VIRALYTICS LIMITED

ABN 12 010 657 351

Annual Report for the Year Ended 30 June 2013

TABLE OF CONTENTS

Corporate Information

Directors

Mr Paul Hopper	Chairman
Dr Phillip Altman	Non-Executive Director
Mr Peter Molloy	Non-Executive Director
Dr Leonard Post	Non-Executive Director
Mr Bryan Dulhunty	Managing Director (resigned 24 July 2012)

Chief Executive Officer

Dr Malcolm McColl — Appointed 21 January 2013

Company Secretary

Ms Catherine Officer — Appointed 16 July 2013

Chief Financial Officer

Mr Robert Vickery — Appointed 21 May 2013

Principal Place of Business

Suite 305, Level 3
66 Hunter Street
SYDNEY NSW 2000

Registered Office

McCullough Robertson
Level 11, 66 Eagle Street
Brisbane, QLD 4001

Contact Information

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Auditors

Bentleys, Chartered Accountants
Level 9, 123 Albert Street
Brisbane QLD 4000

Share Registry & Register

Link Market Services Limited
ANZ Building
Level 15, 324 Queen Street
Brisbane QLD 4000
Ph: (02) 8280 7454

Directors' Report
for the year ended 30 June 2013

Your Directors present their report on the Company for the financial year ended 30 June 2013.

DIRECTORS

The names of the directors in office during the financial year and to the date of this report:

Mr Paul Hopper	Non-Executive Chairman (Executive Chairman from 24 July 2012 to 30 April 2013)
Dr Phillip Altman	Non-Executive Director (Executive Director from 24 July 2012 to 31 January 2013)
Mr Peter Molloy	Non-Executive Director (Executive Director from 24 July 2012 to 31 January 2013)
Dr Leonard Post	Non-Executive Director
Mr Bryan Dulhunty	Managing Director (resigned 24 July 2012)

COMPANY SECRETARIES

The company secretaries during the financial year were:

Mr Tom Rowe (appointed 20 September 2011, resigned 24 July 2012)
Ms Sarah Prince (appointed 24 July 2012)

PRINCIPAL ACTIVITIES

The principal activity during the year was the continued clinical development of the lead product CAVATAK™. This was achieved through progression of a Phase II US clinical study; completion and reporting of the single-dose Phase I intravenous study; progressing preclinical programs in cancer types including superficial bladder cancer and leukaemia; and enhancement of the intellectual property assets attached to the product. The company achieved a number of significant milestones during the year which are outlined in the Operations Report below.

OPERATING RESULT

The operating loss for the year was $4.1 million (2012: $4.8 million loss).

CASH MANAGEMENT

Cash on hand as at 30 June 2013 was $ 5.1 million (30 June 2012: $5.9 million).

STATEMENT OF FINANCIAL POSITION

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

- Cash on hand as at 30 June 2013 was \$5.1 million compared to \$5.9 million at 30 June 2012
- Net assets decreased to \$9.0 million from \$9.6 million at 30 June 2012.
- Net tangible assets decreased to \$6.2 million from \$6.4 million at 30 June 2012

The Board believes the Company is well placed to support its business programs in 2014 subject to the comments under 'Going Concern' in Note 1 to the accounts.

REVIEW OF OPERATIONS

CLINICAL TRIALS

CAVATAK™ Phase II CALM Melanoma Clinical Trial (USA)

The Phase II CALM clinical trial in late stage melanoma patients, currently being conducted under an Investigational New Drug (IND) status in the US has achieved many significant milestones in the 2013 financial year.

Highlights include:

- Achievement of the interim efficacy hurdle of 3 or more patients with an objective tumour response in the first 35 patients. This target was achieved in December 2012 in the first 13 patients dosed with CAVATAK™. An objective response is regarded as a reduction in total body tumour burden of 30% or more as assessed by CT-scan and/or physical calliper measurements

- Patient enrolment underway at 9 prestigious US cancer clinics with rapid acceleration in patient enrolment since early 2013. Our aim is to achieve full recruitment in the CALM trial by the end of the calendar year.

- As at 18 July 2013 five patients have entered into the Phase II CALM extension trial (VLA-008). To be eligible for the extension study a patient must have displayed complete or partial tumour reduction or disease stabilization at 6 months from initiation of CAVATAK™ treatment.

- Two patients completed the extension study after a total of twelve months therapy with both achieving a partial response. Follow up surgery to remove the residual injected tumour tissue resulted in a surgical complete response in both patients.

- The 35th patient was enrolled in June 2013 thus completing the Stage 1 recruitment. The independent data monitoring committee (DMC) then convened to review the patient tolerability to multiple CAVATAK™ injections. The DMC reported in July 2013 that CAVATAK™ had met the safety and tolerability criteria. The interim efficacy hurdle had been achieved in December 2012 and thus given the positive DMC review the study is proceeding to Stage 2 and full recruitment.

- A progress report on the first 35 patients in the CALM trial was presented in a poster at the prestigious annual meeting of the American Society of Clinical Oncology in Chicago in June 2012 by Dr Robert Andtbacka, lead study investigator from the Huntsman Cancer Institute. Dr Andtbacka reported encouraging early results with good tolerability and activity in both injected and metastatic lesions.

CAVATAK™ Phase I studies completed (Australia)

Viralytics has completed its Australian Phase I clinical development program of CAVATAK™. This program included a single dose-escalation CAVATAK™ intravenous study in a range of cancers: melanoma, breast, prostate and colon cancer and a multi-dose intra-tumoral trial in late stage head and neck cancer.

Results from the Phase I clinical evaluation of intravenously administered CAVATAK™ in late stage cancer patients was presented as a poster at the EORTC-NCI-AACR Symposium on Molecular Targets and Cancer Therapeutics in Dublin, Ireland in November 2012. The results were presented by study investigator Dr Winston Liauw from the Cancer Care Unit at the St George Hospital in Sydney. Dr Liauw reported that a single intravenous dose of CAVATAK™ was well tolerated in patients with some evidence of tumour stabilization thus justifying moving CAVATAK™ into a multi-dose intravenous Phase 2 trial.

CAVATAK™ Phase I/II STORM Multi-dose Intravenous Clinical Trial (UK)

The Phase I/II STORM (**S**ystemic **T**reatment **O**f **R**esistant **M**alignancies) clinical trial for late stage melanoma, non-small cell lung, metastatic bladder and castrate-resistant prostate cancer is planned to be conducted in the UK at three prestigious cancer centres. In the STORM trial, the activity of multi-intravenous dosing of CAVATAK™ will be assessed in approximately 30 late stage subjects both in the presence and absence of standard of care chemotherapy. The STORM trial will be conducted under a clinical protocol to be approved by the MHRA (Medicines and Healthcare products Regulatory Agency). Subject to MHRA approval we aim to commence the study prior to the end of 2013.

CAVATAK™ Preclinical studies (Australia / UK)

The broad anticancer activity of CAVATAK™ has been demonstrated in the preclinical setting in multiple important cancer types. Results from preclinical studies were presented at the Seventh International Meeting on Replicating Oncolytic Virus Therapeutics in Quebec, Canada in June 2013.

CAVATAK™ and Docetaxel combination

Preclinical studies conducted by Viralytics demonstrated a synergistic effect from the combination of CAVATAK™ and Docetaxel, a leading chemotherapy drug used to treat a wide range of tumours. Lung cancer cells were grown in culture and then treated with either a combination of CAVATAK™ and Docetaxel , CAVATAK™ alone or Docetaxel alone. The combination of CAVATAK™ and Docetaxel provided a moderately to strongly synergistic effect compared to the use of either product alone. Further in vitro experiments confirmed that Docetaxel had no negative effect on the rate of CAVATAK™ replication in human lung cancer cell lines. Overall, these results provide evidence that CAVATAK™ and Docetaxel have the potential to be successfully used in combination therapy regimens.

The performance of CAVATAK™ in combination with Docetaxel or paclitaxel/ carboplatin is planned to be assessed as part of the Phase I/II Multi-dose Intravenous CAVATAK™ STORM (Systemic Treatment Of Resistant Malignancies) clinical trial.

CAVATAK™ in bladder cancer model

Preclinical studies conducted at the Department of Oncology, The University of Surrey, UK in conjunction with Viralytics demonstrated CAVATAK™, combined with either radiation or chemotherapy, resulted in more potent anticancer activity in bladder cancer cell lines than radiation or chemotherapy alone.

Reporting on the study, Professor Pandha, Head of Oncology at The University of Surrey stated: "The significantly increased oncolytic activity of CAVATAK™ in bladder cancer cell cultures when used in combination with chemotherapy or radiation therapy represents a potentially compelling new treatment regimen. There is urgent need for improved therapies for bladder cancer and the combination of CAVATAK™ and chemo or radiation therapy appears very promising."

CAVATAK™ in leukaemia model

Preclinical studies conducted in collaboration with Professor Alan Melcher from the Leeds Institute of Cancer and Pathology, St James's University Hospital, UK demonstrated the potent anticancer activity of CAVATAK™ in chronic lymphocytic leukaemia (CLL) cell lines. CLL is the second most common type of leukaemia in adults in the USA.

INTELLECTUAL PROPERTY

The Company continues to put a strong focus on developing and strengthening its Intellectual Property portfolio. In June 2013 a new provisional patent application was lodged in the USA. This patent addresses claims of synergy associated with the use of CAVATAK™ and either radiation or chemotherapy in the treatment of bladder cancer.

The Company was pleased to announce on 2 August 2012 the granting of a US patent involving the use of Picornaviruses (including Coxsackievirus A21) to destroy cancerous blood cells in stem cell grafts prior to transplantation. Also the Company announced on 9 August 2012 the granting of a Japanese patent covering the use of a number of Coxsackie A viruses in the treatment of Multiple Myeloma. This is part of the continuing broadening and strengthening of the Company's portfolio.

