum Viralytics built in 2016 continued to accelerate strongly into the current year under review.

The company's diligent and focused scientific endeavours, led by Dr Malcolm McColl and Professor Darren Shafren, have cemented Viralytics' position as one of the leading oncolytic virus companies in the field today.

Our lead drug candidate, CAVATAK®, is performing well, and we are quietly confident of its prospects, as the clinical data from our multiple trials continue to mature.

At the prestigious world cancer conference, the American Society for Clinical Oncology (ASCO), held in Chicago in June, Viralytics achieved the rare distinction for an ASX biotech of being chosen for a prominent podium presentation from among more than 5,000 international exhibitors.

Our partnership with Merck & Co., Inc. (known as MSD outside the United States and Canada) remains on a solid foundation, whilst at the same time we continue to extend our networks with other major pharmaceutical players.

Viralytics remains well funded, with strong support from some of the industry's leading life science venture funds, and is further strengthened by the efforts of your Board to maintain a watchful eye on the global capital markets for life science.

The year ahead promises to be very exciting, with planning now underway for a pivotal trial for CAVATAK. Interest in oncolytic viruses as an important new cancer immunotherapy approach remains high.

On behalf of the Board, I thank the management team for their outstanding contribution during the year, and you, our shareholders, for your continued support.



Paul Hopper

CHAIRMAN

MANAGING DIRECTOR'S LETTER

Viralytics made remarkable clinical progress in the 2017 financial year, moving us closer to the initiation of pivotal trials, elevating our profile at major international oncology meetings, and demonstrating CAVATAK®¹'s potential as an important new agent in the cancer immunotherapy field. This progress has fueled growing interest from pharma companies, investors and oncologists, and advanced our efforts to realize the full clinical and commercial potential of CAVATAK.

Especially encouraging was CAVATAK's performance in combination studies with leading checkpoint inhibitors YERVOY®² (ipilimumab) and KEYTRUDA®³ (pembrolizumab). These studies showed that CAVATAK has the potential to enhance the activity of these immunotherapeutic agents with a favourable toxicity profile. In the case of the Phase 1b MITCI trial, the CAVATAK-YERVOY combination resulted in responses in 44 percent of patients with advanced melanoma, including some whose disease had progressed despite prior treatment with checkpoint inhibitors. In addition, initial data from the Phase 1b CAPRA trial revealed a best overall response rate of 60 percent and stable disease in 27 percent of late-stage melanoma patients treated with the CAVATAK-KEYTRUDA combination. Importantly, there were fewer than expected adverse events in both trials. These are outstanding outcomes in tough patient populations. As a result, we have expanded patient populations in both the MITCI and CAPRA trials as we consider the design and implementation of pivotal studies.

We also made excellent progress in our Phase 1b KEYNOTE-200 trial, initiated a year ago as part of our clinical trial collaboration agreement with Merck & Co., Inc. (known as MSD outside the United States and Canada). We are now well advanced in the enrolment of the 80-patient dose expansion stage of the trial, which is focused on evaluating the safety and efficacy of CAVATAK with KEYTRUDA in patients with either advanced non-small cell lung cancer or metastatic bladder cancer. We were also pleased to recently add several Australian clinical trial sites to our group of outstanding clinical trial centres participating in the KEYNOTE-200 study – a gratifying step since the CAVATAK technology was developed locally, originally at the University of Newcastle. We are aiming to report preliminary results of the KEYNOTE-200 trial in the first quarter of 2018.

As a sign of our growing clinical momentum, we were selected for high-profile podium presentations at all the major global oncology conferences in the past year, including the annual meetings of ASCO (American Society of Clinical Oncology,) AACR (American Association for Cancer Research,) ESMO (European Society for Medical Oncology,) and SITC (Society for Immunotherapy of Cancer,) extending the potential audience for the CAVATAK story by many thousands.

¹ CAVATAK® is a novel investigational product in clinical development across multiple cancer indications.

² YERVOY® is a trademark of the Bristol-Myers Squibb Company

³ KEYTRUDA® is a trademark of Merck & Company Inc

MANAGING DIRECTOR'S LETTER

To support our growing clinical program, we have recently strengthened our manufacturing, regulatory and quality control team, with the addition of Rae Saltzstein as Director of CMC Operations and Mariana Nielsen as Associate Director, Quality Affairs. In addition, we have established a Clinical Advisory Board of international oncology thought leaders to serve as a strategic resource as we continue our efforts to accelerate CAVATAK's progress in the clinic.

Given the excellent data we have generated for CAVATAK in combination with checkpoint inhibitors, we remain optimistic about its potential to improve the activity and tolerability of these agents – and this in a year when some other immuno-oncology combinations have lost their lustre. We look forward to advancing these combination trials as well as adding new clinical studies in additional cancer indications in the coming year.

Viralytics remains well funded and enjoys support from a broad range of investors, including seven leading international health care funds. With this support, we intend to capitalize on our unique opportunity to help patients while increasing our commercial value. Based on the growing body of clinical evidence suggesting CAVATAK's use as a valuable new oncolytic immunotherapy, we are vigorously pursuing our strategy of partnering or licensing CAVATAK at a key value point. We are grateful for the continued confidence and support of our employees, collaborators and investors in this important effort.



Malcolm McColl

MANAGING DIRECTOR and CHIEF EXECUTIVE OFFICER

Directors' Report

for the year ended 30 June 2017

The Directors present their report together with the financial statements of the Group for the financial year ended 30 June 2017.

DIRECTORS

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

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

COMPANY SECRETARY

The Company Secretary during the financial year was Ms Sarah Prince.

PRINCIPAL ACTIVITIES

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

- (i) Phase 1b KEYNOTE-200 study in the US, in collaboration with Merck, assessing CAVATAK in combination with KEYTRUDA⁴ in advanced lung and bladder cancer patients;
- (ii) Phase 1b MITCI (Melanoma Intra-Tumoral CAVATAK and Ipilimumab) clinical trial of CAVATAK in combination with the drug YERVOY®⁵ in late-stage melanoma patients, ongoing;
- (iii) US Phase 1b CAPRA (CAVATAK and PembRolizumab in Advanced Melanoma) clinical study of CAVATAK in combination with KEYTRUDA in late-stage melanoma patients, ongoing;
- (iv) Phase 1b CANON (CAVATAK in NON-muscle invasive bladder cancer) two-part, open-label, dose-escalation study, completed in the UK during 2016 and reported this year;
- (v) Preclinical programs, including the assessment of CAVATAK in combination with other new important immunotherapies and in various cancer types; and

⁴ KEYTRUDA is a registered trademark of Merck

⁵ YERVOY is a registered trademark of Bristol Myers Squibb Company

Directors' Report

for the year ended 30 June 2017

- (vi) Development of intellectual property assets.

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

OPERATING RESULT

The operating loss for the year was \$12.3 million (2016: \$9.1 million loss) reflecting increased clinical development activities.

CASH MANAGEMENT

Cash on hand as at 30 June 2017 was \$34.3 million (30 June 2016: \$46.1 million).

STATEMENT OF FINANCIAL POSITION

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

- Cash on hand as at 30 June 2017 was \$34.3 million compared to \$46.1 million at 30 June 2016.
- Net assets decreased to \$39.6 million from \$50.3 million at 30 June 2016.
- Net tangible assets increased to \$38.3 million from \$48.7 million at 30 June 2016.

The Board believes the Group is well placed to support its business programmes throughout 2017/18.

REVIEW OF OPERATIONS

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

Directors' Report

for the year ended 30 June 2017

CLINICAL TRIALS

Phase 1 STORM Solid Tumour Intravenous Clinical Trial (USA, Australia and UK)

The KEYNOTE-200 (STORM) clinical trial is an ongoing Phase 1b study evaluating intravenously-delivered CAVATAK in combination with KEYTRUDA® (pembrolizumab) in patients with advanced non-small cell lung or metastatic bladder cancer. The aims of the study are to establish a recommended dosing regimen and to evaluate anti-cancer activity and patient tolerability of the combination. The study is being conducted in collaboration with Merck (known as MSD outside the United States and Canada).

Early data from the study was presented at a podium presentation in April at the American Association of Cancer Research (AACR) Annual Conference by Principle Investigator Professor Charles Rudin from Memorial Sloan Kettering Cancer Centre.

Dr Rudin reported on the strong enrolment and low incidence of adverse events in the study to that point. Enrolment in the dose escalation phase of the study was completed early in 2017 and recruitment is progressing well in the expansion cohort seeking 80 patients. The dose-escalation phase was conducted solely in the US. The expansion cohort includes additional sites in Australia with plans to also open sites in the United Kingdom. To date, 25 subjects have been treated at the highest CAVATAK dose in combination with KEYTRUDA®. No dose limiting toxicity for the combination of CAVATAK with KEYTRUDA has been observed in the heavily pre-treated patient population.

Further updates are forecast in early 2018.

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

The MITCI clinical trial is evaluating intratumoral CAVATAK, in combination with YERVOY® (ipilimumab) in subjects with advanced melanoma.

In data reported at a podium presentation at the Annual Conference of the American Society of Clinical Oncology (ASCO) in June a Best Overall Response Rate (BORR) of 67% (8/12) was observed in advanced melanoma patients naïve to prior checkpoint therapy. The BORR for YERVOY® as a monotherapy in late stage melanoma patients is 11%⁶.

In a subgroup of patients who received prior single agent PD-1 blockade therapy, when treated on the MITCI trial, preliminary data showed a confirmed BORR of 33% (2/6) and a disease control rate (DCR) of 67% (4/6). In a further subset of MITCI patients that had progressed on both anti-PD1 and anti-CTLA-4 therapies, a BORR of 14% (1/7) was observed, with a DCR of 57% (4/7). Particularly

⁶ Hodi et al. N Engl J Med. 2010; 363(8):711.

