Vectus Biosystems Limited

ABN 54 117 526 137

Annual Report 2015

Vectus Biosystems Limited

ABN 54 117 526 137

Financial Report

for the Year Ended 30 June 2015

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General Information

This Financial Report covers Vectus Biosystems Limited (Vectus or the Company) as a consolidated entity consisting of Vectus and the entities it controlled during the 2014-15 financial year.

This Financial Report is presented in Australian dollars, which is Vectus' functional and presentation currency.

This Financial Report consists of the Directors' Report, the Financial Statements, including Notes to the Financial Statements, the Directors' Declaration and the Auditor's Report.

Vectus is an unlisted public company limited by shares, incorporated and domiciled in Australia. The Company's registered office and principal place of business is:

Unit 1
3-11 Primrose Avenue
Rosebery NSW 2018

This Financial Report was authorised for issue in accordance with a resolution of the Directors. The Directors have the power to amend and reissue this Financial Report.

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Vectus Biosystems Limited

ABN 54 117 526 137

Directors' Report

for the Year Ended 30 June 2015

The Directors of Vectus Biosystems Limited present their Directors' Report together with the Financial Statements of the consolidated entity, being Vectus Biosystems Limited (Vectus or the Company) and its controlled entity (the Group), for the year ended 30 June 2015.

Directors' Details

The names of the Directors in office at the date of this Report are:

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

The Directors have been in office since the start of the 2014-15 financial year to the date of this Report unless otherwise stated.

Review of Operations and Financial Results

The consolidated loss of the Company for the 2014-15 financial year amounted to $1,655,850 (2014 loss: $1,482,108).

A review of the Company's operations during the 2014-15 financial year and the results of those operations are as follows:

* the Company's operations performed as expected in the opinion of the Directors;
* no significant changes in the Company's state of affairs occurred; and
* no significant change in the nature of these activities occurred.

Principal Activities

During the financial year the principle continuing activities of the consolidate entity consisted of medical research and development.

Matters Subsequent to the End of the Financial Year

No matters or circumstances have arisen since the end of the financial year that significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years, other than the decision by the Board to commence work on an Initial Public Offering (IPO) of the Company's shares on the Australian Securities Exchange (ASX). At the date of this Report the Prospectus is in advanced preparation, but the timing of ASX listing, the amount to be raised and the IPO issue price have yet to be finalised.

Likely Developments and Expected Results of Operations

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

Significant Changes in the State of Affairs

On 30 June 2015, the Company issued 3,429,160 shares as part of its capital raising programme, which resulted in proceeds of $4,078,500. Each share has the same terms and conditions as the existing ordinary shares.

Dividends

There were no dividends paid or declared since the commencement of the 2014-15 financial year and there were no dividends or distributions recommended or declared for payment to members that have not been paid or credited to any shareholder throughout this period.

Environmental Regulation

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

Indemnity and Insurance of Officers

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

During the 2014-15 financial year, the Company may have paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. Such contracts of insurance prohibit disclosure of the nature of liability and the amount of the premium.

Indemnity and Insurance of Auditor

The Company has not, during or since the 2014-15 financial year, indemnified or agreed to indemnify, the Auditor of the Company or any related entity against a liability incurred by the Auditor. During the 2014-15 financial year the Company did not pay a premium in respect of a contract to insure the Auditor of the Company or any related entity. No indemnities have been given, or insurance premiums paid, during or since the end of the 2014-15 financial year for any person who is or has been an officer or Auditor of the Company.

Proceedings on Behalf of the Company

No person has applied for leave of the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings, except in one situation where the Directors are confident that there will be no material adverse effect on the Company. The Company was not a party to any such proceedings during the financial year.