MANAGEMENT AND BOARD

Management

In January 2013 Dr Malcolm McColl commenced as the Chief Executive Officer. Dr McColl has more than twenty years' experience in negotiating at the highest level for international and regional pharmaceutical and biotech companies. He has been involved in over fifty research, development, licensing, mergers and acquisitions and other partnering transactions with a focus on oncology.

From 2010 Dr McColl was Vice-President of Business Development at Starpharma where he was responsible for completion of partnering transactions with global and regional companies. Prior to returning home to Australia in 2010 Dr McColl spent three years based in the UK at NYSE-listed global healthcare company Hospira as Business Development Director for Europe, Middle East and Africa. In that time he led negotiations and due diligence for a significant number of licensing and acquisition transactions with a focus on oncology. Prior to this role he was Director of Business Development for the Asia Pacific region at Hospira (previously Mayne Pharma) and also 13 years with CSL in roles in its Animal Health Division including four years based in the USA as Global Vice-President Business Development.

Dr McColl has a Bachelor of Veterinary Science degree with first class honours from the University of Melbourne and an MBA from the Melbourne Business School.

The Company's administrative headquarters is in the Sydney central business district, NSW and comprises leased office space occupied by Dr Malcolm McColl and Chief Financial Officer, Mr Robert Vickery. Dr McColl is responsible for oversight of company operations, corporate financing activities, business development and setting strategy of the Company. Mr Vickery is responsible for the finance function of the company.

Directors' Report

for the year ended 30 June 2013

The principal activities of the Company are research and development (R&D), which are undertaken in R&D facilities at the Hunter Medical Research Institute (HMRI) in Newcastle. The R&D team at the HMRI is led by Professor Darren Shafren, who is the Chief Science Officer of Viralytics and inventor of the oncolytic virotherapy technology owned by Viralytics. Professor Shafren is responsible for the development of the science, intellectual property and clinical development.

Dr Jeffrey Weisberg served as Chief Medical Officer until 28 February 2013. He remains Chairman of the Company's Scientific Advisory Board and acts as a consultant to the Company. Dr Weisberg provides advice to the Chief Science Officer and oversight of the clinical development programs. During his involvement with Viralytics Dr Weisberg has played a significant role in Viralytics obtaining FDA allowance for its IND for its CAVATAK™ Phase II Melanoma trial.

Board

The Viralytics Board oversees the senior management team and meets approximately once per month. The Board comprises:

- Mr Paul Hopper (Chairman): An experienced biotechnology executive and director, who is also Managing Director of Cappello Group, and Non-executive Director of two other biotechnology companies;
- Mr Peter Molloy (Non-executive Director): An experienced biotechnology executive and director, and previously the CEO and Managing Director of Biota Holdings Limited;
- Dr Phillip Altman (Non-executive Director): Clinical trials specialist and former consultant to the Company on clinical trial strategy;
- Dr Leonard Post (Non-executive Director): An eminent virologist who has extensive experience in the field of oncolytic virotherapy and the development of oncology products.

Further information regarding the skills and experience of the Directors is set out on pages 10 - 11 of this report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

LIKELY DEVELOPMENTS AND LIKELY RESULTS

The Company's strategic plan entails aggressively progressing CAVATAK™ through the Phase II clinical development in the melanoma indication and initiating a Phase I/ II study with intravenous administration in solid cancer indications.

The Company will also further investigate other indications for CAVATAK™ through continuing preclinical programs in cancer types including superficial bladder cancer and leukaemia.

We intend to add value to CAVATAK™ by strengthening the intellectual property and patent position and by pursuing additional indications beyond melanoma thereby broadening the commercial potential of CAVATAK™.

Discussions with global pharmaceutical companies will be pursued with the aim of entering partnerships in order to generate licensing income for Viralytics and vital third party commercial endorsement of CAVATAK™.

MATTERS SUBSEQUENT TO THE END OF THE YEAR

On 19 July, 2013 the Company announced promising interim results from the CAVATAK™ Phase II CALM melanoma clinical trial underway in the USA. Shareholders should refer to the Company's announcement of 19 July 2013 for more information.

On 5 August 2013 the Company commenced trading of its American Depository Receipts (ADRs) on OTCQX International, a segment of the OTCQX marketplace. ADRs trade under the symbol "VRACY" and each ADR represents 3 ordinary shares. OTCQX International is a segment of the OTCQX marketplace reserved for high-quality non-U.S. companies that are listed on a qualified international exchange, undergo management reviews and provide their home country disclosure to U.S. investors. Trading on the OTCQX will enable the Company to increase its profile in the United States.

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

ENVIRONMENTAL ISSUES

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

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

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

DIVIDENDS

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

SHARE CAPITAL AND OTHER EQUITY SECURITIES

All changes to the capital structure, including options during the year are set out in Note 12 – Issued Capital.

CORPORATE STRUCTURE

The Company is limited by shares and is incorporated and domiciled in Australia.

MEETINGS OF DIRECTORS

During the reporting period, 12 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)	12	12
Dr Phillip Altman	12	11
Mr Peter Molloy	12	12
Dr Leonard Post	12	12
Mr Bryan Dulhunty (Managing Director to 24 Jul 2012)	-	-

AUDIT AND RISK COMMITTEE MEETINGS

During the reporting period, 2 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 Paul Hopper (Non-Executive Chairman)	2	1
Dr Phillip Altman	2	1
Mr Peter Molloy	2	2

No Remuneration & Nomination Committee meetings were held during the reporting period.

DIRECTORS' QUALIFICATIONS AND EXPERIENCE

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

Mr Paul Hopper – Non Executive Chairman (Executive Chairman 24 July 2012 - 30 April 2013)

Mr Hopper has over 20 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 cancer vaccines.

He is Head of the Australia Desk and Head of the Life Sciences and Biotechnology practice at the Los Angeles merchant bank Cappello Capital where he is a partner. He also serves as Chairman of the California Chapter of the American Australian Association and is a member of the Pacific Council on International Policy. Mr Hopper is also a Director of pSivida Corp and Imugene Ltd.

Mr Hopper has served on the boards of many listed biotechnology and healthcare companies in Australia and the US. He is based in Los Angeles.

Mr Peter Molloy - Non-Executive Director (Executive Director 24 July 2012 – 31 January 2013)

Mr Molloy is a successful Australian pharmaceutical and biotechnology executive and now an industry consultant and director. In addition to Viralytics, he is a director of Parnell Pharmaceutical Holdings and Firebrick Pharma Pty Ltd.

Previously, Mr Molloy was the Managing Director and CEO of ASX-listed Biota Holdings Limited (2002-2005), a world-leading antiviral drug development company. His previous executive roles in the biotechnology sector included President and CEO of SLIL Biomedical Corp, a US cancer research and drug development company; Managing Director and CEO of Florigene Ltd, an Australian biotechnology company focused on genetic modification of plants; and President of Moleculon Inc., a US transdermal drug delivery company.

Dr Phillip Altman - Non-Executive Director (Executive Director 24 July 2012 – 31 January 2013)

Dr Altman is a well-known Australian authority on clinical trials and regulatory affairs, with more than 30 years' experience in the sector. He is a graduate of Sydney University with an Honours degree in Pharmacy, Master of Science and Doctor of Philosophy (pharmacology and pharmaceutical chemistry) degrees. Dr Altman also co-founded and is a Life Member of the largest professional body of pharmaceutical industry scientists involved in clinical research and regulatory affairs (Association of Regulatory and Clinical Scientists to the Australian Pharmaceutical Industry Ltd – ARCS).

In addition to working in senior management positions for several multinational companies including Merrell-Dow, Hoechst, Roussel and GD Searle, Dr Altman established his own company, Pharmaco Pty Ltd, one of the first contract research organizations, where he served as a Senior Industry Consultant and he continues to provide consultant support for a range of companies.

Dr Leonard Post - Non-Executive Director

Dr Post has extensive experience in oncolytic viruses and virotherapy having been a past director of and consultant to Biovex Ltd, acquired by Amgen Inc. in 2011. He was also Senior Vice President of R&D at Onyx Pharmaceuticals which was one of the first companies involved in the development of targeted oncolytic viruses. Prior to this, Dr Post's experience covers almost 20 years with large international pharmaceutical companies.

Dr Post has a strong commercial background which includes founding US-based LEAD Therapeutics Inc. in 2007 which was subsequently acquired by BioMarin Pharmaceuticals Inc. in 2010. He currently serves as Chief Scientific Officer of BioMarin Pharmaceutical, is a director of three USA-based biotechnology companies and has been a member of a number of Scientific Advisory Boards. Dr Post is also an advisor to a well-known Australian based venture capital firm.

COMPANY SECRETARIES - QUALIFICATIONS AND EXPERIENCE

Mr Tom Rowe BA LLB (Hons) Grad Dip Corp Gov.

Tom Rowe is a Corporate and Commercial Lawyer with a specialty in listed company secretarial practice. Mr Rowe holds a BA LLB (Hons) from the University of Adelaide and is an Associate of the Chartered Institute of Secretaries.

Mr Rowe is the current Principal of Company Matters, a specialist provider of legal, governance and company secretarial services engaged by Viralytics Limited. Previously, he held the position of Legal Counsel and Company Secretary at CSR Ltd.

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 Chartered Institute of Secretaries.

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

REMUNERATION REPORT - AUDITED

This report details the nature and amount of remuneration for each director of Viralytics Ltd and for the executives receiving the highest remuneration.