Directors' Report

for the year ended 30 June 2017

encouraging are the ongoing responses observed for MITCI in non-injected liver and lung lesions of 38% (6/16) with a stable disease rate of 56% (9/16).

A key further finding has been the low rate of adverse events. In the first 25 patients there were no dose-limiting toxicities, and only two grade 3 ipilimumab-related adverse events with an overall grade 3 adverse event rate of 8% (2/25). This compares favourably to ipilimumab monotherapy in advanced melanoma patients where the reported rate of grade 3 or higher treatment related adverse events is 23%¹.

The MITCI trial is now focussing on a subset of melanoma patients who have progressed on prior anti-PD1 with or without previous treatment with ipilimumab (anti-CTLA-4) therapy.

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

The ongoing Phase 1b CAPRA study is designed to evaluate the tolerability and anti-cancer activity of intralesionally injected CAVATAK in combination with the systemic administration of KEYTRUDA® in patients with unresectable melanoma. Initial data reported in April at the American Association of Cancer Research (AACR) Annual conference from the first 15 evaluable patients included a best overall response rate of 60% and stable disease in 27% of patients. No dose limiting toxicities and no Grade 3 or higher treatment-related adverse events were reported.

Partial responses have been seen in nine patients who have responded to the combination, with one subject having a partial response ongoing one year after the initiation of therapy. To date two patients have demonstrated complete responses in the target lesions. In the sub-group of patients with the most advanced Stage IV M1c disease the BORR was 83% (5/6 patients).

The study is being expanded to enrol up to 50 patients, including patients that have failed prior checkpoint therapies.

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

The CANON study, which completed in 2016, investigated the tolerance of escalating doses of CAVATAK delivered directly into the bladder through a catheter, a technique known as intravesicular administration, over an eight-day period in 16 first-line patients with non-muscle invasive bladder cancer (NMIBC) prior to routine surgical removal of the tumour tissue. In the first stage of the trial, nine patients were treated by intravesicular administration of monotherapy CAVATAK. In the second stage, seven patients received a sub-therapeutic dose of the chemotherapy, mitomycin C, plus CAVATAK, also delivered intravesically.

Clinical activity of CAVATAK was demonstrated by evidence of viral replication and notable signs of tumour inflammation following either single or multiple administrations of CAVATAK in multiple patients. A complete response was observed in one out of the three patients in the highest-dose cohort of the monotherapy. Whether used alone or in combination with mitomycin C, CAVATAK facilitated notable changes within NMIBC tissue biopsies taken from treated patients

Directors' Report

for the year ended 30 June 2017

by inducing increases in immune cell infiltrates and up-regulating immune checkpoint inhibitory genes such as PD-L1, compared to tissue samples taken from untreated patients. In addition, the intravesicular administration of CAVATAK either as a single agent or in combination was generally well tolerated with no Grade 2 or higher product-related adverse events.

OTHER STUDIES

Planning is underway to assess CAVATAK in a range of other clinical settings. There is strong interest from global thought leaders to assess CAVATAK in combination with checkpoint inhibitors in uveal melanoma, colorectal cancer, prostate cancer and head and neck cancer. New Phase 1 studies are planned for initiation in the coming year.

CAVATAK Preclinical studies (Australia)

We believe CAVATAK has the potential to enhance the activity of a range of other cancer immunotherapies. Preclinical studies are ongoing to assess CAVATAK in combination with other novel agents and updates will be provided through the upcoming period.

CORPORATE

The Group remains in a strong financial position with \$34.3 million cash on hand at 30 June and a strong shareholder register comprising 55% institutional representation.

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

INTELLECTUAL PROPERTY

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

LIKELY DEVELOPMENTS AND LIKELY RESULTS

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

Directors' Report

for the year ended 30 June 2017

The Group is actively working to broaden CAVATAK's potential into other indications and combinations through preclinical and planning activities. The intent is to add value to CAVATAK by strengthening its intellectual property position and by expanding the clinical data and commercial opportunity across a range of indications through our active KEYNOTE-200, MITCI and CAPRA clinical trials, as well as several other planned clinical studies.

Discussions with global pharmaceutical companies continue with the aim to drive CAVATAK towards commercialisation and to generate a strong return for shareholders.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE YEAR

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

ENVIRONMENTAL ISSUES

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

PROCEEDINGS ON BEHALF OF GROUP

No person has applied for leave of court under section 237 of the Corporations Act 2001 to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the year.

DIVIDENDS

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

Directors' Report

for the year ended 30 June 2017

SHARE CAPITAL AND OTHER EQUITY SECURITIES

A total of 14,197,667 unissued ordinary shares under option and 100,500 unissued ordinary shares under performance right options are outstanding at the date of this report. Further details regarding changes to the capital structure during the year are set out in Note 13 – Issued Capital.

Unissued Shares under Option

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

Date Options Granted	Expiry Date	Exercise Price	Closing Balance
23 November 2012	23 November 2017	\$0.3520	200,000
8 February 2013	21 January 2018	\$0.3260	1,200,000
28 November 2014	28 November 2019	\$0.3320	978,334
28 September 2015	28 September 2020	\$0.5885	4,500,000
18 November 2015	18 November 2020	\$0.5885	5,000,000
18 November 2015	18 November 2020	\$0.6626	633,333
28 November 2016	28 September 2021	\$0.9095	630,000
23 November 2016	23 November 2021	\$1.2056	666,000
28 March 2017	28 March 2022	\$1.0092	390,000
			14,197,667

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

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

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

Date Options Granted	Issue Price	Number of Shares Issued
12 August 2011	\$0.700	300,000
28 November 2014	\$0.332	266,666
18 November 2015	\$0.663	66,667

Directors' Report

for the year ended 30 June 2017

MEETINGS OF DIRECTORS

During the reporting period, 10 meetings of Directors were held. Attendances by each Director during the year were as follows:

	Directors' Meetings eligible to attend	Directors' Meetings attended
Mr Paul Hopper (Non-Executive Chairman)	10	10
Dr Leonard Post (Non-Executive Director)	10	10
Mr Peter Turvey (Non-Executive Director)	10	9
Dr Malcolm McColl (Managing Director)	10	10

AUDIT AND RISK COMMITTEE MEETINGS

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

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

REMUNERATION & NOMINATION COMMITTEE MEETINGS

During the reporting period, 4 meetings of the Remuneration & Nomination Committee were held. Attendances by each member during the period were as follows:

	Meetings eligible to attend	Meetings attended
Mr Paul Hopper (Committee Chairman)	4	4
Dr Leonard Post	4	4
Mr Peter Turvey	4	3

Directors' Report

for the year ended 30 June 2017

DIRECTORS' QUALIFICATIONS AND EXPERIENCE

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

Paul Hopper, BA (UNSW), Diploma - Securities Institute of Australia

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

Mr Hopper has served as CEO and Director of many listed biotechnology and healthcare companies in Australia and the US and has significant experience in fund raising, corporate governance, risk and strategy. Mr Hopper also brings significant financial and accounting expertise to the Board with many years' experience in providing advice and guidance as it relates to the oversight of accounting policies, financial reporting, financial analysis, cash flow forecasting, M & A, valuations and management of companies of differing sizes and financial circumstances.

Mr Hopper currently serves as Executive Chairman, Chairman and Executive Director of three ASX listed companies, including Viralytics, and serves on a number Board sub-committees relating audit, risk, governance and remuneration.

Other Current Listed Directorships:

Imugene Limited (Executive Chairman)
Prescient Therapeutics Limited (Non-Executive Director)

Interest in VLA shares:

180,106

Interest in VLA options:

766,000

Previous Listed Directorships (last 3 years):

Nil

Dr Leonard Post PhD - Non-Executive Director

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

Directors' Report

for the year ended 30 June 2017

Dr Leonard Post - Non-Executive Director (continued)

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

Other Current Listed Directorships:

Nil

Interest in VLA shares:

Nil

Previous Listed Directorships (last 3 years):

Nil

Interest in VLA options:

800,000

Mr Peter Turvey, BA/LLB (ANU), MAICD – Non-Executive Director

Mr Turvey has over thirty years' experience in the biotechnology industry most of which were as Group General Counsel, Company Secretary and Executive Vice-President Licensing of speciality biopharmaceutical Group CSL Limited. Joining CSL in 1992 when it was still owned by the Commonwealth Government, Mr. Turvey was a part of the Executive Team that built CSL into the global biopharmaceutical Company that it is today by being heavily involved in CSL's acquisitions and divestments over those years and directly responsible for the protection and licensing of its intellectual property. Mr Turvey was also Chair of CSL's Corporate Risk Management Committee, responsible for internal audit and insurance and a member of the Company's Audit and Risk Management Committee. He retired from CSL in 2011.

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

Other Current Listed Directorships:

Starpharma Holdings Limited

Interest in VLA shares:

420,894

Previous Listed Directorships (last 3 years):

Admedus Limited

Interest in VLA options:

466,667

Directors' Report

for the year ended 30 June 2017

Dr Malcolm McColl, BVSc (Hons) MBA – Managing Director

Dr McColl has more than twenty years' experience in the pharmaceutical and biotechnology industries, serving in senior level business development positions at both international and regional companies, with a focus on the oncology field.

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

Other Current Listed Directorships:

Nil

Interest in VLA shares:

Nil

Previous Listed Directorships (last 3 years):

Nil

Interest in VLA options:

6,600,000

COMPANY SECRETARY - QUALIFICATIONS AND EXPERIENCE

Ms Sarah Prince BA LLB Grad Dip Corp Gov.