Information on Directors

Name:	**Graham Macdonald**
Title:	Non-Executive Chairman
Qualifications:	MD BS BSc(Med) FRACP FRCP FANZCC
Experience and expertise:	Emeritus Professor Macdonald was responsible for seeking out relevant opportunities for Merck Sharp & Dohme to license scientific findings from Australian and New Zealand research institutions and biotechnology companies. He successfully brokered a number of high-profile agreements, including a US$100 million-plus deal with AMRAD (now Zenyth Therapeutics) to develop a new asthma treatment. Prof Macdonald has also pioneered a number of initiatives to support and build the capacity of Australian biomedical science, including research scholarships, commercial training for science and medical graduates, sponsorship of conferences and representative bodies, and funding research projects.
Special responsibilities:	None

Name:	**Karen Duggan**
Title:	Chief Executive Officer and Executive Director
Qualifications:	MD FRACP
Experience and expertise:	Dr Duggan was formerly Director of the Hypertension Service, South Western Sydney Area Health Service. She chairs the National Blood Pressure and Vascular Disease Advisory Committee, and is a member of the Cardiovascular Health Advisory Committee of the National Heart Foundation of Australia, as well as a member of the Board of National Heart Foundation of Australia (NSW Division). In addition, Dr Duggan was a member of Cardiovascular Clinical Expert Reference Group of the NSW Department of Health and the Post-Acute Stroke Guidelines Advisory Committee of the Australian Government Department of Health and Ageing. Her research has defined the mechanisms by which the body maintains sodium balance in the face of changing oral sodium intake, as well as how these mechanisms are deranged in salt-sensitive hypertension. Dr Duggan's research has also defined a major mediator in the development of myocardial and renal fibrosis.
Special responsibilities:	None

Name:	**Maurie Stang**
Title:	Non-Executive Director and Deputy Chairman
Experience and expertise:	Mr Stang has over 30 years of success in building and managing high-growth companies in the technology, information systems, healthcare and life sciences arenas, both in Australasia and internationally. Since co-founding Regional Health Care and Henry Schein Halas groups, he has been instrumental in building one of the region's leading healthcare product distributors, spanning the medical, dental and pharmaceutical sectors. Mr Stang has helped forge several world-leading innovations in microbial control across multiple industries.
Special responsibilities:	None

Name:	**Bernard Stang**
Title:	Non-Executive Director
Qualifications:	Bachelor of Architecture
Experience and expertise:	Mr Stang is co-founder and Chairman of the Regional Health Care and of Novapharm Research groups. He also chairs a number of private companies in the medical sector. Mr Stang manages a broad portfolio of investments in the private and listed sectors, and has over 30 years of operational experience in the leadership of successful healthcare businesses. He is CEO of property development investment company Stangcorp Pty Ltd, which has been involved in various retail, commercial and industrial property transactions over the past 30 years.
Special responsibilities:	Joint Company Secretary

Name: **Peter Bush**
Title: Non-Executive Director
Qualifications: Bachelor of Commerce, Member of Institute of Chartered Accountants
Experience and expertise: Mr Bush previously acted as the CFO and Company Secretary of Vectus and Accugen Pty Limited. He is also the CEO of Aeris Environmental Ltd, and an Executive Director and the CFO of The Regional Health Care Group and GryphonCapital. He began his career working for five years at BDO, a global accounting and consulting firm, and holds a number of private directorships and board positions.
Special responsibilities: None

Name: **Ronald Shnier**
Title: Non-Executive Director
Qualifications: MBBS FRANZCR
Experience and expertise: Dr Shnier completed a radiology fellowship at Royal Prince Alfred Hospital (RPAH) before undertaking his neuroradiology fellowship at RPAH in 1989 and musculoskeletal fellowship at the University of California Los Angeles (UCLA) in 1991. He was a consultant specialist at RPAH between 1990 and 1993. Dr Shnier started one of Australia's first private MRI practices in 1991 before becoming General Manager of Mayne's Diagnostic Imaging in 2007 and was its National Director for many years. He has served on several international MRI advisory boards. Dr Shnier has a strong involvement in clinical research, and has lectured both in Australia and overseas.
Special responsibilities: None

Information on Company Secretary

Name: Robert Waring
Qualifications: BEc, CA, FCIS, FFin, FAICD
Experience and expertise: Mr Waring has over 40 years of experience in financial accounting, company secretarial roles and corporate roles, including over 25 years in Company Secretarial roles for ASX-listed companies, and over 20 years as a Director of ASX-listed companies. He is a director of Oakhill Hamilton Pty Ltd, a company that provides secretarial and corporate advisory services to a range of listed and unlisted companies. Mr Waring is also presently the Company Secretary of Aeris Environmental Ltd, Brain Resource Limited, Nanosonics Limited, Acacia Coal Limited, Intec Ltd and King Solomon Mines Limited.