The directors of Viralytics Ltd at any time during the financial year were:

- Mr Paul Hopper — Non-Executive Chairman appointed 4 September 2008
(Executive Chairman 24 July 2012 to 30 April 2013)
- Dr Phillip Altman — Non-Executive Director appointed 12 July 2007
(Executive Director 24 July 2012 to 31 January 2013)
- Mr Peter Molloy — Non-Executive Director appointed 29 September 2008
(Executive Director 24 July 2012 to 31 January 2013)
- Dr Leonard Post — Non-Executive Director appointed 21 November 2011
- Mr Bryan Dulhunty — Managing Director resigned 24 July 2012

Remuneration Policy
Director and Executive Remuneration

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

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

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

In July 2012, following the departure of the managing director, the board formed an executive committee for the period until a replacement was found. Members of the committee took on executive responsibilities and received increased remuneration commensurate with the added commitment and responsibility of those roles. The committee was disbanded following the appointment of a new Chief Executive Officer in January 2013 and remuneration revised downwards accordingly.

Key Management Personnel receive a base salary which is based upon experience and the specific skills of the Executive. In addition, the company makes superannuation guarantee contributions for all Key Management Personnel where required under Commonwealth superannuation legislation.

All remuneration (including performance-based remuneration) paid to Key Management Personnel is valued at the cost to the company and expensed.

Performance-based Remuneration

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

Performance incentives – Key Performance Indicators (KPIs) are set annually by the Directors and target financial and non-financial areas the Directors believe hold greatest potential for achieving the short and long-term objectives of the company given its position as an early stage Research and Development Company. The KPI details for 2013 include satisfactory progression of the Phase II CALM intra-tumoral trial; regulatory approval for commencement of a Phase I/II STORM intravenous trial; and tangible engagement with potential pharma partners. 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 - KMP are entitled to participate in the employee Share Option arrangements to align their interests with shareholders' interests. Options granted under the arrangement do not carry dividend or voting rights. Each Option 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.

Performance Based Remuneration is apportioned as follows:

	Position at 30 June 2013	Related to Performance		Not Related to Performance	
		Non-salary Cash-based Incentives	Options/ Rights	Fixed Salary/ Fees	Total
		%	%	%	%
Group Key Management Personnel					
Mr Paul Hopper	Non-Executive Chairman (i)	-	21%	79%	100%
Dr Phillip Altman	Non-Executive Director (ii)	-	35%	65%	100%
Mr Peter Molloy	Non-Executive Director (ii)	-	21%	79%	100%
Dr Len Post	Non-Executive Director	-	28%	72%	100%
Dr Malcolm McColl	Chief Executive Officer (iii)	-	30%	70%	100%
Prof Darren Shafren	Chief Scientific Officer	13%	13%	74%	100%
Dr Jeffrey Weisberg	Chief Medical Officer (iv)	-	7%	93%	100%
Mr Robert Vickery	Chief Financial Officer (v)	-	-	100%	100%

(i) Mr P Hopper served as Executive Chairman from 24 July 2012 to 30 April 2013
(ii) Messrs Altman and Molloy served as Executive Directors from 24 July 2012 to 31 January 2013
(iii) Dr McColl was appointed Chief Executive Officer on 21 January 2013
(iv) Dr Weisberg resigned as Chief Medical Officer on 28 February 2013. He remains Chairman of the company's Scientific Advisory Board.
(v) Mr Vickery was appointed Chief Financial Officer on 21 May 2013

Director's Remuneration for the year ended 30 June 2013:

	Short-Term Benefits			Post Employ-ment	Termin-ation Benefits	Share-based Payment	Total
Directors	Directors fees and Salary $	Bonus$	Travel allow-ance $	Superan-nuation $	Termin-ation Benefits	Options $	$
Mr P Hopper (a)	168,750	-	10,000	15,188	-	50,600	244,538
Mr B Dulhunty (b)	98,754	-	-	26,813	275,000	67,467	468,034
Dr P Altman (c)	85,173	-	-	7,666	-	50,600	143,439
Mr P Molloy (c)	85,173	-	-	7,666	-	25,300	118,139
Dr L Post	57,770	-	-	-	-	22,302	80,072
Total	**495,620**	**-**	**10,000**	**57,333**	**275,000**	**216,269**	**1,054,220**

Details of Director's Remuneration for the year ended 30 June 2012:

	Short-Term Benefits			Post Employment	Long-Term Benefits	Share-based Payment	Total
Directors	Directors fees and Salary $	Bonus (b) $	Travel allow-ance $	Superann-uation $	LSL Provision $	Options $	$
Mr P Hopper	75,000	-	10,000	6,750	-	96,941	188,691
Mr B Dulhunty (b)	275,000	55,000	7,500	24,750	27,975	123,689	513,914
Dr P Altman	50,750	-	-	4,568	-	92,767	148,085
Mr P Molloy	50,750	-	-	4,568	-	50,557	105,875
Dr L Post	34,098	-	-	-	-	-	34,098
Total	**485,598**	**55,000**	**17,500**	**40,636**	**27,975**	**363,954**	**990,663**

(a) Mr P Hopper served as Executive Chairman from 24 July 2012 to 30 April 2013. For this period he was remunerated based on an annual fee of $195,000 plus superannuation.

(b) Mr Dulhunty was employed as Managing Director. On 24 July 2012, Mr Dulhunty's employment contract ceased. The agreement provided for termination by the Company at any time by giving either 6 months payment in lieu of notice for non-performance or 12 months payment in lieu of notice for any other reason. He received 12 months payment in lieu of notice, equivalent to $275,000 in salary, plus unused leave entitlements amounting to $98,754. At the November 2011 Board meeting it was resolved that Mr Dulhunty be awarded a bonus of 20% of his base salary for the 12 month period ended 30 September 2011 for meeting the measurable KPI's for that period, which included filing and allowance of the CAVATAK Phase II IND, commencing the Phase II trial, and conducting a successful Share Purchase Plan. Accordingly, Mr Dulhunty was paid a $55,000 cash bonus in December 2011.

(c) Messrs Altman and Molloy served as Executive Directors from 24 July 2012 to 31 January 2013. For this period they were remunerated based on an annual fee of $113,000 plus superannuation.

Company Executives

On 21 January 2013 Dr Malcolm McColl was appointed Chief Executive Officer. During the year ended 30 June 2013, Professor Darren Shafren retained tenure with the University of Newcastle while engaged full time with Viralytics as its Chief Scientific Officer. On 21 May 2013 Robert Vickery was appointed Chief Financial Officer. Executive Manager Stephen Goodall resigned on 31 August 2011. Dr Jeffrey Weisberg resigned as Chief Medical Officer on 28 February 2013. He remains Chairman of the company's Scientific Advisory Board. Remuneration for these executives is set out below:

Details of Executives Remuneration for the year ended 30 June 2013:

	Short-Term Benefits			**Post Employ-ment**	**Share-based Payment**	**Total**
Senior Executive	Salary $	Consulting $	Bonus (b) $	Super-annuation $	Options $	$
Dr Malcolm McColl (a)	147,258	-	-	13,253	68,664	229,175
Prof Darren Shafren (b)	131,010	138,936	49,750	22,916	50,600	393,878
Dr Jeffrey Weisberg	-	60,659	-	-	4,509	65,168
Mr Robert Vickery	10,833	-	-	975	-	11,808
	289,101	**199,595**	**49,750**	**37,144**	**123,773**	**700,029**

Details of Executives Remuneration for the year ended 30 June 2012:

	Short-Term Benefits			Post Employ-ment	Share-based Payment	Termi-nation Benefits	Total
Senior Executive	Salary $	Consulting $	Bonus (b) $	Super-annuation $	Options $	$	$
Prof Darren Shafren (b)	127,305	121,524	48,000	22,915	92,767	-	412,511
Mr Stephen Goodall	36,667	-	-	5,571	-	25,232	67,470
	163,972	**121,524**	**48,000**	**28,486**	**92,767**	**25,232**	**479,981**

(a) As part of his remuneration package, Dr McColl was issued with 1,200,000 share options. Details set out in note 13.

(b) Professor Shafren is paid a standard Associate Professors salary of $131,010 (2012 $127,305) plus superannuation of $23,582 (2012 $22,915) by the University of Newcastle. Viralytics pays Newcastle Innovation, the commercial arm of the University of Newcastle $228,936 (2012 $211,524) in respect of Prof Shafren's services. Of this Newcastle Innovation pys Professor Shafren $138,936 (2012 $121,524). In August 2012 Prof Shafren was awarded a bonus of 20% of his base salary by meeting the measurable KPIs for that period. At the November 2011 Board meeting it was resolved that Professor Shafren be awarded a bonus of 20% of his base salary for the 12 month period ended 30 September 2011 by meeting the measurable KPI's for that period, which included filing and allowance of the CAVATAK Phase II IND and commencing the Phase II trial. Accordingly, Professor Shafren was paid a $48,000 cash bonus in December 2011.

Executive Contractual Arrangements

Chief Executive Officer

The CEO, Dr McColl, is employed under an ongoing contract which can be terminated with notice by either side. Under the terms of the present contract as disclosed with the ASX on 24 January 2013:

Remuneration

Fixed

Base salary of A$357,000 gross per annum including superannuation.

<u>Performance based bonuses and Equity Incentive Plan</u>
In addition to his base salary, Dr McColl may receive a Short Term Incentive Bonus tied to Performance Targets as determined by the Board. The maximum Short Term Incentive Bonus payable is 30% of the salary (pro-rata) for the period of assessment. Dr McColl is not presently a director of the Company and will not receive any additional remuneration if he is appointed as a director of the Company or any related body corporate.

<u>Sign-on Options Package</u>
1,200,000 options for nil consideration expiring 5 years from the Commencement Date (21 January 2013) with an exercise price being the VWAP of the shares 30 days prior to the Commencement Date. One third of options vest on the first anniversary of the Commencement Date; one third of the options vest on the second anniversary of the Commencement Date; and one third of options vest on the third anniversary of the Commencement Date.

Termination
<u>By the Company</u>
- For cause – without notice.
- Incapacity - six months' notice or notice paid in lieu.
- Other than for cause - six months' written notice or notice paid in lieu.
- On transmission of business (& CEO is offered employment on substantially similar terms) – one months' written notice or notice paid in lieu.