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

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

Directors' Report

for the year ended 30 June 2017

REMUNERATION REPORT - AUDITED

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

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

Remuneration Policy

Director and Executive Remuneration

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

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

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

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

Directors' Report

for the year ended 30 June 2017

Performance-based Remuneration

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

Performance incentives – Key Performance Indicators (KPIs) are set annually by the Directors and target financial and non-financial areas the Directors believe hold greatest potential for achieving the short and long-term objectives of the Group given its position as an early stage Research and Development Group. The KPI details for 2017/18 include achieving share price performance targets; initiating new trials consistent with corporate strategy; and instigating substantial partnering discussions. Performance in relation to the KPIs is assessed annually in light of the desired and actual outcomes, with bonuses being awarded by resolution of the Directors depending on the number of KPIs achieved.

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

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

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

	2017	2016	2015	2014	2013
EPS (cents)	(5.1)	(4.3)	(2.3)	(4.6)	(5.1)
Dividends (cents per share)	Nil	Nil	Nil	Nil	Nil
Net profit/loss (\$,000)	(12,294)	(9,066)	(4,254)	(5,529)	(4,130)
Share price (\$)	0.95	0.91	0.76	0.27	0.245

Directors' Report

for the year ended 30 June 2017

Performance Based Remuneration is apportioned as follows:

Performance Based Remuneration - 2017

		<u>Related to Performance</u>		<u>Not Related to Performance</u>		<u>Total</u>
	Position at 30 June 2017	Non-salary Cash-based Incentives	Options/ Rights	Options/ Rights	Fixed Salary/ Fees	
		%	%	%	%	%
Key Management Personnel						
Mr Paul Hopper	Non-Executive Chairman	0%	0%	52%	48%	100%
Dr Leonard Post	Non-Executive Director	0%	0%	54%	46%	100%
Mr Peter Turvey	Non-Executive Director	0%	0%	53%	47%	100%
Dr Malcolm McColl	Managing Director	11%	42%	1%	46%	100%
Dr Jennifer Rosenthal	Director – Regulatory Affairs	13%	0%	18%	69%	100%
Ms Rae Saltzstein ¹	Director CMC Operations	0%	0%	26%	74%	100%
Prof Darren Shafren	Chief Scientific Officer	11%	42%	0%	47%	100%
Mr Robert Vickery	Chief Financial Officer	10%	0%	25%	65%	100%

1. Appointed 1st April 2017

Directors' Report

for the year ended 30 June 2017

Performance Based Remuneration – 2016

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

Directors' Report

for the year ended 30 June 2017

Director Remuneration for the year ended 30 June 2017:

	Short-Term Benefits				Post Employ- ment	Termin- ation Benefits	Share- based Payment	Total
	Director fees & Salary \$	Bonus \$	Change Accrued Leave \$	Other ⁽ⁱ⁾ \$	Superan- nuation \$	\$	Options \$	\$
<u>Non-Executive Directors</u>								
Mr P Hopper ⁽ⁱ⁾	82,125	-	-	10,000	-	-	98,524	190,649
Dr L Post	60,225	-	-	-	-	-	71,412	131,637
Mr P Turvey	60,000	-	-	-	5,700	-	74,883	140,583
<u>Executive Director</u>								
Dr M McColl	381,500	108,900	45,827	-	28,054	-	423,427	987,708
Total	583,850	108,900	45,827	10,000	33,754	-	668,246	1,450,577

(i) Mr Hopper received a travel allowance of \$10,000.

Director Remuneration for the year ended 30 June 2016:

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

(i) Mr Hopper received a travel allowance of \$10,000.

Directors' Report

for the year ended 30 June 2017

Group Executives

Remuneration for executives is set out below:

Details of Executive Remuneration for the year ended 30 June 2017:

Executive	Short-Term Benefits				Post Employment	Termination Benefits	Share-based Payment	Total
	Salary	Consulting	Bonus	Change Accrued Leave	Superannuation		Options / Perf. Rights	
	\$	\$	\$	\$	\$	\$	\$	\$
Dr Jennifer Rosenthal ^(c)	183,750	-	37,080	(3,609)	20,534	-	54,981	292,736
Ms Rae Saltzstein ^(d)	58,299	-	-	2,176	5,538	-	23,474	89,487
Prof Darren Shafren ^(a)	142,090	142,404	66,712	-	13,499	-	264,326	629,031
Mr Robert Vickery ^(b)	158,152	-	25,200	(2,820)	17,590	-	65,781	263,903
	542,291	142,404	128,992	(4,253)	57,161	-	408,562	1,275,157

Information relating to Executive Bonuses for the Year Ending 30 June 2017

	Malcolm McColl	Jennifer Rosenthal	Darren Shafren	Robert Vickery
Grant Date	Feb 2017	Jun 2017	Nov 2016	Jun 2017
Nature of Compensation	Cash bonus	Cash bonus	Cash bonus	Cash bonus
Service and Performance Criteria	Achieving KPIs as outlined in 'Performance Based Remuneration'	Achieving KPIs as outlined in 'Performance Based Remuneration'	Achieving KPIs as outlined in 'Performance Based Remuneration'	Achieving KPIs as outlined in 'Performance Based Remuneration'
% Paid	100%	100%	100%	80%
% Forfeited	0%	0%	0%	20%
Subsequent Years in which Compensation might be payable	N/A	N/A	N/A	N/A
Minimum / Maximum possible grant for 2016/17	\$0 / \$108,900	\$0 / \$37,080	\$0 / \$66,712	\$0 / \$31,500

Directors' Report

for the year ended 30 June 2017

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

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

- (a) During the year ended 30 June 2017, Professor Shafren retained tenure with the University of Newcastle while engaged full time with Viralytics as its Chief Scientific Officer. Professor Shafren is paid a standard Associate Professor's salary of \$142,090 (2016 \$143,546) plus superannuation of \$13,499 (2016 \$13,637) by the University of Newcastle. Viralytics pays The University of Newcastle Research Associates Ltd (TUNRA), the commercial arm of the University of Newcastle \$232,404 (2016 \$232,404) in respect of Prof Shafren's services. Of this, TUNRA pays Professor Shafren a consultancy fee of \$142,404 (2016 \$142,404). In November 2016 Prof Shafren was awarded a bonus of \$66,712 by meeting measurable KPIs for the period. In October 2015 he received a bonus of \$64,274. As at 30 June 2017 Prof. Shafren holds 4,000,000 share options which expire on 28 September 2020 with an exercise price of \$0.5885 (2016 – 4,000,000 options expiring 28 September 2020 with an exercise price of \$0.5885).
- (b) Mr Vickery was issued 240,000 options in September 2016 and 200,000 options in September 2015.
- (c) Dr Rosenthal was issued 210,000 options in September 2016 and 150,000 options in September 2015.
- (d) Ms Saltzstein was issued 240,000 options in March 2017. She commenced employment on 1 April 2017.

Executive Contractual Arrangements

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

Name	Base Salary	Term of Agreement	Notice Period
Malcolm McColl	\$400,000	Unspecified	6 months
Darren Shafren	\$142,090	Unspecified	6 months
Robert Vickery	\$180,000	Unspecified	3 months
Jennifer Rosenthal	\$192,000	Unspecified	3 months

Directors' Report

for the year ended 30 June 2017

Loans to Key Management Personnel

The Group does not have any facilities in place to establish loans to Key Management Personnel. There are no loans in place to Key Management Personnel at 30 June 2017 (2016 – nil).

Options Issued as Remuneration to directors and key management:

Director / KMP	Number Granted	Grant Date	Value per option	Total value ⁽ⁱ⁾ \$	Exp (% remuneration)	Exercise price \$	First Exercise date	Vested at report date	Expiry date
2017									
Hopper	266,000	23 Nov 16	0.5477	145,678	52%	1.2056	23 Nov 17	-	23 Nov 21
Post	200,000	23 Nov 16	0.5477	109,532	54%	1.2056	23 Nov 17	-	23 Nov 21
Turvey	200,000	23 Nov 16	0.5477	109,532	53%	1.2056	23 Nov 17	-	23 Nov 21
Vickery	240,000	28 Sep 16	0.3982	95,563	25%	0.9095	28 Sep 18	-	28 Sep 21
Rosenthal	210,000	28 Sep 16	0.3982	83,617	19%	0.9095	28 Sep 18	-	28 Sep 21
Saltzstein	240,000	28 Mar 17	0.6203	148,876	26%	1.0092	28 Mar 18	-	28 Mar 22
2016									
McColl	2,500,000	18 Nov 15	0.2500	625,000	43%	0.5885	21 Jun 16	2,500,000	18 Nov 20
McColl	2,500,000	18 Nov 15	0.3624	906,000	22%	0.5885	21 Jun 16	-	18 Nov 20
Hopper	300,000	18 Nov 15	0.3400	102,000	34%	0.6626	18 Nov 16	100,000	18 Nov 20
Post	200,000	18 Nov 15	0.3400	68,000	36%	0.6626	18 Nov 16	66,667	18 Nov 20
Turvey	200,000	18 Nov 15	0.3400	68,000	39%	0.6626	18 Nov 16	66,667	18 Nov 20
Shafren	2,000,000	28 Sep 15	0.1800	360,000	39%	0.5885	21 Jun 16	2,000,000	28 Sep 20
Shafren	2,000,000	28 Sep 15	0.2875	575,000	22%	0.5885	21 Jun 16	-	28 Sep 20
Vickery	200,000	28 Sep 15	0.2875	57,500	13%	0.5885	15 Sep 16	66,667	28 Sep 20
Rosenthal	150,000	28 Sep 15	0.2875	43,125	8%	0.5885	15 Sep 16	50,000	28 Sep 20

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

Directors' Report

for the year ended 30 June 2017

Terms and conditions applicable to unlisted options and performance rights

Options

2017

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

	1st Tranche	2nd Tranche	3rd Tranche
Paul Hopper	23 Nov 17	23 Nov 18	23 Nov 19
Leonard Post	23 Nov 17	23 Nov 18	23 Nov 19
Peter Turvey	23 Nov 17	23 Nov 18	23 Nov 19
Robert Vickery	28 Sep 17	28 Sep 18	28 Sep 19
Jennifer Rosenthal	28 Sep 17	28 Sep 18	28 Sep 19
Rae Saltzstein	28 Mar 18	28 Mar 19	28 Mar 20

2016

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

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

- (i) Vests if any one of three performance targets based on share price, clinical trial progress or corporate transaction activity is achieved by 30 November 2016.
- (ii) Vests if any one of three performance targets based on share price, clinical trial progress or corporate transaction activity is achieved by 30 November 2017.