Meetings of Directors

The number of meetings of the Company's Board of Directors held during the year ended 30 June 2015 and the number of meetings attended by each Director were as follows:

	Full Board	
	Attended	**Held**
Maurie Stang	7	7
Bernard Stang	5	7
Karen Duggan	7	7
Graham Macdonald	6	7

Corporate Governance

Vectus' Corporate Governance Statement and Corporate Governance Compliance Manual are currently in preparation and, when finalised, will both be found on the Company's website at http://www.vectusbiosystems.com.au/index.html

Auditor's Independence Declaration

UHY Haines Norton (the Company's Auditor) continues in office in accordance with section 327 of the Corporations Act 2001.

A copy of the Auditor's Independence Declaration, as required under section 307C of the Corporations Act 2001, is set out on the following page.

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

.... Date: 29 October 2015
Bernard Stang, Director

UHY Haines Norton
Chartered Accountants

Level 11 | 1 York Street | Sydney | NSW | 2000
GPO Box 4137 | Sydney | NSW | 2001
t: +61 2 9256 6600 | f: +61 2 9256 6611
sydney@uhyhn.com.au
www.uhyhnsydney.com.au

VECTUS BIOSYSTEMS LIMITED
ABN 54 117 526 137

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

We declare that, to the best of our knowledge and belief, during the year ended 30 June 2015, there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

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

F. Giannuzzi
Partner

29 October 2015
Sydney

UHY Haines Norton
Chartered Accountants

Vectus Biosystems Limited

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the Year Ended 30 June 2015

	Note	Consolidated 2015 $	Consolidated 2014 $
Revenue			
Other income	3	776,725	872,230
Expenses	4		
Employee benefits expense		(847,834)	(958,546)
Depreciation and amortisation expense		(145,208)	(55,702)
Finance costs		(23,472)	(5,433)
Other expenses from ordinary activities		(1,416,062)	(1,334,656)
Profit/(Loss) before income tax		(1,655,850)	(1,482,108)
Income tax expense		-	-
Profit/(Loss) attributable to members of the Company		(1,655,850)	(1,482,108)
Other comprehensive income			
Items that will not be reclassified subsequent to profit or loss			
Gain on the revaluation of land and buildings, net of tax		-	-
Items that may be reclassified subsequently to profit or loss			
Gain on the revaluation of available-for-sale financial assets		-	-
Cash flow hedges transferred to profit or loss, net of tax		-	-
Net change in fair value of cash flow hedges taken to equity		-	-
Other comprehensive income for the year, net of tax		-	-
Total Comprehensive income for the year attributable to the owners of Vectus Biosystems Limited		**(1,655,850)**	**(1,482,108)**

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

Vectus Biosystems Limited
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Consolidated Statement of Financial Position

as at 30 June 2015

	Note	Consolidated 2015 $	Consolidated 2014 $
CURRENT ASSETS			
Cash and cash equivalents	5	2,545,985	70,063
Other current assets	6	50,014	50,830
Financial assets	7	33,992	401,695
TOTAL CURRENT ASSETS		2,629,991	522,589
NON-CURRENT ASSETS			
Financial assets	7	-	-
Property, plant and equipment	8	59,586	195,392
TOTAL NON-CURRENT ASSETS		59,586	195,392
TOTAL ASSETS		2,689,577	717,980
CURRENT LIABILITIES			
Trade and other payables	9	172,353	302,428
Other current liabilities	10	119,084	108,712
Provisions	11	163,682	157,782
Financial liabilities	12	20,831	20,822
TOTAL CURRENT LIABILITIES		475,950	589,744
NON-CURRENT LIABILITIES			
Provisions	11	29,245	46,498
Financial liabilities	12	5,378	26,208
TOTAL NON-CURRENT ASSETS		34,623	72,706
TOTAL LIABILITIES		510,573	662,450
NET ASSETS		2,179,005	55,530
EQUITY			
Issued capital	13	12,836,702	8,952,776
Application for shares		-	104,600
Accumulated losses	14	(10,657,696)	(9,001,846)
TOTAL EQUITY		2,179,005	55,530