<u>By Dr McColl</u>
- Resignation period - six months' written notice.

Other KMP
Standard termination conditions for KMPs employed under contract are as follows:

<u>By the Company</u>
- For cause – without notice.
- Incapacity - three months' notice or notice paid in lieu.
- Other than for cause - three months' written notice or notice paid in lieu.
- On transmission of business (& KMP is offered employment on substantially similar terms) – one months' written notice or notice paid in lieu.

<u>By the KMP</u>
- Resignation period - three months' written notice.

Options Issued as Remuneration to directors and key management:

The option table below covers the year ended 30 June 2013.

Director Key Management Person	Number Granted	Value of options granted (v) $	% of remuneration during the year	Exercise price $	Expiry date
2013					
Dr Len Post (i)	200,000	35,060	28%	$0.352	23 Nov 17
Dr Jeff Weisberg (ii)	125,000	17,525	7%	$0.319	8 Feb 18
Dr Malcolm McColl (iii)	1,200,000	253,320	30%	$0.326	21 Jan 18
2012 (iv)					
Mr Bryan Dulhunty	800,000	220,800	24%	$0.70	12 Aug 16
Mr Paul Hopper	600,000	165,600	51%	$0.70	12 Aug 16
Mr Peter Molloy	300,000	82,800	48%	$0.70	12 Aug 16
Dr Phillip Altman	600,000	165,600	63%	$0.70	12 Aug 16
Prof Darren Shafren	600,000	165,600	22%	$0.70	12 Aug 16

(i) At the Annual General Meeting of Shareholders held on 23 November 2012, shareholders approved the granting of 200,000 options to Dr Len Post. One third of the options vested on 23 November 2012, a further third will vest on 23 November 2013 and the remaining third will vest on 23 November 2014. The options will expire on 23 November 2017.

(ii) On 8 February 2013, by resolution of the board, 125,000 options were granted to Chief Medical Officer and SAB Chairman, Dr Jeff Weisberg. Of these, 50,000 vested on 8 February 2013, 37,500 will vest on 8 February 2014 and 37,500 on 8 February 2015. The options expire on 8 February 2018.

(iii) On 8 February 2013, in accordance with the terms of his employment contract, 1,200,000 options were issued to Dr Malcolm McColl. One third of the options will vest on 21 January 2014, a further third will vest on 21 January 2015 and the remaining third will vest on 21 January 2016. The options will expire on 21 January 2018.

(iv) At the Extraordinary General Meeting of Shareholders held on 2 August 2011, shareholders approved the granting of 800,000 options to Mr Bryan Dulhunty; 300,000 options to Mr Peter Molloy and 600,000 options to Dr Phillip Altman, Mr Paul Hopper and Professor Darren Shafren separately. One third of the options vested on 12 August 2012, a further third vested on 12 August 2013 and the remaining third will vest on 12 August 2014. The options will expire on 12 August 2016.

(v) The options have been valued using the Black-Scholes methodology. Details on how the options were valued, including the inputs to the methodology, are outlined in Note 12 to the financial statements.

During the year ended 30 June 2013 no current or former director converted options into shares.

END OF AUDITED REMUNERATION REPORT

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

(a) Ordinary Shares	Opening Balance	Shares Disposed	Shares Acquired	Closing Balance
Peter Molloy	10,000	-	10,000	20,000
Bush Turkey Investments Pty Ltd (i)	118,750	(118,750)	-	-
Altman Nominees Pty Limited ATF Altman Super Fund (ii)	18,106	-	28,000	46,106
Deborah Coleman (iii)	-	-	36,000	36,000
Kilinwata Investments Pty Limited (iv)	13,106	-	-	13,106

(b) Unlisted Options	Opening Balance	Issued during year	Expired during year	Closing Balance	Vesting Term (v)	Expiry Date	Ex. Price
Mr Bryan Dulhunty	800,000	-	-	800,000	(b)	12 Aug 16	$0.70
Mr Bryan Dulhunty	200,000	-	-	200,000	(a)	22 Dec 15	$0.50
Mr Bryan Dulhunty	200,000	-	(200,000)	-		24 Nov 12	$0.46
Dr Phillip Altman	600,000	-	-	600,000	(b)	12 Aug 16	$0.70
Dr Phillip Altman	25,000	-	(25,000)	-		26 Nov 12	$2.00
Dr Phillip Altman	25,000	-	(25,000)	-		26 Nov 12	$2.50
Dr Phillip Altman	25,000	-	(25,000)	-		26 Nov 12	$3.00
Mr Paul Hopper	600,000	-	-	600,000	(b)	12 Aug 16	$0.70
Mr Paul Hopper	100,000	-	-	100,000		18 Nov 13	$0.75
Mr Paul Hopper	100,000	-	-	100,000		18 Nov 13	$0.75
Mr Paul Hopper	100,000	-	-	100,000		18 Nov 13	$0.75
Mr Peter Molloy	300,000	-	-	300,000	(b)	12 Aug 16	$0.70
Mr Peter Molloy	100,000	-	-	100,000		18 Nov 13	$0.75
Mr Peter Molloy	100,000	-	-	100,000		18 Nov 13	$0.75
Mr Peter Molloy	100,000	-	-	100,000		18 Nov 13	$0.75
DFCT Pty Ltd (i)	75,000	-	-	75,000		5 Dec 13	$3.00
DFCT Pty Ltd (i)	50,000	-	-	50,000		5 Dec 13	$3.50
DFCT Pty Ltd (i)	75,000	-	-	75,000		5 Dec 13	$4.00
Dr Len Post	-	200,000	-	200,000	(c)	23 Nov 17	$0.352
Total	3,575,000	200,000	(275,000)	3,500,000			

(i) Entity associated with Mr B Dulhunty who departed during the year.

(ii) Dr Phillip Altman is a beneficiary of the trust.

(iii) Ms Coleman is the spouse of Mr Hopper

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

(v) All options have vested and are exercisable except for:
   a) One half of the options have vested and the remaining half vest on meeting of operational milestones.
   b) One third of the options vest on 12th August 2012, a further third vested on 12th August 2013 and the remaining third vest on 12th August 2014.
   c) One third of the options vested on 23 November 2012, a further third will vest on 23 November 2013 and the remaining third will vest on 23 November 2014.

DIRECTORS' AND AUDITOR'S INDEMNIFICATION

The Company has Directors and Officers Liability Insurance. The policy indemnifies the Company for the wrongful act of a Director or Officer and reimburses the Company in respect of legal expenses incurred by Directors and Officers in the successful defence of actions. Disclosure of the premium paid is not permitted under the terms of the insurance contract.

NON-AUDIT SERVICES

Other compliance services were provided by Bentleys Chartered Accountants during the financial year. The fees were $7,480 (2012 - $5,500) for those services.

The Directors are satisfied that:

(a) the non-audit services provided during the financial year by Bentleys Chartered Accountants as the external auditor were compatible with the general standard of independence for auditors imposed by the *Corporations Act*; and

(b) any non-audit services provided during the financial year by Bentleys Chartered Accountants as the external auditor did not compromise the auditor independence requirements of the *Corporations Act* for the following reasons:

   (i) all non-audit services are reviewed and approved by the Chief Executive Officer prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

   (ii) the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2013 has been received and can be found on page 29.

This director's report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors

Paul Hopper
Chairman
Dated: 27 August 2013

Corporate Governance Statement

for the year ended 30 June 2013

Viralytics is committed to implementing the highest standards of corporate governance for a company of its size and standing, in line with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (the Recommendations) as amended 30 June 2010.

The Board considers, due to the size and stage of development of Viralytics and its operations, it may not be practicable or necessary to implement the ASX Principles in their entirety. In such instances, Viralytics has identified areas of divergence.

The Board has established a series of policies and charters in line with the Recommendations. The Company's policies and charters together form the basis of the Company's governance framework.

In accordance with its Shareholder Communications Policy, Viralytics has made its corporate governance policies and charters publicly available on its website (www.viralytics.com).

1. Lay solid foundations for management and oversight

The Board has the primary responsibility for guiding and monitoring the business and affairs of Viralytics including compliance with Viralytics' corporate governance objectives and, in conjunction with the Chief Executive Officer, setting the strategic direction of the Company. The Board Charter confirms this responsibility and sets out the roles and responsibilities of the Board and the functions reserved to the Board. The Board Charter is available on the Company's website.

In carrying out its governance role, the main task of the Board is to oversee the direction and performance of Viralytics in line with and in pursuit of the best interests of shareholders. The Board is committed to Viralytics' compliance with all of its contractual, statutory, ethical and any other legal obligations.

It is the role of senior management to manage Viralytics in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

The non-executive Directors (NEDs) annually assess the performance of the Chief Executive Officer (CEO) according to agreed performance indicators, and the Board as a whole, including the CEO, undertake an annual assessment of the performance of all other senior executives. Where areas for improvement are identified, the Board directs action and implements strategies designed to implement appropriate improvements. During the year the performance of the CEO and senior executives were assessed, areas for improvement identified and strategies adopted to implement improvements.

2. Structure the board to add value

The Board is currently comprised of four NEDs: Dr Leonard Post, Mr Peter Molloy, Dr Phillip Altman and Mr Paul Hopper (Chairman). All four NEDs are considered non-executive and independent directors. The Board considers that it is the approach and attitude of each NED which is critical in determining independence together with any other relevant factors including those set out in the Recommendations. The factors considered by the Board in assessing independence, including materiality thresholds, are included in the Board Charter which is available on the Company's website.