Performance Rights

2017

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

2016

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

Directors' Report

for the year ended 30 June 2017

Options and Rights Converted into Shares

During the year ended 30 June 2017 the following current and former directors and key management personnel exercised options:

	Amount	Exercise Price
Peter Molloy	300,000	\$0.7000
Peter Turvey	266,666	\$0.3320
Peter Turvey	66,667	\$0.6626
	<u>633,333</u>	

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

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

During the year ended 30 June 2017 no current or former directors and management personnel received shares following conversion of performance rights. During the year ended 30 June 2016 Mr Vickery received 40,000 shares and Prof. Shafren received 200,000 shares following conversion of performance rights.

Options Expired during the Year

2017

No options expired during the year.

2016

No options expired during the year.

Directors' Report

for the year ended 30 June 2017

Directors' and Key Management Personnel relevant interests in securities

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

(a) Ordinary Shares	Opening Balance	Shares Acquired	Shares Disposed	Closing Balance
Paul Hopper				
Deborah Coleman ⁽ⁱ⁾	36,000	-	-	36,000
Kilinwata Investments Pty Limited ⁽ⁱⁱ⁾	124,106	20,000	-	144,106
Peter Turvey				
P & P Turvey ATF Katto Superannuation Fund ⁽ⁱⁱⁱ⁾	87,561	333,333	-	420,894
Darren Shafren	80,150	-	-	80,150
Robert Vickery	102,439	12,000	-	114,439
Jennifer Rosenthal	15,000	-	-	15,000

(b) Unlisted Options	Opening Balance	Issued during year	Exercised during year	Closing Balance	Vesting Term	Vested and Exercisable at 30 June	Vested and Unexercisable at 30 June
Paul Hopper	500,000	266,000	-	766,000	(iv)	233,334	-
Leonard Post	600,000	200,000	-	800,000	(v)	400,001	-
Malcolm McColl	6,600,000	-	-	6,600,000	(vi)	3,966,666	-
Peter Turvey	600,000	200,000	(333,333)	466,667	(vii)	-	-
Darren Shafren	4,000,000	-	-	4,000,000	(viii)	2,000,000	-
Robert Vickery	200,000	240,000	-	440,000	(ix)	66,667	-
Jennifer Rosenthal	150,000	210,000	-	360,000	(x)	50,000	-
Rae Saltzstein	-	240,000	-	240,000	(xi)	-	-
Total	12,650,000	1,356,000	(333,333)	13,672,667		6,716,668	-

(i) Ms Coleman is the spouse of Mr Hopper.

(ii) Mr Hopper is a shareholder of Kilinwata Investments Pty Limited.

(iii) Mr Turvey is a beneficiary of the KATTO Superannuation Fund.

Vesting Terms

(iv) 233,334 have vested and the remaining vesting dates are: 66,666 – 8 September 2017; 100,000 - 18 November 2017; 88,667 - 23 November 2017; 100,000 - 18 November 2018; 88,667 - 23 November 2018; and 88,666 – 23 November 2019. The remaining options have vested.

(v) 400,001 have vested and the remaining vesting dates are: 66,666 – 8 September 2017; 66,667 - 18 November 2017; 66,667 - 23 November 2017; 66,666 - 18 November 2018; 66,666 - 23 November 2018; and 66,666 – 23 November 2019. The remaining options have vested.

(vi) 4,100,000 have vested. The remaining 2,500,000 will only vest on achievement of a further performance target. More details provided in Note 13 - Issued Capital.

Directors' Report

for the year ended 30 June 2017

- (vii) None have vested and the remaining vesting dates are: 133,334 – 8 September 2017; 66,667 - 18 November 2017; 66,667 - 23 November 2017; 66,666 - 18 November 2018; 66,667 - 23 November 2018; and 66,666 – 23 November 2019.
- (viii) 2,000,000 options are fully vested. The remaining 2,000,000 will only vest on achievement of a further performance target. More details provided in Note 13 - Issued Capital.
- (ix) 66,667 have vested and the remaining vesting dates are: 66,667 - 15 September 2017; 80,000 – 28 September 2017; 66,666 - 15 September 2018; 80,000 – 28 September 2018; 80,000 – 28 September 2019. The remaining options have vested.
- (x) 50,000 have vested and the remaining vesting dates are: 50,000 - 15 September 2017; 70,000 – 28 September 2017; 50,000 - 15 September 2018; 70,000 – 28 September 2018; 70,000 – 28 September 2019. The remaining options have vested.
- (xi) None have vested and the remaining vesting dates are: 80,000 – 28 March 2018; 80,000 – 28 March 2019; 80,000 - 28 March 2020.

END OF AUDITED REMUNERATION REPORT

DIRECTORS' AND AUDITOR'S INDEMNIFICATION

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

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

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

Directors' Report

for the year ended 30 June 2017

NON-AUDIT SERVICES

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

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

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

Other compliance services were provided by Grant Thornton during the financial year. The fees for tax and other compliance services provided by Grant Thornton were \$16,470 (2016 - \$73,642).

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2017 as required under s307C of the Corporations Act 2001 has been received and can be found on page 30.

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



Paul Hopper

Chairman

Dated: 18 August 2017

Corporate Governance Statement

for the year ended 30 June 2017

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

The Group's Corporate Governance Statement for the financial year ending 30 June 2017 is dated as at 30 June 2017 and was approved by the Board on 18 August 2017.

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

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

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Auditor's Independence Declaration To the Directors of Viralytics Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Viralytics Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



L M Worsley
Partner - Audit & Assurance

Sydney, 18 August 2017

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2017

	Note	2017 \$	2016 \$
Revenue			
Interest Revenue		543,389	512,652
Total Revenue		543,389	512,652
Other Income			
R & D Incentive	4	6,480,285	4,654,938
Total Other Income		6,480,285	4,654,938
Expenses			
Research and development costs:			
Clinical trials		8,100,109	4,295,674
Research and development		2,750,604	2,267,419
Manufacture		2,642,366	2,041,372
Patents and related costs		258,127	132,858
Amortisation of intangibles		390,312	390,312
Depreciation		51,744	36,570
Employee costs		2,916,039	3,148,422
Corporate compliance costs		1,065,383	868,523
Other Expenses		489,734	364,865
Interest Expense		17	4,803
Foreign currency translation loss		652,749	682,495
Total Expenses	4	19,317,184	14,233,313
(Loss) before income tax		(12,293,510)	(9,065,723)
Income tax expense	5	-	-
Total (loss) for the year, net of tax		(12,293,510)	(9,065,723)
Other comprehensive income			
Exchange differences on translating foreign operations		(1,045)	-
Total comprehensive income for the year, net of tax		(12,294,555)	(9,065,723)
Basic (loss) cents per share	6	(5.1)	(4.3)
Diluted (loss) cents per share	6	(5.1)	(4.3)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2017

	Note	2017 \$	2016 \$
Current Assets			
Cash and cash equivalents	7	34,274,058	46,121,485
Trade and Other Receivables	8	6,865,193	4,848,713
Total Current Assets		41,139,251	50,970,198
Non-Current Assets			
Plant and equipment	9	146,836	78,667
Investments	10	-	-
Intangible assets	11	1,253,152	1,643,464
Total Non-Current Assets		1,399,988	1,722,131
Total Assets		42,539,239	52,692,329
Current Liabilities			
Trade and other payables	12	2,949,129	2,364,305
Total Current Liabilities		2,949,129	2,364,305
Total Liabilities		2,949,129	2,364,305
Net Assets		39,590,110	50,328,024
Equity			
Issued Capital	13	121,696,416	121,169,264
Reserves	14	3,222,263	2,193,819
Accumulated Losses		(85,328,569)	(73,035,059)
		39,590,110	50,328,024

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes In Equity

for the year ended 30 June 2017

Year Ended 30 June 2017

	Share Capital	Retained Earnings	Reserves		Total
		(Accumula ted Losses)	Option Reserve	Foreign Currency Translation Reserve	
Note	Ordinary \$	\$	\$	\$	\$
Balance at 1 July 2016	121,169,264	(73,035,059)	2,193,819	-	50,328,024
Loss after income tax expense for the year	-	(12,293,510)	-	-	(12,293,510)
Other comprehensive income for the year	-	-	-	(1,045)	(1,045)
Total comprehensive income for the year	-	(12,293,510)	-	(1,045)	(12,294,555)
Transactions with owners in their capacity as owners, and other transfers:					
Transaction costs	(6,805)	-	-	-	(6,805)
Ordinary Shares issued on Exercise of Options	342,707	-	-	-	342,707
Transfer to share capital for options exercised	135,200	-	(135,200)	-	-
Conversion of Performance Rights	56,050	-	(56,050)	-	-
Share option based compensation 14	-	-	1,220,739	-	1,220,739
Total transactions with owners and other transfers	527,152	-	1,029,489	-	1,556,641
Balance at 30 June 2017	121,696,416	(85,328,569)	3,223,308	(1,045)	39,590,110