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

Vectus Biosystems Limited

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Consolidated Statement of Cash Flows

for the Year Ended 30 June 2015

	Consolidated	
	2015	2014
	$	$
Cash flows from operating activities		
Receipt from Government Grants	773,774	859,051
Payments to suppliers and employees	(2,394,009)	(2,172,692)
Realised exchange gains	(828)	-
Interest received	2,951	24,835
Interest paid	(22,772)	(4,616)
Net cash provided by operating activities	(1,640,884)	(1,293,422)
Cash flows from investing activities		
Payment of property plant and equipment	(9,401)	(34,842)
Net cash provided by investing activities	(9,401)	(34,842)
Cash flows from financing activities		
Monies lent	-	-
Proceeds from issue of shares	3,779,326	561,600
Repayment of loans	(20,821)	(19,196)
Net cash provided by financing activities	3,758,505	542,404
Net increase (decrease) in cash held	2,108,220	(785,860)
Cash at the beginning of the financial year	471,758	1,257,617
Cash at the end of the financial year	2,579,978	471,757

Notes to the Statement of Cash Flows

Reconciliation of Cash

For the purpose of the Statement of Cash Flows, cash includes cash-on-hand, and in banks and investments in money-market instruments, net of outstanding bank overdrafts. Cash at the end of the 2014-15 financial year, as shown in the Statement of Cash Flows, is reconciled to the related items in the balance sheet as follows:

	2015	2014
	$	$
Cash-at-bank	2,544,325	68,403
Cash-on-hand	1,660	1,660
Term deposit – ANZ	33,992	50,900
Term deposit – NAB	-	350,795
	2,579,978	471,757

Vectus Biosystems Limited

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Consolidated Statement of Changes in Equity

for the year ended 30 June 2015

Consolidated Entity

	Issued Capital $	Retained Profits $	Reserves $	Total Equity $
Balance at 1 July 2013	8,495,776	(7,519,738)	-	976,038
Comprehensive income				
Loss for the year	-	(1,482,108)	-	(1,482,108)
Total comprehensive income for the year	-	(1,482,108)	-	(1,482,108)
Transactions with owners				
Contributions of equity	457,000	-	-	457,000
Application for shares	104,600	-	-	104,600
Balance at 30 June 2014	9,057,376	(9,001,846)	-	55,530
Balance at 1 July 2014	9,057,376	(9,001,846)	-	55,530
Comprehensive income				
Loss for the year	-	(1,655,850)	-	(1,655,850)
Total comprehensive income for the year	-	(1,655,850)	-	(1,655,850)
Transactions with owners				
Contributions of equity	3,779,326	-	-	3,779,326
Balance at 30 June 2015	12,836,702	(10,657,696)	-	2,179,005

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

1. Summary of Significant Accounting Policies

Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and Interpretations issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001, as appropriate for "for-profit" oriented entities.

Historical Cost Convention

The Company's 2014-15 Financial Statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment, and derivative financial instruments.

Critical Accounting Estimates

The preparation of the Company's 2014-15 Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in Note 2.

New, Revised or Amending Accounting Standards and Interpretations Adopted

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

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

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities
The consolidated entity has applied AASB 2012-3 from 1 July 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation' by clarifying the meaning of 'currently has a legally-enforceable right of set-off' and clarifies that some gross settlement systems may be considered to be equivalent to net settlement.

AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets
The consolidated entity has applied AASB 2013-3 from 1 July 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed.

AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)
The consolidated entity has applied Parts A to C of AASB 2014-1 from 1 July 2014. These amendments affect the following standards: AASB 2 'Share-based Payment' clarifies the definition of 'vesting condition' by separately defining a 'performance condition' and a 'service condition', and amends the definition of 'market condition'; AASB 3 'Business Combinations' clarifies that contingent consideration in a business combination is subsequently measured at fair value with changes in fair value recognised in profit or loss irrespective of whether the contingent consideration is within the scope of AASB 9; AASB 8 'Operating Segments' was amended to require disclosures of judgements made in applying the aggregation criteria and clarifies that a reconciliation of the total reportable segment assets to the entity's assets is required only if segment assets are reported regularly to the chief operating decision maker; AASB 13 'Fair Value Measurement' clarifies that the portfolio exemption applies to the valuation of contracts within the scope of AASB 9 and AASB 139; AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets' clarify that on revaluation, restatement of accumulated depreciation will not necessarily be in the same proportion to the change in the gross carrying value of the asset; AASB 124 'Related Party Disclosures' extends the definition of 'related party' to include a management entity that provides KMP services to the entity or its parent and requires disclosure of the fees paid to the management entity; AASB 140 'Investment Property' clarifies that the acquisition of an investment property may constitute a business combination.