Under some circumstances one or more of the NEDs may be asked by the Board to fulfil an executive role. The Chairman, Mr Hopper, acted in the capacity of Executive Chairman from 24 July 2012 to 30 April 2013. Mr Molloy and Dr Altman acted in the capacity of Executive Directors from 24 July 2012 to 31 January 2013. These arrangements were in order to facilitate the transition of the Company to a new CEO who commenced on 21 January 2013. The Board considered this was appropriate due to the Company's circumstances at the time.

During the reporting period the Board comprised five directors, including Mr Bryan Dulhunty who resigned as Managing Director on 24 July 2012. During the reporting period the four other directors were considered independent by the Board and non-executive, apart from the period where certain directors served in an executive capacity.

Further details about the Directors, including their tenure, skills, experience and expertise relevant to the position of director are set out in the Directors' Report.

The Company and Board have established various Committees to provide additional focus and oversight during the reporting period. Currently these committees include:

a) The Remuneration and Nomination Committee, comprised of Mr Paul Hopper, Dr Len Post and Mr Peter Molloy, all of whom are independent. The Committee is chaired by the Chairman of the Board, Mr Paul Hopper.

b) The Audit and Finance Committee, comprised Mr Peter Molloy (Committee Chair), Mr Paul Hopper, Dr Phillip Altman.

A copy of each committee charter is available on the Company's website.

The Board considers there is currently an appropriate mix of skills, diversity and experience on the Board, taking into account the size of the company and the nature of its operations. As set out in the Board Charter, in selecting any new directors, the Board will ensure that a candidate has the appropriate range of skills, experience, expertise and diversity that will best complement Board effectiveness. In addition, any candidate must confirm that they have the necessary time to devote to their Viralytics Board position.

The Board has recently undertaken a review assessing the performance of the Board as a whole. The Board's performance was measured against both qualitative and quantitative indicators. The objective of this evaluation was to identify strengths and weaknesses and provide best practice corporate governance for Viralytics. No individual performance reviews were undertaken during the period.

With the consent of the Chairman, individual Directors are entitled to obtain independent advice from external advisers in relation to any Board matter, at the Company's expense.

Promote ethical and responsible decision-making

Code of Conduct

To ensure that Viralytics maintains the highest standards of integrity, honesty and fairness in its dealings with all stakeholders, the Company has established a Code of Conduct (Code). This Code acts as a guide for compliance with legal and other obligations to stakeholders. These stakeholders include customers, shareholders, employees, suppliers, business partners, the community and environment in which Viralytics operates.

All Viralytics employees (including Directors, employees, consultants, contactors, advisors and all other individuals that represent Viralytics) play an important role in establishing, maintaining and enhancing the reputation of Viralytics by ensuring high standards of ethics and behaviour. Employees are required to comply with the Code, Company policies and all applicable laws, and report any acts or genuine suspicions of non-compliance. A copy of the Code is available on the Company's website.

Diversity

The Company has reflected its policy on diversity throughout its governance policies, in particular the Code of Conduct and Board Charter, not in a separate diversity policy.

The Board has not established measurable objectives for achieving gender diversity at present however the Board is committed to considering the issue of diversity at least annually. At present Viralytics has three employees. Of these one is female. Of the four executive roles within the Company one is carried out by a female. There are currently no female board members.

Securities Trading Policy

Viralytics has a policy applying to all Directors, officers and employees of Viralytics relating to the prohibition against insider trading, and prescribes certain requirements for dealing in Viralytics' securities. A copy of this Policy is available on the ASX and the Company's website.

3. Safeguard integrity in financial reporting

The Company has an Audit and Risk Committee as described above and in compliance with the Recommendations. The Committee and the Board as a whole discusses directly with the auditors, each half year and full year, all relevant financial aspects of the Company. Information about the procedure for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners are set out on the Company's website.

The ARC held two meetings during the reporting period.

The Committee comprises three members (Mr Paul Hopper, Mr Peter Molloy and Dr Phillip Altman), all of whom are independent. The Committee is chaired by Mr Peter Molloy an independent non-executive director.

The Committee has a formal Charter, a copy of which will be made available on the Company's website. The Charter sets out the Committee's role and responsibilities, composition, structure and membership requirements.

4. Make timely and balanced disclosure

The Company has established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance, including a Continuous Disclosure Policy and a Shareholder Communications Policy. A copy of the policies, ASX announcements and other publications are available on the Company's website.

5. Respect the rights of shareholders

As set out above the Company has a Continuous Disclosure Policy and a Shareholder Communications Policy to promote effective communication with shareholders and encourage their participation at general meetings. A copy of both policies is available on the Company's website.

6. Recognise and manage risk

The Company has established a system of risk oversight and management and internal control. The basis of this system is the Company's Risk Management Policy which formalises and communicates Viralytics' approach to the management of risk. A copy of the Policy is available on the Company's website.

The Board requires Management to design and implement the risk management system and appropriate internal control systems to manage the Company's material business risks and report to the Board regarding the management of those risks. The Board has received a declaration from the Chief Executive Officer and Chief Financial Officer that the declaration provided in accordance with section 295A of the *Corporations Act* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects.

7. Remunerate fairly and responsibly

As set out above, the Company has established a Remuneration and Nominations Committee as recommended by the ASX Principles during the reporting period. No meetings were held during the reporting period. Prior to the establishment of the Committee the responsibilities of the Committee were carried out by the Board as a whole.

The Committee comprises three members (Mr Paul Hopper, Mr Peter Molloy and Prof Leonard Post), a majority of whom are independent. The Committee is chaired by the Chairman of the Board, Mr Paul Hopper, who was independent during the reporting period. A copy of the Remuneration & Nomination Committee Charter will be made available on the Company's website.

The Remuneration Report and further details about the remuneration policy of Viralytics are set out in the Directors' Report. The Remuneration Report clearly distinguishes between the structure of NEDs' remuneration and that of executives. The Company's policy is to reward executives with a combination of fixed remuneration and equity incentives, structured to drive improvements in shareholder value.

Viralytics Limited

Statement of Comprehensive Income

for the year ended 30 June 2013

	Note	2013 $	2012 $
Revenue			
Interest Income		262,580	323,712
R & D Tax Incentive	3	2,493,235	871,603
Other Income		-	3,000
Total Revenue		**2,755,815**	**1,198,315**
Expenses			
Research and development costs:			
Clinical trials		2,018,538	1,076,195
Research and development		1,727,071	1,693,641
Manufacture		44,957	440,609
Patents and related costs		145,534	203,116
Amortisation of intangibles		390,312	390,312
Depreciation		22,020	37,235
Employee costs		1,616,190	1,313,764
Corporate compliance costs		304,051	262,983
Administration costs		549,037	505,673
Change in present value of convertible note	11	-	12,119
Finance costs			
Interest paid		6	6,993
Commission on convertible note		-	5,477
Foreign currency translation loss		67,316	28,916
Loss on Disposal of Assets		512	101
Total Expenses		**6,885,544**	**5,977,134**
(Loss) from ordinary activities before income tax		**(4,129,729)**	**(4,778,819)**
Income tax expense	4	-	-
Total (loss) for the year, net of tax		**(4,129,729)**	**(4,778,819)**
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax		**(4,129,729)**	**(4,778,819)**
Basic (Loss) cents per share	5	(5.1)	(7.1)
Diluted (Loss) cents per share	5	(5.1)	(7.1)

The accompanying notes form part of these financial statements.

Viralytics Limited

Statement of Financial Position

for the year ended 30 June 2013

	Note	2013	2012
		$	$
Current Assets			
Cash and cash equivalents		5,078,859	5,884,436
Trade and Other Receivables	6 (a)	2,202,458	1,154,357
Total Current Assets		**7,281,317**	**7,038,793**
Non-Current Assets			
Security Deposits	6 (b)	49,000	12,252
Plant and equipment	7	68,054	50,201
Investments	8	-	-
Intangible assets	9	2,814,400	3,204,711
Total Non-Current Assets		**2,931,454**	**3,267,164**
Total Assets		**10,212,771**	**10,305,957**
Current Liabilities			
Trade and other payables	10	1,234,886	746,083
Borrowings	11	-	-
Total Current Liabilities		**1,234,886**	**746,083**
Total Liabilities		**1,234,886**	**746,083**
Net Assets		**8,977,885**	**9,559,874**
Equity			
Issued Capital	12	61,779,761	58,572,063
Convertible Notes - Equity Component	11, 12	595,640	595,640
Reserves	13	3,009,584	2,669,542
Accumulated Losses		(56,407,100)	(52,277,371)
		8,977,885	**9,559,874**

The accompanying notes form part of these financial statements.

Viralytics Limited

Statement of Changes In Equity

for the year ended 30 June 2013

		Share Capital		Retained Earnings (Accumulated Losses)	Reserves	Total
	Note	Ordinary	Convertible note		Option Reserve	
		$	$	$	$	$
Balance at 1 July 2011		53,750,375	593,815	(47,498,552)	2,212,822	9,058,460
Comprehensive income for the year		-	-	(4,778,819)	-	(4,778,819)
Transactions with owners, in their capacity as owners and other transfers						
Shares issued during the year		4,680,941	-	-	-	4,680,941
Transaction costs		(298,526)	-	-	-	(298,526)
Conversion of convertible notes	11	439,273	-	-	-	439,273
Convertible note draw down – equity component	11	-	1,825	-	-	1,825
Exercise of options						
Share option based compensation	13	-	-	-	456,720	456,720
Total transactions with owners and other transfers		4,821,688	1,825	-	456,720	5,280,233
Balance at 30 June 2012		58,572,063	595,640	(52,277,371)	2,669,542	9,559,874

The accompanying notes form part of these financial statements.