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes In Equity

for the year ended 30 June 2017

Year Ended 30 June 2016

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

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 30 June 2017

	Note	2017 \$	2016 \$
Cash Flows from Operating Activities			
R & D Incentive Offset		4,295,768	2,928,531
Payments to suppliers and employees		(16,261,060)	(10,955,749)
Interest received		555,686	489,830
Interest paid		(17)	(4,803)
Net cash (used in)/provided by operating activities	16	(11,409,623)	(7,542,191)
Cash Flows from Investing Activities			
Purchase of equipment		(119,912)	(32,761)
Security Deposits transferred to cash		-	52,536
Net cash (used in)/provided by investing activities		(119,912)	19,775
Cash Flows from Financing Activities			
Proceeds from issue of shares		-	32,362,738
Exercise of Options		342,707	1,920,000
Costs of fund raising		(6,805)	(1,564,085)
Net cash provided by financing activities		335,902	32,718,653
Net (decrease) / increase in cash held		(11,193,633)	25,196,237
Net Foreign Exchange Difference		(653,794)	(640,565)
Cash at the beginning of the financial year		46,121,485	21,565,813
Closing cash at the end of the financial year	7	34,274,058	46,121,485

The accompanying notes form part of these financial statements

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Material accounting policies adopted in preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements are prepared for Viralytics Limited and its subsidiaries (the Group). Viralytics Limited is a listed public Company, incorporated and domiciled in Australia with one subsidiary, Viralytics Services Inc. incorporated on 7th February 2017 in the United States. The accounts of the Group are prepared on a consolidation basis.

Reporting Basis and Conventions

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded to the nearest dollar.

Going Concern

The financial statements for the year ended 30 June 2017 are prepared on a going concern basis. Notwithstanding that the Group has a history of losses, the Directors consider that it has sufficient capital to pursue its strategic plan and objectives in the next twelve months as laid out in the Directors Report under Likely Developments and Likely results. This is because the Group has cash assets of \$34.3 million at 30 June 2017 which it forecasts will fund its programmes beyond 12 months from the signing of this report. The Group may raise capital in the future in order to fund subsequent activities. Current cash holdings will provide sufficient funding to meet foreseeable expenditure commitments and pay debts as and when they fall due.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 30 June 2017. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June. A list of subsidiaries is provided in Note 21.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Fair Value Measurement

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

New and Revised Standards that are effective for these financial statements

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2016. None of these standards has had a material impact on the financial statements for Group for the year ending 30 June 2017.

New Accounting Standards for Application in Future Periods

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Standards for Application in Future Periods continued

AASB 9 Financial Instruments (December 2014):

The standard introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward looking expected loss impairment model and a substantially changed approach to hedge accounting. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The main changes:

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Standards for Application in Future Periods continued

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

The likely impact of this Standard has been considered and it has been determined that it is not likely to be material to the Group.

AASB 15 Revenue from Contracts with Customers

The main changes:

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

The Group does not presently receive revenue from customers. The likely impact of this Standard has been considered and it has been determined that it is not likely to be material to the Group when it is first adopted for the year ending 30 June 2019.

AASB 16 Leases

The main changes:

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

The Group's main lease is in respect of its corporate head office which is currently renewed on an annual basis. The likely impact of this Standard has been considered and it has been determined that it is not likely to be material to the Group when it is first adopted for the year ending 30 June 2020. The current commitments for lease are rolled on a month-to-month basis and the impact would not be material.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Standards for Application in Future Periods continued

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

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

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

The amendments:

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

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Cash and Cash Equivalents

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

b) Financial Instruments

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

Recognition and de-recognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial assets are de-recognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are de-recognised where the related obligations are discharged, cancelled or expired.

Measurement

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified “at fair value through profit or loss”, in which case transaction costs are expensed to profit or loss immediately.

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

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b) Financial Instruments (continued)

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

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

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss when the loans and receivables are de-recognised or impaired. Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

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

(ii) Financial liabilities

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

The Group does not have any derivative financial instruments at 30 June 2017 (Nil: 2016).

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

c) Inventories

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

The manufacture of additional CAVATAK drug stock during the clinical trials forms part of the ongoing research and development activities of the Group as the drug stock is not held for sale in the ordinary course of business. Consequently, no inventory is recognised by the Group in accordance with Accounting Standard AASB 102 “Inventories” at 30 June 2017 (2016 – nil).

d) Plant and Equipment

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

e) Investments in Associates

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

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

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

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

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

f) Intangible Assets

Patents

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

g) Employee Benefits

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

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

h) Provisions

Provisions are recognised when the 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.

i) Revenue Recognition

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

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

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

j) Research and Development Expenditure

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

j) Research and Development Expenditure

Expenditure during the research phase of a project is recognised as an expense when incurred. The research and development incentive is calculated and accrued at year end and is recognised in accordance with 'AASB 120 Accounting for Government Grants'. The amount is credited to other income and the receivable is included in the Consolidated Statement of Financial Position as a current R&D incentive receivable asset.

k) Income Taxes

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

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

l) Goods and Services Tax

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

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

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

m) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating.

n) Comparative Figures

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

o) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of the Group is Australian dollars (\$).

(ii) Transactions and balances

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

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

o) Foreign currency translation continued

(iii) Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the Australian Dollar are translated into Australian Dollars upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into Australian Dollars at the closing rate at the reporting date. Income and expenses have been translated into Australian Dollars at the average rate over the reporting period. Exchange differences are charged or credited to other comprehensive income and recognised in the Foreign Currency Translation Reserve in Equity.

p) Operating Segments

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

q) Share-based Employee Remuneration

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

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

q) Share-based Employee Remuneration (continued)

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

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

r) Impairment of Non-Financial Assets

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

2. KEY ESTIMATES AND JUDGEMENTS

Impairment

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. There were no indicators of impairment as at 30 June 2017.

R&D Incentive Receivable

The R&D Incentive Receivable asset is based on an estimate of the amount the Group stands to receive from the Ausindustry R&D Incentive programme for 2016/17. Under the programme the Group is expected to be eligible to receive a cash offset equal to 43.5% of eligible R&D expenditure. The estimate calculation is based on expenditure which includes expenditure on overseas activities only where the Group has been successful in receiving Overseas Findings from Ausindustry for those activities.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

2. KEY ESTIMATES AND JUDGEMENTS continued

Share Options and Performance Rights

Share Options were mostly valued using the Black-Scholes option pricing model. Where the valuation required consideration of market based vesting conditions the Monte Carlo Simulation method was used. Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements. For purposes of the valuation the assumed life of the options was based on the historical exercise patterns, which may not eventuate in the future. No special features inherent to the options granted were incorporated into measurement of fair value.

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

3. OPERATING SEGMENTS

Viralytics Ltd and its only subsidiary, Viralytics Services Inc., operate in only one business segment – biotechnology. The activities of the Group take place principally in Australia.

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

4. PROFIT/LOSS FOR THE YEAR

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

	2017	2016
	\$	\$
Other Income:		
R&D Incentive	6,480,285	4,654,938
Expenses:		
Lease Payments	76,836	75,632
Equity Settled Share Based Payments	1,220,739	1,802,813
Superannuation	100,207	71,099
Remuneration of the auditor of the entity		
- auditing and reviewing the financial reports	62,800	64,850
- IT review and Tax Advisory	16,470	73,642
	79,270	138,492

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

	2017	2016
	\$	\$
5. INCOME TAX EXPENSES		
The prima facie tax on the (loss) before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on (loss) before income tax at 27.5% (2016 – 30%)	(3,380,715)	(2,719,717)
Add Tax effect of:		
- non-deductible Research and Development expense	4,404,056	2,800,909
- entertainment	610	1,067
- share option expense	366,222	540,844
Less Tax effect of:		
- Change in corporate tax rate for small business entities (to 27.5% from 30%)	(307,338)	-
- R & D Incentive receivable current year	(6,385,881)	(4,201,364)
- R & D Incentive previous years	(94,404)	(453,574)
Future income tax benefit not recognised		
- Brought forward from prior years	(238,159)	1,271,369
- Current year	5,635,609	2,760,466
Income tax benefit attributable to loss before income tax	-	-

Franking Account balance is nil (2016: nil).