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. Material accounting policies adopted in the preparation of the Company's 2014-15 Financial Statements are presented below and have been consistently applied unless stated otherwise.

The Company's 2014-15 Financial Statements, except for the cash flow information, 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.

Accounting Policies

(a) Property, Plant and Equipment

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

<u>Depreciation</u>

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

Class of Fixed Asset	*Depreciation Rate*
Plant and equipment	20% - 40%
Computer equipment	50% - 67%
Fixtures and fittings	10% - 20%
Office equipment	20% - 50%

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

(b) Cash and Cash Equivalents

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

(c) Revenue and Other Income

Revenue is measured at the value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. For this purpose, deferred consideration is not discounted to present values when recognising revenue.

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

All grant income is recognised when received.

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

(d) Trade Receivables and Other Receivables

Trade receivables and other receivables are recognised at the nominal transaction value without taking into account the time value of money. If required, a provision for doubtful debts has been created.

(e) Trade Creditors and Other Payables

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

(f) Goods and Services Tax (GST)

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

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

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

(g) Employee Benefits

Short-Term Employee Benefits

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

Other Long-Term Employee Benefits

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

Defined Contribution Superannuation Expense

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

(h) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement, and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A distinction is made between finance leases, which effectively transfer from the lessor to the lessee, substantially, all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains, substantially, all such risks and benefits.

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

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

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

(i) Financial Instruments

Initial Recognition and Measurement

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

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

Classification and Subsequent Measurement

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

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

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

(i) Financial Assets at Fair Value through Profit or Loss

Financial assets are classified as "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 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 and investment strategy.

(ii) Loans and Receivables

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

(iii) Held-to-Maturity Investments

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

(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 are designated as such by management. They comprise of investments in equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. Available-for-sale financial assets are classified as non-current assets when they are not expected to be sold within 12 months after the end of the reporting period. All other available-for-sale assets are classified as current assets.

(v) Financial Liabilities

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

(j) Issued Capital

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

(k) Current and Non-Current Classification

Assets and liabilities are presented in the Statement of Financial Position based on current and non-current classification. An asset is current when: it is expected to be realised, or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash-equivalent, unless restricted from being exchanged or used to settle a liability at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in a normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

(l) Intangible Assets

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

<u>Research and Development</u>

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

<u>Patents and Trademarks</u>

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

(m) Going Concern

The consolidated entity has recorded a net loss of $1,655,850 during the financial year ended 30 June 2015 (2014: $1,482,108). The Company is still researching its products and is continuing to incur ongoing losses. The Directors expect that $2.5 million cash-on-hand will be sufficient to cover forecasted cash outflow for 12 months from the date of the Financial Report. Further, the Directors expect that listing on the ASX will result in capital raising of $2 million to $10 million and, as a consequence, the Directors are of the opinion that the Group will have adequate resources to continue to be able to meet its obligations as and when they fall due. For this reason they continue to adopt the going concern basis in preparing the Financial Report.

2. Critical Accounting Judgements, Estimates and Assumptions

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the Financial Statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience, and on other various factors, including expectations of future events that management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates may not equal the related actual future results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Employee Benefits Provision

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

Estimation of Useful Lives of Assets

The consolidated entity determines the estimated useful lives, and related depreciation and amortisation charges for its property, plant and equipment, and finite life intangible assets. The method in which depreciation is calculated has been adjusted in the current year from Diminishing Value to Prime Cost. The change to the method in which depreciation is being calculated has led to an adjustment in the current year of $103,756 in additional depreciation being applied.