Viralytics Limited

Statement of Changes In Equity

for the year ended 30 June 2013

	Note	Share Capital		Retained Earnings (Accumulated Losses)	Reserves	Total
		Ordinary	Convertible note		Option Reserve	
		$	$	$	$	$
Balance at 1 July 2012		58,572,063	595,640	(52,277,371)	2,669,542	9,559,874
Comprehensive income for the year		-	-	(4,129,729)		(4,129,729)
Transactions with owners, in their capacity as owners and other transfers						
Shares issued during the year		3,550,710	-	-	-	3,550,710
Transaction costs		(343,012)	-	-	-	(343,012)
Share option based compensation		-	-	-	340,042	340,042
Total transactions with owners and other transfers		3,207,698	-	-	340,042	3,547,741
Balance at 30 June 2013		61,779,761	595,640	(56,407,100)	3,009,584	8,977,885

The accompanying notes form part of these financial statements.

Statement of Cash Flows

for the year ended 30 June 2013

	Note	2013 $	2012 $
Cash Flows from Operating Activities			
R & D Tax Incentive Offset		1,466,771	705,787
Payments to suppliers and employees		(5,694,466)	(4,584,359)
Interest received		293,363	330,756
Interest paid		-	(7,540)
Net cash (used in) operating activities	16	**(3,934,332)**	**(3,555,356)**
Cash Flows from Investing Activities			
Purchase of equipment		(40,383)	(19,840)
Net cash (used in) investing activities		**(40,383)**	**(19,840)**
Cash Flows from Financing Activities			
Proceeds from issue of shares		3,512,150	4,680,941
Draw down of convertible notes	11	-	92,396
Costs of fund raising		(343,012)	(318,364)
Net cash provided by financing activities		**3,169,138**	**4,454,973**
Net (decrease)/ increase in cash held		**(805,577)**	**879,777**
Cash at the beginning of the financial year		5,884,436	5,004,659
Closing cash at the end of the financial year		**5,078,859**	**5,884,436**

The accompanying notes form part of these financial statements

Notes to the Financial Statements

for the year ended 30 June 2013

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). 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 Ltd. - a listed public company, incorporated and domiciled in Australia.

Reporting Basis and Conventions

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

Going Concern

The financial statements for the year ended 30 June 2013 are prepared on a going concern basis. Notwithstanding that the Company has a history of losses and access to cash assets of $5.1 million at 30 June 2013, the Directors consider that the company will need to raise additional capital in the next twelve months in order to pursue the strategic plan and objectives as laid out in the Directors Report under Likely Developments and Likely results.

At the date of this report, the director’s believe there are reasonable grounds that the company will be able to raise sufficient capital when required. The results of such capital raisings combined with its cash reserves will provide sufficient funding to meet all of its foreseeable expenditure commitments and pay its debts as and when they fall due.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going Concern Continued

However, if the company is unable to raise adequate capital, then it may be unable to continue as a going concern. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

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 entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b) Financial Instruments continued

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.

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) Financial assets at fair value through profit or loss

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b) Financial Instruments continued

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are de-recognised or impaired, as well as through the amortisation process.

Held-to-maturity investments are included in non-current assets where they are expected to mature within 12 months after the end of the reporting period. All other investments are classified as current assets.

(iii) 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.

(iv) *Available-for-sale Investments*

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

They are subsequently measured at fair value with any re-measurements other than impairment losses and foreign exchange gains and losses recognized in other comprehensive income. When the financial asset is derecognized, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets where they are expected to be sold after 12 months from the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b) Financial Instruments continued

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

The company does not have any derivative financial instruments at 30 June 2013 (Nil: 2012).

At the end of each reporting date, the Company assesses whether there is any indication that an asset may be impaired. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset’s fair value less costs to sell and value in use, to the asset’s carrying value. Any excess of the asset’s carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

d) Inventories

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

The manufacture of additional CAVATAK drug stock during the clinical trials forms part of the ongoing research and development activities of the company as the drug stock is not held for sale in the ordinary course of business. Consequently, no inventory is recognised by the company in accordance with Accounting Standard AASB 102 “Inventories” at 30 June 2013 (2012 – nil).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

e) 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(c) 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 comprehensive income. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

f) Investments in Associates

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

f) Investments in Associates continued

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

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

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

g) 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. Patents are amortised over their remaining life. The method for assessing for impairment of intangible assets is described in Note 1 (c).

h) Employee Benefits

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

i) Provisions

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

j) 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. Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue from government incentives such as Research and Development tax concession is recognised when the eligibility criteria are met and it is probable that such tax concession will be received. All revenue is stated net of the amount of goods and services tax (GST).

k) Research and Development Expenditure

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

l) Income Taxes

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

m) 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.

n) 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.

o) Comparative Figures

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

p) Foreign currency translation

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

q) Convertible notes

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the Statement of Financial Position, net of transaction costs.

On issuance of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Interest on the liability component of the instruments is recognised as an expense in profit or loss. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

r) New Accounting Standards for Application in Future Periods

There are a number of Australian Accounting Standards that have been issued or amended and which are applicable to the Company but are not yet effective, and have not been adopted in preparation of the financial statements at reporting date. Having considered each of the new reporting requirements, but without detailing same herein, the Company does not anticipate early adoption of any of such requirements and does not expect them to have any material effect on its future financial statements other than additional disclosure around financial instruments and minor changes in presentation.

2. KEY ESTIMATES AND JUDGEMENTS

Impairment

The Company assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Company that may be indicative of impairment triggers. There were no indicators of impairment as at 30 June 2013.

3. PROFIT/LOSS FOR THE YEAR

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

	2013	2012
	$	$
Other Income:		
R&D tax incentive	2,493,235	871,603
	2,493,235	871,603

Income for 2013 comprises $1,898,067 R&D tax incentive for 2013 and $ 595,168 R&D tax incentive on eligible overseas R&D expenditures for 2012. 2012 overseas expenses were not recognised in 2012 as final approval had not been obtained at the date that report was signed. For 2012 the estimate of $871,603 R&D tax incentive was based on 45% refundable tax offset on eligible Australian R&D expenditures only.

	2013	2012
Expenses:		
Remuneration of the auditor of the entity		
- auditing and reviewing the financial reports	35,000	35,000
- other services	7,480	5,500
	42,480	40,500

4. INCOME TAX EXPENSES	2013 $	2012 $
The prima facie tax on the (loss) from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit/ (loss) from ordinary activities before income tax at 30% (2012 – 30%)	(1,238,918)	(1,433,646)
Add Tax effect of:		
- non- deductible Research and Development expense	1,265,618	581,069
- entertainment	922	1,619
- share option expense	102,013	137,016
Less Tax effect of:		
- R & D incentive receivable current year	(569,528)	(261,481)
- R & D incentive previous years	(178,709)	(18,452)
- over-provision for income tax in prior year	-	(345,134)
Future Income tax benefit (recognised)/ not recognised	618,603	1,339,009
Income tax benefit attributable to loss from ordinary activities before income tax	-	-

Franking Account balance is nil (2012: nil).

The Directors estimate the potential future income tax benefit not brought to account at 30 June 2013 in respect of tax losses from the Virotherapy project is approximately $34.6 million.

Additional carry forward tax losses dating back to 1986 and totalling $5.9 million are also potentially available to the Company. Less certainty exists as to whether these remain deductible, due to the tax office definition of continuity of same business test applied by the Australian Taxation Office. The benefit for tax losses will only be obtained if:

- the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from deductions for the losses to be realised;
- the Company continues to comply with the conditions for deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the losses.

Notes to the Financial Statements

for the year ended 30 June 2013

5. EARNINGS PER SHARE	**2013 Cents**	**2012 cents**
Basic earnings (loss) cents per share	(5.1)	(7.1)
Diluted earnings (loss) cents per share	(5.1)	(7.1)
Income and share data used in the calculations of basic and diluted earnings per share:		
Net Profit/(Loss)	(4,129,729)	(4,778,819)
	Number	**Number**
Weighted average number of ordinary shares on issue in the calculation of basic earnings per share	81,457,723	67,478,490
Effect of dilutive securities	-	-
Adjusted weighted average number of Ordinary shares and potential ordinary shares used in calculating diluted earnings per share	81,457,723	67,478,490

As at 30 June 2013 there are 5,825,000 (2012 - 4,650,000) share options on issue which have not been taken into account when calculating the diluted loss per share due to their anti-dilutive nature.

Notes to the Financial Statements

for the year ended 30 June 2013

	Note	2013	2012
		$	$
6. TRADE AND OTHER RECEIVABLES			
a) Current			
Prepayments		196,461	165,132
Interest Receivable		27,363	58,147
R & D Tax concession Receivable	2	1,898,067	871,603
GST Receivable		75,892	59,475
Other		4,675	-
		2,202,458	**1,154,357**
b) Non-Current			
Security Deposit		**49,000**	**12,252**
7. PLANT AND EQUIPMENT			
Plant & Equipment – at Cost		855,757	876,484
Accumulated Depreciation		(787,703)	(826,283)
		68,054	**50,201**
Movements in Carrying Amounts			
Balance at beginning of period		50,201	67,696
Additions		40,385	19,841
Loss on Disposals		(512)	(101)
Depreciation expense		(22,020)	(37,235)
Balance at end of period		**68,054**	**50,201**
8. INVESTMENTS			
Accounted For Using The Equity Method			
InJet Digital Aerosols Ltd – Unlisted (IDAL)		-	-

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

8. INVESTMENTS continued

Viralytics 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 2012 disclosed a deficiency in net assets of $368,196. Consequently, the carrying value of the investment is nil (2012 – nil) and many of the disclosure requirements under AASB 128: Investments in Associates are not applicable. The unrecognised losses of IDAL, both for the period and cumulatively, are presented below. If IDAL subsequently reports profits, Viralytics will resume recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

	2013 $	2012 $
Unrecognised losses at beginning of year	(513,476)	(513,476)
Share of losses not taken up	(264,752)	-
Unrecognised losses at end of year	(778,228)	(513,476)

9. INTANGIBLE ASSETS

Intellectual Property-Virotherapy	8,605,532	8,605,532
Accumulated amortisation	(5,791,132)	(5,400,821)
	2,814,400	**3,204,711**

Movements in carrying value		
Balance at beginning of year	3,204,711	3,595,024
Less: amortisation expense	(390,312)	(390,313)
Balance at end of year	**2,814,399**	**3,204,711**

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 7 years remaining.