The Group has tax losses carried forward at reporting date totalling \$48.0 million. The Directors have not brought to account a deferred tax asset to recognise the potential tax benefit of these tax losses as any benefit will only be obtained if:

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

6. EARNINGS PER SHARE	2017	2016
	Cents	Cents
Basic earnings (loss) cents per share	(5.1)	(4.3)
Diluted earnings (loss) cents per share	(5.1)	(4.3)
Income and share data used in the calculations of basic and diluted earnings per share:		
Net (Loss)	(12,293,510)	(9,065,723)
	Number	Number
Weighted average number of ordinary shares on issue in the calculation of basic earnings per share	240,300,501	212,273,278
Effect of dilutive securities	-	-
Adjusted weighted average number of Ordinary shares and potential ordinary shares used in calculating diluted earnings per share	240,300,501	212,273,278

As at 30 June 2017 there are 14,197,667 (2016 – 13,145,000) share options on issue and 100,500 (2016 – 100,000) performance rights which have not been taken into account when calculating the diluted loss per share due to their anti-dilutive nature.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

	2017 \$	2016 \$
7. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand:		
Held in AUD	922,350	804,280
Held in USD	807,451	1,038,745
Short term deposits		
Held in AUD	14,700,000	17,400,000
Held in USD	17,844,257	26,878,460
	34,274,058	46,121,485
8. TRADE AND OTHER RECEIVABLES		
a) Current		
Prepayments	326,967	508,607
Interest Receivable	52,981	65,278
R & D Incentive Receivable	6,385,881	4,201,364
GST Receivable	99,364	73,464
	6,865,193	4,848,713
b) Non-Current		
Security Deposits	-	-
9. PLANT AND EQUIPMENT		
Plant & Equipment – at Cost	1,064,399	959,009
Accumulated Depreciation	(917,563)	(880,342)
	146,836	78,667
Movements in Carrying Amounts		
Balance at beginning of period	78,668	82,476
Additions	119,912	32,761
Loss on Disposals	-	-
Depreciation expense	(51,744)	(36,570)
Balance at end of period	146,836	78,667

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

	2017	2016
	\$	\$
10. INVESTMENTS		
Accounted For Using The Equity Method		
InJet Digital Aerosols Ltd – Unlisted (IDAL)	-	-

InJet Digital Aerosols Ltd (IDAL) is an unlisted public Group incorporated in Australia. Viralytics Ltd holds a 44.5% interest in the issued capital of IDAL. On 23 December 2015 a meeting of creditors resolved that the Group be wound up under S. 439C of the Corporations Act and to appoint an external liquidator.

The Group has recognised the losses attributable to the associate in prior years to the extent of the investment. The most recent financial statements released by IDAL was for the year ended 30 June 2014 which disclosed a deficiency in net assets of \$488,517. A Presentation of Accounts and Statement lodged with ASIC by the External Liquidators on 23 June 2017 indicated total creditors of \$495,950. It further indicated that no dividend was likely to be paid to creditors.

A deregistration notice was lodged by the liquidator on 29 June 2017, with publication of the notice by ASIC on 4 July 2017. Deregistration of the company is therefore in progress which, pending no objections, should take effect on and from 5 September 2017.

Consequently, the carrying value of the investment is nil (2016 – nil) and many of the disclosure requirements under AASB 12: Disclosure of Interests in Other Entities are not available at reporting date.

11. INTANGIBLE ASSETS

Intellectual Property - Virotherapy	8,605,532	8,605,532
Accumulated amortisation	(7,352,380)	(6,962,068)
	1,253,152	1,643,464

Movements in carrying value

Balance at beginning of year	1,643,464	2,033,776
Less: amortisation expense	(390,312)	(390,312)
Balance at end of year	1,253,152	1,643,464

The Virotherapy Intellectual Property has been brought to account at cost of acquisition. The value of the Intellectual Property is being written off over the life of the shortest patent (14 years) with approximately 3 years remaining.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

	2017	2016
	\$	\$
12. TRADE & OTHER PAYABLES		
Current		
Trade payables	1,810,951	1,214,588
Sundry payables and accrued expenses	941,473	1,022,293
Employee leave entitlements	196,705	127,424
	2,949,129	2,364,305

	2017	2016	2017	2016
	\$	\$	Number	Number
13. ISSUED CAPITAL				
Fully Paid Ordinary shares (a)	121,696,416	121,169,264	240,623,752	239,895,419
Options Convertible to Ordinary Shares:				
Unlisted Options (b)	-	-	14,197,667	13,145,000
Performance Rights Convertible to Ordinary Shares				
Performance Rights (c)	-	-	-	100,000

(a) Fully Paid Ordinary shares (Authorised Capital)

Movements in Fully Paid Ordinary shares:

Balance at beginning of year	121,169,264	87,632,211	239,895,419	184,153,081
Exercise of Options	342,707	1,920,000	633,333	2,800,000
Options Converted to Shares	135,200	717,600	-	-
Share Rights Converted to Shares	56,050	100,800	95,000	320,000
Share Placement ⁽ⁱ⁾	-	28,362,736	-	46,118,270
Share Purchase Plan ⁽ⁱⁱⁱ⁾	-	4,000,002	-	6,504,068
Cost of fund raising	(6,805)	(1,564,085)	-	-
Balance at end of year	121,696,416	121,169,264	240,623,752	239,895,419

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

13. ISSUED CAPITAL continued

(a) Fully Paid Ordinary shares (Continued)

- (i) Share placement of 46,118,570 shares at \$0.615 per share allotted 16 December 2015. Total \$28,362,736.
- (ii) Share Purchase Plan allotted 27 January 2016 – 6,504,068 shares at \$0.615 per share totalling \$4,000,002.

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

(b) Unlisted Options

The Group issues Share Options to staff and contractors under an Equity Incentive Plans approved by shareholders in November 2013 and November 2016.

	2017	2016
	Number	Number
Unlisted Options	14,197,667	13,145,000
Movements in Options:		
Balance at the beginning of period	13,145,000	5,745,000
Options issued	1,686,000	10,200,000
Options exercised	(633,333)	(2,800,000)
Options expired	-	-
Balance at end of period	14,197,667	13,145,000

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

13. ISSUED CAPITAL continued

(b) Unlisted Options (continued)

Unlisted options on issue at 30 June 2017 comprise:

Expiry Date	Opening Balance July 16	Weighted Average Exercise Price	Granted during Year	Expired during year	Exercised during year	Closing Balance	Weighted Average Exercise Price
12 Aug 16	300,000	\$0.700	-	-	(300,000)	-	\$0.700
23 Nov 17	200,000	\$0.352	-	-	-	200,000	\$0.352
21 Jan 18	1,200,000	\$0.326	-	-	-	1,200,000	\$0.326
28 Nov 19	1,245,000	\$0.332	-	-	(266,666)	978,334	\$0.332
28 Sep 20	4,500,000	\$0.589	-	-	-	4,500,000	\$0.589
18 Nov 20	5,000,000	\$0.589	-	-	-	5,000,000	\$0.589
18 Nov 20	700,000	\$0.663	-	-	(66,667)	633,333	\$0.663
28 Sep 21	-	-	630,000	-	-	630,000	\$0.910
23 Nov 21	-	-	666,000	-	-	666,000	\$1.206
28 Mar 22	-	-	390,000	-	-	390,000	\$1.009
	13,145,000	\$0.543	1,686,000	-	(633,333)	14,197,667	\$0.603

6,796,668 options were vested and exercisable at 30 June 2017 (2016 – 6,615,000). The assumptions used in determining the weighted average fair value of options not yet expired at 30 June 2017 are set out in the tables below. Tranche 1 (2,000,000 options) of the 4,000,000 options issued to Dr Shafren on 28 September 2015 and Tranche 1 (2,500,000 options) of the 5,000,000 options issued to Dr McColl on 18 November 2015 were valued using the Monte Carlo Simulation method. This was due to, in management's view, the options being likely to vest due to achievement of a market based vesting condition.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

13. ISSUED CAPITAL continued

(b) Unlisted Options (continued)

Valued Using Black-Scholes Model

Grant Date	23 Nov 12	08 Feb 13	28 Nov 14	28 Sep 15 ¹
Vesting Period Ends	23 Nov 14	21 Jan 16	08 Sep 17	28 Sep 18
Share price at Date of Grant	\$0.320	\$0.290	\$0.315	\$0.600
Volatility	60%	60%	45%	60%
Option Life (years)	5.0	5.0	5.0	5.0
Dividend Yield	0%	0%	0%	0%
Risk Free Investment Rate	2.66%	2.69%	2.66%	2.03%
Fair Value at Grant Date	\$0.1753	\$0.2111	\$0.1115	\$0.2875
Exercise Price	\$0.352	\$0.326	\$0.332	\$0.5885
Exercisable from	23 Nov 12	21 Jan 14	08 Sep 15	28 Sep 16 ³
Exercisable to	23 Nov 17	21 Jan 18	28 Nov 19	28 Sep 20
Weighted Average Remaining Life (years)	0.4	0.6	2.4	3.3

Grant Date	18 Nov 15 ²	28 Sep 16	23 Nov 16	13,18 Apr 17 ⁶
Vesting Period Ends	18 Nov 18	28 Sep 19	23 Nov 19	28 Mar 20
Share price at Date of Grant	\$0.695	\$0.870	\$1.175	\$1.115/ \$1.130 ⁶
Volatility	60%	60%	60%	60%
Option Life (years)	5.0	5.0	5.0	5.0
Dividend Yield	0%	0%	0%	0%
Risk Free Investment Rate	2.24%	1.66%	1.96%	2.05%
Fair Value at Grant Date	\$0.3400	\$0.3982	\$0.5477	\$0.6092/ \$0.6203 ⁶
Exercise Price	\$0.6626	\$0.9095	\$1.2056	\$1.0092
Exercisable from	18 Nov 16 ⁴	26 Sep 17	23 Nov 17	28 Mar 18
Exercisable to	18 Nov 20	26 Sep 21	23 Nov 21	28 Mar 22
Weighted Average Remaining Life (years)	3.4	4.2	4.4	4.7

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

Valued Using Monte-Carlo Simulation Model

Grant Date	28 Sep 15 ¹	18 Nov 15 ²
Vesting Period Ends	28 Sep 18	18 Nov 18
Share price at Date of Grant	\$0.600	\$0.695
Volatility	60%	60%
Option Life (years)	5.0	5.0
Dividend Yield	0%	0%
Risk Free Investment Rate	2.03%	2.24%
Fair Value at Grant Date	\$0.1800	\$0.2500
Exercise Price	\$0.5885	\$0.6626
Exercisable from	21 Jun 16 ⁵	21 Jun 16 ⁵
Exercisable to	28 Sep 20	18 Nov 20
Weighted Average Remaining Life (years)	3.3	3.4

1. 2,000,000 of the 4,000,000 options issued to Dr Shafren were valued using the Monte-Carlo simulation method.
2. 2,500,000 of the 5,000,000 options issued to Dr Shafren were valued using the Monte-Carlo simulation method.
3. 2,000,000 options issued to Dr Shafren may vest earlier if certain performance criteria are achieved.
4. 2,500,000 options issued to Dr McColl may vest earlier if certain performance criteria are achieved.
5. Vested on 21 Jun 2016 due to achievement of a performance condition.
6. 150,000 options were granted on 13 April and 240,000 on 18 April. Share price and Fair Values presented apply to those parcels accordingly.

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements. For purposes of the valuation the assumed life of the options was based on the historical exercise patterns, which may not eventuate in the future. No special features inherent to the options granted were incorporated into measurement of fair value.

The following terms and conditions apply to unlisted options issued:

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

During the year \$1,220,739 (2016: \$1,802,813) of employee remuneration expense has been included in profit or loss and credited to the share option reserve in respect of equity settled share based payment transactions. If all unlisted options were exercised in accordance with their terms of issue, 14,197,667 shares would be issued (2016: 13,145,000) and Contributed Equity would increase by \$8.6 million (2016: \$7.1 million).

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

13. ISSUED CAPITAL continued

(c) Performance Rights

The Group issues Performance Rights to staff and contractors under an Equity Incentive Plan last approved by shareholders in November 2016. During the 2017 financial year 100,500 performance rights with a fair value of \$87,435 were issued to staff (2016 – 110,000 rights, value \$64,900). The fair value of the rights was determined by reference to the market price of the Group's shares at the date the transaction occurred. Performance Rights on issue at 30 June 2017 comprise:

Conversion Date	Opening Balance July 16	Value per Right	Granted during Year	Value per Right at Grant	Converted during year	Lapsed During Year	Closing Balance Jun 17	Value per Right at Year End
15 Sep 16	100,000	\$0.590	-	-	(95,000)	(5,000)	-	-
14 Sep 17	-	-	100,500	\$0.870	-	-	100,500	\$0.870
	100,000	\$0.590	100,500	\$0.870	(95,000)	(5,000)	100,500	\$0.870

In 2017 no shares were issued in consideration for services rendered to the Group by suppliers (2016 – nil).

14. RESERVES

	2017 \$	2016 \$
Share Options reserve	3,223,308	2,193,819
Foreign Currency Translation Reserve	(1,045)	-
Total	3,222,263	2,193,819

Movements in Reserves:

Share Option reserve

Balance at beginning of year	2,193,819	3,430,576
Share based compensation	1,220,739	1,802,813
Transfers to Retained Earnings	-	(2,221,170)
Transfers to Equity	(191,250)	(818,400)
Balance at end of year	3,223,308	2,193,819

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

	2017	2016
	\$	\$
14. RESERVES continued		
Movements in Reserves (continued):		
Foreign Currency Translation Reserve		
Balance at beginning of year	-	-
Exchange rate differences arising on translation of foreign operations	(1,045)	-
Balance at end of year	(1,045)	-

The Share Options Reserve records items recognised as an expense on payment of share-based consideration. Included under employee benefits expense in the statement of profit or loss and comprehensive income is \$1,220,739 which relates to equity-settled share-based payment transactions (2016: \$1,802,813).

The Foreign Currency Translation Reserve comprises foreign currency translation differences arising on the translation of financial statements of the Group's foreign entity into Australian dollars.

	2017	2016
	\$	\$
15. CAPITAL AND LEASING COMMITMENTS		
Operating Lease Commitments		
Non-cancellable operating lease contracted for but not capitalised in the financial statements payable		
- not later than 12 months	37,988	36,527
- later than 12 months but not later than 5 years	-	-
	37,988	36,527

Commitments relate to the lease of office facilities which will expire in February 2018. The lease has been renewed on a 12 month basis following completion of the initial 3 year agreement in February 2016. In addition to the rentals payable, the lessee is responsible for defined outgoings and the rent is subject to annual review.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

16. CASH FLOW INFORMATION

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

	2017	2016
	\$	\$
Loss after Income Tax	(12,293,510)	(9,065,723)
<i>Non-Cash items in Total Comprehensive Income:</i>		
Unrealised currency (gain)/loss	652,748	640,565
Option Based Compensation	1,220,739	1,802,813
Amortisation	390,312	390,312
Depreciation	51,744	36,570
<i>Changes in Assets and liabilities:</i>		
(Increase) in Trade and Other Receivables	(2,016,480)	(2,025,768)
Increase in Accounts Payable	584,824	679,040
Net Cash (Outflow) from Operating Activities	(11,409,623)	(7,542,191)

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

17. FINANCIAL INSTRUMENTS

a. Financial Risk Management Policies

The Group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable and convertible notes. The main purpose of non-derivative financial instruments is to raise finance for Group operations. The Group does not have any derivative instruments at 30 June 2017 (2016 – nil).

- i. **Treasury Risk Management:** The Board of Directors meets on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts. The Board's overall risk management strategy seeks to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.
- ii. **Financial Risk Exposures and Management:** The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign exchange risk, liquidity risk and credit risk.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

17. FINANCIAL INSTRUMENTS continued

- iii. **Interest rate risk:** Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is not exposed to fluctuations in interest rates as the interest rates on interest bearing financial liabilities are fixed for the duration of the facility. As of 30 June 2017 (2016 - nil), the Group held no interest bearing financial liabilities. The Group holds interest-bearing financial assets however interest rate risk is immaterial.
- iv. **Foreign currency risk:** The Group is principally exposed to the USD/AUD exchange rate due to clinical trial activities conducted under USD contracts. It also occasionally contracts other services in USD and GBP. As at 30 June 2017 the Group is committed to a commercial strategy whereby it expects a significant portion of its expenditure to be in USD. The Group does not actively hedge its foreign currency exposure through forward contracts or derivatives, however it does retain a proportion of its cash holdings in USD (A\$18.7 million at 30 June 2017, A\$27.9 million 30 June 2016) to fund expected medium term expenditure.
- v. **Liquidity risk:** Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due. The Group manages liquidity risk by monitoring forecast cash flows.
- vi. **Credit risk:** Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is not exposed to significant credit risk on receivables. The Group places its cash deposits with high credit quality financial institutions and by policy, limits the amount of credit exposure to any single counter-party. The Group is averse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk, and reinvestment risk. The Group mitigates default risk by constantly positioning its portfolio to respond appropriately to a significant reduction in a credit rating of any financial institution. There are no significant concentrations of credit risk within the Group. The credit risk on liquid funds is limited as the counter parties are banks with high credit ratings. Credit risk is managed by limiting the amount of credit exposure to any single counter-party for cash deposits. There are no material amounts of collateral held as security at 30 June 2017 (2016 – nil). Credit risk is managed and reviewed regularly by the directors.
- vii. **Price risk:** The Group is not exposed to any material commodity price risk.

b. Financial Instrument Composition and Maturity Analysis

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

17. FINANCIAL INSTRUMENTS continued

b. Financial Instrument Composition and Maturity Analysis

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing		Non- interest Bearing	Total
			Within 1 Year	1 to 5 Years		
Financial Assets	%	\$	\$	\$	\$	\$
2017						
Cash and cash equivalents	1.45	915,117	32,544,257	-	814,684	34,274,058
Receivables	-	-	-	-	52,981	52,981
		915,117	32,544,257	-	867,665	34,327,039
2016						
Cash and cash equivalents	1.35	804,280	44,278,460	-	1,038,745	46,121,485
Receivables	-	-	-	-	65,278	65,278
		804,280	44,278,460	-	1,104,023	46,186,763
Financial Liabilities						
2017						
At amortised cost:						
Trade and sundry payables	-	-	-	-	2,949,129	2,949,129
		-	-	-	2,949,129	2,949,129
2016						
At amortised cost:						
Trade and sundry payables	-	-	-	-	2,364,305	2,364,305
		-	-	-	2,364,305	2,364,305

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

17. FINANCIAL INSTRUMENTS continued

c. Net Fair Values

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

d. Sensitivity Analysis

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

		2017	2016
		\$	\$
Increase or decrease in interest rate by 1% - Change in profit and equity	+/-	342,741	461,215
Increase or decrease in USD/AUD foreign exchange rate by 5 cents - Change in profit and equity	+/-	541,893	880,918

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

e. Capital Management

The Group manages its capital to ensure that it will be able to fund its operations in the development of CAVATAK™ and continue as a going concern. The Group's overall strategy remains unchanged from 2016.

The capital structure of the Group consists of working capital (cash and cash equivalents minus trade payables) and equity capital, comprising issued share capital and reserves, as disclosed in notes 13 and 14. The Group has no debt or borrowings at reporting date (2016: nil).

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

18. EMPLOYEE REMUNERATION

Expenses recognised for employee benefits are set out below:

	2017	2016
	\$	\$
Wages and Salaries	1,236,284	927,852
Share Based Payments	587,087	1,028,815
Superannuation	95,634	65,399
	1,919,005	2,022,065

The expenses above exclude Directors fees and other entitlements.

19. CONTINGENT ASSETS AND LIABILITIES

As at 30 June 2017 the Group has bank guarantees in the amount of \$19,000 (2016 \$19,000).