10. TRADE & OTHER PAYABLES

Current		
Trade payables	892,323	282,753
Sundry payables and accrued expenses	325,714	344,449
Employee entitlements	16,849	118,881
	1,234,886	**746,083**

	2013	2012
	$	$
11. BORROWINGS		
Convertible Note – Debt portion	**-**	**-**

This facility was extinguished in July 2011 when the last US$100,000 was drawn. All convertible notes were converted into shares before 30 June 2012. The Company originally entered into the convertible note facility with La Jolla Cove Investors, Inc. on 9 June 2008 to provide up to US$6 million in funding over 3 years.

Australian Accounting Standards classified the convertible note as a 'complex financial instrument'. Consequently the convertible note was split into a debt and equity component based on the present value of its cash flows to the maturity date. As per AASB 132, the original equity component of the Convertible Notes should remain in equity.

		2013	2012
		$	$
Movement in Convertible Note - Debt Portion			
Balance at beginning of year of debt portion		-	317,134
Cash received from draw downs		-	92,396
Converted to fully paid ordinary shares	Note 12	-	(439,273)
		-	(29,743)
Equity component of draw down		-	(1,825)
Change in present value of debt component		-	12,119
Foreign exchange (gain)/loss		-	19,449
Balance at end of year of debt portion		**-**	**-**

Notes to the Financial Statements

for the year ended 30 June 2013

12. ISSUED CAPITAL		2013 $	2012 $	2013 Number	2012 Number
Fully Paid Ordinary shares	(a)	61,779,761	58,572,063	87,268,606	75,433,960

On 2 August 2011 shareholders approved a 10 for 1 share consolidation. All shares and options quoted in this note refer to post consolidation share and option numbers.

Equity instruments Convertible to Ordinary Shares:					
Convertible Notes (equity component)	(b)	595,640	595,640	-	-
Unlisted Options	(c)	-	-	5,825,000	4,650,000
		595,640	**59,167,703**		

		2013 $	2012 $	2013 Number	2012 Number
(a) Fully Paid Ordinary shares					
Movements in Fully Paid Ordinary shares:					
Balance at beginning of year		58,572,063	53,750,375	75,433,960	590,362,227
Consolidation adjustment 2 Aug 2011 (10 for 1)		-	-	-	(531,325,501)
Share Purchase Plan (i)		3,512,151	4,680,941	11,707,170	15,177,750
Share Placement (ii)		38,559	-	127,476	-
Cost of fund raising		(343,012)	(298,526)	-	-
Conversion of Convertible Notes	Note 11	-	439,273	-	1,219,484
Balance at end of year		61,779,761	58,572,063	87,268,606	75,433,960

(i) 27 December 2012 – 11,707,170 shares issued at $0.30 per share totalling $3,512,151. 22 Dec 2011 – 15,177,750 shares issued at $0.3084 per share totalling $4,680,941.

(ii) 27 December 2012 – 63,205 shares at $0.305 per share. 5 February 2013 64,271 shares at $0.30 per share. Total of both issues $38,559.

12. ISSUED CAPITAL continued

Terms and conditions of ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholder's meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Convertible Notes (equity component)

As at 30 June 2012, the 6 million Convertible Note facilities was extinguished following the final conversion of the convertible notes into shares. As per AASB 132, the original equity component of the Convertible Notes should remain in equity.

	2013 Number	2012 Number
(c) Unlisted Options		
Movements during the year:		
Number at the beginning of the period	4,650,000	18,500,000
Consolidation adjustment at 2 Aug 2011 (10 for 1)	-	(16,650,000)
Issued	1,525,000	2,900,000
Expired	(350,000)	100,000
Number at the end of the reporting period	**5,825,000**	**4,650,000**

Notes to the Financial Statements

for the year ended 30 June 2013

12. ISSUED CAPITAL continued

Unlisted options on issue at 30 June 2013 comprise:

Expiry Date	Opening Balance	Issued during Year	Expired during year	Closing Balance	Exercise Price
24 Nov 12	100,000	-	(100,000)	-	$0.46
24 Nov 12	100,000	-	(100,000)	-	$0.46
26 Nov 12	25,000	-	(25,000)	-	$2.00
26 Nov 12	25,000	-	(25,000)	-	$2.50
26 Nov 12	25,000	-	(25,000)	-	$3.00
18 Mar 13	25,000	-	(25,000)	-	$2.00
18 Mar 13	50,000	-	(50,000)	-	$3.00
18 Nov 13	600,000	-	-	600,000	$0.75
5 Dec 13	75,000	-	-	75,000	$3.00
5 Dec 13	50,000	-	-	50,000	$3.50
5 Dec 13	75,000	-	-	75,000	$4.00
30 Jun 15	400,000	-	-	400,000	$0.65
22 Dec 15	200,000	-	-	200,000	$0.50
12 Aug 16	2,900,000	-	-	2,900,000	$0.70
23 Nov 17	-	200,000	-	200,000	$0.352
21 Jan 18	-	1,200,000	-	1,200,000	$0.326
8 Feb 18	-	125,000	-	125,000	$0.319
	4,650,000	**1,525,000**	**(350,000)**	**5,825,000**	

12. ISSUED CAPITAL continued

The following terms and conditions apply to unlisted options issued:

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

If all unlisted options were exercised in accordance with their terms of issue, 5,825,000 shares would be issued (2012: 4,650,000) and Contributed Equity would increase by $4.0 million (2012: $4.0 million).

The following terms and conditions apply to specific other unlisted options issued as indicated:

I. *Issued 2 August 2011* – For the 2,900,000 options issued following the Extraordinary General Meeting of Shareholders on 2 August 2011 one third will vest on 12th August 2012, a further third will vest on 12 August 2013 and the remaining third will vest on 12 August 2014. The options will expire on 12 August 2016.
II. *Issued to Dr Post* – For the 200,000 options issued to Dr Post following the Annual General Meeting on 23 November 2012 one third vested on 23 November 2012, one third will vest on 23 November 2013, and the remaining third will vest on 23 November 2014. The options will expire on 23 November 2017.
III. *Issued to Dr McColl* - For the 1,200,000 options issued to Dr McColl pursuant to his contract one third will vest on 21 January 2014, a further third will vest on 21 January 2015 and the remaining third will vest on 21 January 2016. The options will expire on 21 January 2018.
IV. *Issued to Dr Weisberg* - For the 125,000 options issued to Dr Weisberg pursuant to his contract 50,000 vested on 8 February 2013, 37,500 will vest on 8 February 2014 and the remaining 37,500 will vest on 8 February 2015. The options will expire on 8 February 2018.

12. ISSUED CAPITAL continued

The weighted average fair value of options granted during the year was $0.20 (2012: $0.27). These values were calculated using the Black-Scholes option pricing model applying the following inputs:

	Dr Post	Dr McColl	Dr Weisberg
Exercise Price	$0.352	$0.326	$0.319
Weighted average life of the option	4 years	4.24 years	4.03 years
Expected share price volatility	60%	60%	60%
Risk-free interest rate	2.66%	2.69%	2.82%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements. The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

(d) Share-Based Payments

During the 2013 year, shares were issued in consideration for services rendered to the company by suppliers with a fair value of $38,559. The fair value of shares issued was determined by reference to the market price of the company's shares at the date the transaction occurred.

13. RESERVES	2013 $	2012 $
Share Options reserve	3,009,584	2,669,542
Total	**3,009,584**	**2,669,542**
Movements in Reserves:		
Share Option reserve		
Balance at beginning of year	2,669,542	2,212,822
Share based compensation	340,042	456,720
Balance at end of year	**3,009,584**	**2,669,542**

The Options reserve records items recognised as an expense on payment of share-based consideration. Included under employee benefits expense in the statement of comprehensive income is $340,042 which relates to equity-settled share-based payment transactions (2012: $456,720).

14. SEGMENT INFORMATION

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

15. CAPITAL AND LEASING COMMITMENTS

	2013	2012
	$	$
Operating Lease Commitments		
Non-cancellable operating lease contracted for but not capitalised in the financial statements payable		
- not later than 12 months	50,320	27,652
- later than 12 months but not later than 5 years	33,087	-
	83,407	27,652

The Operating lease commitments relate to the lease of the office facilities which will expire in February 2015 with an option to renew for a further 1 year. In addition to the rentals payable, the lessee is responsible for defined outgoings and the rent is subject to annual review.

16. CASH FLOW INFORMATION

Reconciliation of Cash Flow from operations with loss from ordinary activities after income tax:

	2013	2012
	$	$
Net Cash Inflow/(Outflow) from Operating Activities	(3,934,332)	(3,555,356)
Financing Cash flows expensed in statement of comprehensive income:		
Finance costs	-	(5,477)
Non-Cash items in Total Comprehensive Income:		
Depreciation	(22,020)	(37,235)
Amortisation	(390,312)	(390,312)
Loss on disposal of assets	(512)	(101)
Option Based Compensation	(340,042)	(456,720)
Interest on present value of convertible note debt	-	(12,119)
Unrealised currency gain/(loss)	-	(19,449)
Consultants fee – non cash	(38,559)	-
Changes in Assets and liabilities:		
(Decrease)/increase in Security Deposits	36,749	-
(Decrease)/increase in Trade and Other Receivables	1,048,102	159,533
(Decrease)/increase in Inventory	-	(365,194)
(Increase)/decrease in Accounts Payable	(488,802)	(96,389)
Loss from ordinary activities after Income Tax	**(4,129,729)**	**(4,778,819)**

Financing Facilities: In 2011-12 a US$6 million convertible note facility was converted into equity (refer note 11). There are no other credit standby arrangements or used or unused loan facilities.

17. FINANCIAL INSTRUMENTS

a. Financial Risk Management Policies

The Company's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable and convertible notes. The main purpose of non-derivative financial instruments is to raise finance for Company operations. The Company does not have any derivative instruments at 30 June 2013 (2012 – nil).

17. FINANCIAL INSTRUMENTS continued

i. Treasury Risk Management: The Board of Directors meets on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The Board's overall risk management strategy seeks to assist the Company in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

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

iii. Interest rate risk: Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Company is not exposed to fluctuations in interest rates as the interest rates on interest bearing financial liabilities are fixed for the duration of the facility. As of 30 June 2013, the Company held no interest bearing financial liabilities. The Company holds interest-bearing financial assets however interest rate risk is immaterial.

iv: Foreign currency risk: The Company is principally exposed to the US$ /A$ exchange rate due to the phase II clinical trial held in the USA. The contract value is denominated in USD. The Company also, from time to time, contracts development work to foreign companies. At 30 June 2013 the Company had no significant foreign currency risk. The Company does not hedge its foreign currency exposure.

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

vi: Credit risk*:* The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements. There are no material amounts of collateral held as security at 30 June 2013. Credit risk is managed and reviewed regularly by the directors. The Company does not have any material credit risk exposure to any single receivable or company of receivables under financial instruments entered into by the Company.

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

Notes to the Financial Statements

for the year ended 30 June 2013

17. FINANCIAL INSTRUMENTS continued

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. As such, the amounts may not reconcile to the Statement of Financial Position.

	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	%	$	$	$	$	$
2013						
Cash and cash equivalents	3.75	523,517	4,514,521	-	40,821	5,078,859
Receivables	4.04	-	49,000	-	2,001,322	2,050,322
		523,517	4,563,521	-	2,042,143	7,129,181
2012						
Cash and cash equivalents	5.18	879,963	5,000,000	-	4,474	5,884,436
Receivables	4.65	-	12,251	-	989,225	1,001,476
		879,963	5,012,251	-	993,699	6,885,912
Financial Liabilities						
2013						
At amortised cost:						
Trade and sundry payables	-	-	-	-	1,234,886	1,234,886
		-	-	-	1,234,886	1,234,886
2012						
At amortised cost:						
Trade and sundry payables	-	-	-	-	746,083	746,083
		-	-	-	746,083	746,083

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

17. FINANCIAL INSTRUMENTS continued

c. Net Fair Values

The carrying amount for all financial assets and liabilities, except for investments in unlisted companies, is a reasonable approximation of fair value. Investments in unlisted companies that do not have a quoted market price in an active market are measured at cost less impairment losses in accordance with AASB139 because their fair value cannot be reliably measured. Refer to note 8.

d. Sensitivity Analysis

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

		2013 $	2012 $
Increase or decrease in interest rate by 1% - Change in profit and equity	+/-	51,279	58,800
Increase or decrease in US$ /A$ foreign exchange rate by 5 cents - Change in profit and equity	+/-	36,163	14,180

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

e. Capital Management

The Company manages its capital to ensure that it will be able to fund its operations in the development of CAVATAK™ and continue as a going concern. The Company's overall strategy remains unchanged from 2012.

The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued capital and reserves, as disclosed in note 12.

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

18. CONTINGENT ASSETS AND LIABILITIES

Contingent Liability

Viralytics Ltd, guarantees the performance of the obligations of InJet Digital Aerosols Limited (refer to Note 8) in the license agreement between Canon Inc. and InJet Digital Aerosols Limited. The guarantee relates to an initial amount of $1 million and other non-specified amounts.

InJet Digital Aerosols Limited advised its shareholders on 31 May 2010 that in 2009 Canon Inc. had placed on hold the project for the development of an inhalation device using the licensed InJet technology. In its June 2012 Annual Report released on 29 November 2012 Injet advised that, despite several approaches, Canon had still not formally terminated the project. No legal advice has been sought as to the effect on the guarantee of the 2009 decision, but the action by Canon Inc. would appear to limit any potential claim they could make if they were to invoke the guarantee.

At the date of this report there are no other known contingent liabilities.

19. RELATED PARTY TRANSACTIONS

a) Share Transactions of Directors

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

b) Other Transactions with Directors

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

Notes to the Financial Statements

for the year ended 30 June 2013

20. EVENTS SUBSEQUENT TO REPORTING DATE

On 19 July, 2013 the Company announced promising interim results from the CAVATAK™ Phase II CALM melanoma clinical trial underway in the USA.

On 5 August 2013 the company announced that its American Depositary Receipts had commenced trading on the OTCQX Market in the United States.

On 7 August 2013 the company announced it had expanded its patent portfolio after a notice of allowance of an additional patent by the European Patent Office. The additional patent in Europe broadens the scope of the core patent covering Coxsackie A viruses to now include the much wider family of all Picornaviruses that bind to intercellular adhesion molecule-1 (ICAM-1) in the process of killing cancer cells.

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

Directors' Declaration

for the year ended 30 June 2013

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

1. The financial statements and notes as set out on pages 30 to 62 of the Company's Annual Report are in accordance with the *Corporations Act 2001* and:

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

    (b) give a true and fair view of the financial position as at 30 June 2013 and of the performance ended on that date of the Company;

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

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

Paul Hopper
Chairman
Signed 27 August 2013

Viralytics Limited

Patent Portfolio Summary at 22 August 2013

Summary of Patents and Patent Applications Assigned to Viralytics

Title	Priority Date & PCT Number	Country	Number	Status
Patents				
A method of treating a malignancy in a subject and a pharmaceutical composition for use in same				
	27 November 2000 WO 2001/037866	Australia	770517	Granted
		Australia (Div1)	2004202292	Granted
		Australia (Div2)	2007211890	Abandoned
		Australia (Div3)	2011204997	Pending
		Canada	2422429	Notice of Allowance issued
		Europe	EP 1235590	Granted
		Europe (Div1)	08018165.4	Notice of Allowance issued
		Japan	2001-539480	Granted
		Japan (Div1)	2011-102853	Abandoned
		New Zealand	519527	Granted
		USA	7,361,354	Granted
		USA (Div1)	12/040813	Pending
A method of treating a malignancy in a subject via direct picornaviral-mediated oncolysis				
	18 December 2002 WO 2004/054613	Australia	2003287773	Granted
		Canada	2510227	Pending
		China	200380109808.3	Granted
		China (Div1)	201110091011.1	Pending
		Europe	03779569.7	Pending
		India	219479	Granted
		India (Div1)	00681/DELNP/08	Abandoned
		Hong Kong	06103056.9	Pending
		Hong Kong (Div1)	11112125.0	Re-registration commenced
		Japan	04-559490	Abandoned
		Japan (Div1)	2011-151340	Pending
		New Zealand	541230	Granted
		Singapore	113802	Granted
		South Africa	2005/05389	Granted
		South Korea	2005-7011510	Granted
		USA	7,485,292	Granted
		USA (Cont1)	12/365,120	Pending

Viralytics Limited

Patent Portfolio Summary at 22 August 2013

Title	Priority Date & PCT Number	Country	Number	Status
Modified oncolytic viruses				
	11 March 2004 WO 2005/087931	Australia	2005221725	Granted
		Australia (Div1)	2010224426	Abandoned
		Canada	2559055	Abandoned
		China	200580007825.5	Abandoned
		Europe	05700080.4	Abandoned
		Hong Kong	07104792.5	Abandoned
		India	5572/DELP/2006	Abandoned
		Japan	2007-502143	Abandoned
		New Zealand	550376	Abandoned
		New Zealand (Div1)	584859	Abandoned
		New Zealand (Div2)	595932	Abandoned
		Singapore	200606160-0	Abandoned
		South Africa	2006/08222	Granted
		South Korea	10-2006-7021119	Abandoned
		USA	8,114,416	Granted
		USA (Cont1)	13/355,373	Pending
Methods and compositions for treatment of hematologic cancers				
	20 August 2004 WO 2006/017914	Australia	2005274617	Granted
		Canada	2577692	Pending
		China	200580034763.7	Granted
		Europe	05773382.6	Pending
		Hong Kong	07108488.5	Re-registration commenced
		India	2010/DELNP/2007	Abandoned
		Japan	5,054,522	Granted
		Japan (Div1)	2012-55445	Abandoned
		New Zealand	553870	Abandoned
		New Zealand (Div1)	582292	Abandoned
		New Zealand (Div2)	593527	Abandoned
		New Zealand (Div3)	604786	Pending
		Singapore	200701428-5	Granted
		South Africa	2007/02269	Granted
		South Korea	10-2007-7006358	Notice of Allowance issued
		USA	8,236,298	Granted
		USA (cont1)	13/555,615	Pending

Patent Portfolio Summary at 22 August 2013

Title	Priority Date & PCT Number	Country	Number	Status
Method and composition for treatment of neoplasms				
	17 Jan 2005 WO 2006/074526	Australia	2006206053	Abandoned
		China	ZL200680006483.X	Granted
		China (Div1)	201110047714.4	Abandoned
		Europe	06700535.5	Abandoned
		Hong Kong	08105564.7	Granted
		Hong Kong (Div1)	11112102.7	Abandoned
		India	6025/DELNP/2007	Abandoned
		USA	11/795,439	Abandoned
		USA (Cont1)	12/580,681	Abandoned
Pharmaceutical Composition				
	2 October 2012	Australia	2012904295	Provisional
Genetically Stable Oncolytic Virus				
	2 October 2012	Australia	2012904295	Provisional
Major Synergy between Coxsackievirus A21 (CAVATAK™) and radiotherapy or chemotherapy in bladder cancer cell lines, due to up-regulation viral receptors ICAM-1 & DAF				
	17 June 2013	USA	61/836,083	Provisional