20. RELATED PARTY TRANSACTIONS

a) Share Transactions of Directors

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

b) Other Transactions with Directors

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

c) Transactions with Directors of Subsidiary Entities

Randall Pratt is a director of Viralytics Services Inc. which was incorporated in February 2017. He is also a Partner at Life Science Legal LLC which provides legal services to the Group. During the year Life Science Legal LLC received fees from the Group totalling A\$170,643 (2016 A\$80,785). All fees were charged on normal commercial terms. Mr Pratt did not receive any payment for his services as a director of Viralytics Service Inc.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

20. RELATED PARTY TRANSACTIONS continued

d) Transactions with Key Management Personnel

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

	2017 \$	2016 \$
Short Term Employee Benefits		
Wages and Salaries including bonuses ⁽ⁱ⁾	1,203,257	1,110,451
Directors Fees	212,350	212,350
Consultancy Fees	142,404	142,404
Total Short Term Employee Benefits	1,558,011	1,465,205
Post Employment Benefit		
Superannuation ⁽ⁱ⁾	90,915	79,821
Share Based Payments	1,076,808	1,723,627
	2,725,734	3,268,653

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

During 2017 633,333 options were exercised by current Key Management Personnel (2016 – 600,000). During 2017 Key Management Personnel received nil shares (2016 – 240,000) following conversion from Performance Rights granted as part of remuneration arrangements.

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

21. INTERESTS IN SUBSIDIARIES

Set out below are the details of subsidiaries held directly by the Group:

Name	Country of Incorporation and Principal Place of Business	Principal Activity	Group Proportion of Ownership Interests	
			30 June 2017	30 June 2016
Viralytics Services Inc.	United States	Provision of Management Services	100%	0%

22. PARENT ENTITY INFORMATION

Information relating to Viralytics Limited (the Parent Entity):

	2017 \$	2016 \$
Statement of Financial Position		
Current Assets	41,035,633	50,970,198
Total Assets	42,541,182	52,692,329
Current Liabilities	2,933,360	2,364,305
Total Liabilities	2,933,360	2,364,305
Net Assets	39,607,822	50,328,024
Issued Capital	121,696,417	121,169,264
Accumulated Losses	(85,311,903)	(73,035,059)
Share Based Payments Reserve	3,223,308	2,193,819
Total Equity	39,607,822	50,328,024
Statement of Profit or Loss and Other Comprehensive Income		
Loss for the Year	(12,276,844)	(9,065,723)
Other Comprehensive Income	-	-
Total Comprehensive Income	(12,276,844)	(9,065,723)

Capital and Leasing Commitments set out in Note 15 are entirely those of the Parent Entity. The Parent Entity has not entered into a deed of cross guarantee. Contingent liabilities set out in Note 19 are entirely those of the Parent Entity.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2017

23. EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the financial year, which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years. The financial report was authorised for issue by the Directors on the date that the Directors' declaration was signed.

Directors' Declaration

for the year ended 30 June 2017

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

1. The financial statements and notes as set out on pages 31 to 70 of the Group's Annual Report are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
 - (b) give a true and fair view of the financial position as at 30 June 2017 and of the performance ended on that date of the Group;
2. In the directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
3. The directors have been given the declarations required by s295A of the *Corporations Act 2001* from the Chief Executive Officer.



Paul Hopper
Chairman
Signed 18 August 2017

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Independent Auditor's Report To the Members of Viralytics Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Viralytics Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- a Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Share-based payments (Note 13)</p> <p>During the year, the Group issued share options to management and directors. In addition, during the prior year, the Group issued share options to management with multiple vesting conditions, including market conditions that require assessment at each reporting date.</p> <p>The Group engaged a valuation specialist during the current period to provide a valuation of these share-based payments.</p> <p>This area is a key audit matter due to the inherent subjectivity involved in the Group making judgments relating to the key inputs and assumptions used to value the options, as well as the judgements required relating to vesting conditions.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • agreeing the issue of options to share option agreements; • evaluating the qualifications, expertise and objectivity of the external specialist in order to assess their professional competence and capabilities as they relate to the work undertaken; • reviewing and testing the assumptions applied by the specialist for reasonableness and historical accuracy; • agreeing certain key inputs to the relevant terms within the share option agreement; • verifying the mathematical accuracy of the valuation provided by the specialist using the Black-Scholes pricing model; • evaluating and challenging management's judgements regarding vesting conditions; and • assessing the adequacy of the Group's disclosures in respect to share-based payments.
<p>Recognition of R&D tax incentive (Note 4)</p> <p>Under the research and development (R&D) tax incentive scheme, the Group receives a 43.5% refundable tax offset (2016: 45%) of eligible expenditure if its turnover is less than \$20 million per annum. An R&D plan is filed with AusIndustry in the following financial year and, based on this filing, the Group receives the incentive in cash. Management, performed a detailed review of the Group's total R&D expenditure to estimate the refundable tax offset receivable under the R&D tax incentive legislation. The receivable recorded at year-end represents an estimated claim for the period 1 July 2016 to 30 June 2017.</p> <p>This area is a key audit matter due to the inherent subjectivity that is involved in the Group making judgements in relation to estimation and recognition of the R&D tax incentive income and receivable.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • comparing the methodology and nature of the expenditure included in the current year estimate to the prior period claim; • utilising an internal R&D tax specialist to review the expenditure methodology employed by management for consistency with the R&D tax offset rules; • comparing the eligible expenditure used in the receivable calculation to the expenditure recorded in the general ledger; • inspecting copies of relevant correspondence with AusIndustry and the ATO related to the claims; and • assessing the adequacy of the Group's disclosures.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Group 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 control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

Further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 27 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Viralytics Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Group 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.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



L M Worsley
Partner - Audit & Assurance

Sydney, 18 August 2017

Viralytics Limited

Additional Information for ASX Listed Companies

The following additional information is required by the Australian Securities Exchange. The information is current as at 4 August 2017.

Distribution of Shareholders – Ordinary Shares

		Number of holders	Number of ordinary shares
1 –	1,000	1,478	721,074
1,001 –	5,000	1,870	5,265,730
5,001 –	10,000	829	6,564,623
10,001 –	50,000	1,267	29,026,738
50,001 –	100,000	236	17,078,052
100,001 and over		144	181,967,535
	Total	5,824	240,623,752

Unmarketable Parcels

The number of shareholders holding less than a marketable parcel of shares is 902 and they hold 223,710 securities.

Voting rights

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

Twenty Largest Shareholders

The names of the twenty largest holders of ordinary shares are:

Rank	Name	4 August 2016	% Issued Capital
1	Citicorp Nominees Pty Limited	39,900,125	16.58
2	HSBC Custody Nominees (Australia) Limited-GSCO ECA	34,465,070	14.32
3	HSBC Custody Nominees (Australia) Limited	27,575,733	11.46
4	BNP Paribas Nominees Pty Ltd	14,601,444	6.07
5	HSBC Custody Nominees (Australia) Limited - A/C 2	9,658,980	4.01
6	Mr Ka Kian Lim	5,521,881	2.29
7	UBS Nominees Pty Ltd	4,992,523	2.07
8	J P Morgan Nominees Australia Limited	4,827,614	2.01
9	Dr Nicholas Smith	2,710,090	1.13
10	P Kampfner Pty Ltd	2,288,000	0.95
11	Newcastle Innovation Limited	1,349,601	0.56

Viralytics Limited

Additional Information for ASX Listed Companies

12	Wolram Investments Pty Ltd	1,257,492	0.52
13	Mr Dale Anthony Reed	1,150,000	0.48
14	Epping Real Estate Pty Ltd	1,122,136	0.47
15	Invia Custodian Pty Limited	884,714	0.37
16	Mr Shahan Mekertichian	877,890	0.36
17	Mr Paramjit Singh Nagra & Mrs Surinder Kaur Nagra	838,649	0.35
18	Citicorp Nominees Pty Limited	805,455	0.33
19	Mr Manfred Zimmer	769,570	0.32
20	Mr Richard Thomas Hayward Daly & Mrs Sarah Kay Daly	717,977	0.30
		156,314,944	64.96

Voluntary escrow

There are no Viralytics securities under voluntary escrow.

Substantial holders

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

Ordinary Shareholder	Number	Percentage
BVF Partners LP on its own behalf and on behalf of BVF Inc. and Mark N Lampert	20,007,902	8.32%
Cormorant Global Healthcare Master Fund Ltd	15,019,987	6.24%
Quest Asset Partners Pty Ltd	15,453,739	6.42%
JCP Investment Partners Ltd	12,181,035	5.07%

Share buy-backs

There is no current or planned buy-back of the Group's shares.

Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the Group on the Australian Securities Exchange.

American Depositary Receipts Program

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

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	14,197,667	10
Performance rights (converting to ordinary shares on vesting)	100,500	12

Additional Information for ASX Listed Companies

Comprising:

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

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

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

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

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

There are five holders holding a total of 978,334 options issued under the Employee Share Option Plan. There are no other holders in this class of options.

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

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

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

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

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

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

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

There are three holders holding a total of 633,333 options issued under the Employee Share Option Plan. There are no other holders in this class of options.

Options expiring 28 September 2021 with an exercise price of \$0.9095

There are three holders holding a total of 630,000 options issued under the Employee Share Option Plan. There are no other holders in this class of options.

Options expiring 23 November 2021 with an exercise price of \$1.2056

There are three holders holding a total of 666,000 options issued under the Employee Share Option Plan. There are no other holders in this class of options.

Options expiring 28 March 2022 with an exercise price of \$1.0092

There are three holders holding a total of 390,000 options issued under the Employee Share Option Plan. There are no other holders in this class of options.

Performance Rights vesting on 14 September 2017

There are twelve holders holding a total of 100,500 performance rights. There are no other holders in this class of securities.