		Consolidated	
		2015	2014
		$	$
3.	**Other Income**		
	Research and Development grant	773,774	730,831
	DIISR grant – Com Australia Project	-	116,564
	Interest received	2,951	24,835
	Payroll charges recovered	-	-
	Realised foreign exchange	-	-
		776,725	872,230
4.	**Expenses**		
	Depreciation and amortisation	145,208	55,702
	Finance costs	23,472	5,433
	Rent expense	300,143	291,931
	Research costs	264,275	288,321
	Employee benefits expense	847,834	958,546
	Patent expenses	419,303	331,172
	All other expenses	328,584	423,232
		2,328,819	2,354,338
5.	**Cash and Cash Equivalents**		
	Cash-on-hand	1,660	1,660
	Cash-at-bank	2,544,325	68,403
		2,545,985	70,063

6. **Other Current Assets**

Current

Prepayments	6,420	7,500
Accrued revenue	-	164
Goods and services tax	43,594	43,166
	50,014	50,830

7. **Financial Assets**

Current

Term deposit	33,992	401,695
	33,992	401,695

8. **Property, Plant and Equipment**

Plant and equipment	586,117	580,254
Less accumulated depreciation	(534,425)	(401,756)
	51,692	178,498
Furniture and fittings	14,213	13,715
Less accumulated depreciation	(11,255)	(7,632)
	2,959	6,083
Office equipment	39,294	36,254
Less accumulated depreciation	(34,359)	(25,443)
	4,935	10,811
	59,586	195,392

Reconciliations

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

	Plant and Equipment	Furniture and Fittings	Office Equipment	Total
Consolidated				
Balance at 1 July 2014	178,498	6,083	10,811	195,392
Additions	4,947	498	3,956	9,401
Disposals	-	-	-	-
Depreciation expense	(131,753)	(3,622)	(9,831)	(145,207)
	51,692	2,959	4,936	59,586

	Consolidated	
	2015	2014
	$	$
9. Trade and Other Payables		
Trade creditors	155,611	276,643
PAYG withholding payable	16,742	23,181
GST payable	-	2,604
Superannuation payable	-	-
	172,353	302,428
10. Other Current Liabilities		
Accrued expenses	119,084	108,712
	119,084	108,712

11. Provisions

Current		
Provision for annual leave	151,660	157,782
Provision for long service leave	12,022	-
	163,682	157,782
Non-Current		
Provision for long service leave	29,245	46,498
	29,245	46,498

12. Financial Liabilities

Current		
Lease liabilities	20,831	20,822
	20,831	20,822
Non-Current		
Lease liabilities	5,378	26,208
	5,378	26,208

13. Issued Capital

	2015 Shares	2014 Shares	2015 $	2014 $
Class A Shares	1,700,000	1,700,000	17	17
Ordinary fully paid shares	19,970,652	16,541,492	8,952,759	8,952,759
	21,670,652	18,241,492	8,952,776	8,952,776

Details	Date	No of Shares	Issue Price	$
Balance	1 July 2013	17,621,984		8,495,776
Issue of shares on exercise of options	28 Jan 2014	391,008	$0.00	-
Issue of shares	28 Jan 2014	228,500	$2.00	457,000
Balance	30 June 2014	18,241,492		8,952,776
Issue of shares	30 June 2015	55,300	$2.00	110,600
Issue of shares on exercise of options	30 June 2015	61,746	$0.00	-
Issue of shares on exercise of options	30 June 2015	5,530	$0.00	-
Issue of shares	30 June 2015	3,306,584	$1.20	3,967,901
Share issue transaction costs, net of tax				(194,575)
Balance	30 June 2015	21,670,652		12,836,702

14. Equity – Accumulated Losses

	Consolidated 2015 $	Consolidated 2014 $
Accumulated losses at the beginning of the financial year	(9,001,846)	(7,519,738)
Loss after income tax expense for the year	(1,655,850)	(1,482,108)
Dividends paid	-	-
Accumulated losses at the end of the financial year	(10,657,696)	(9,001,846)

15. Related Party Transactions

Subsidiaries

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

Key Management Personnel

Disclosures relating to key management personnel are set out in Note 16.

Loans to / from related parties

The following loan balances are outstanding at the reporting date:

	Parent Entity 2015 $	Parent Entity 2014 $
Loan to Accugen Pty Limited	713,686	508,629

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated 2015 $	Consolidated 2014 $
Payment for services from associate Regional Health Care Group Pty Limited	195,775	190,265

	Consolidated	
	2015	2014
	$	$
Current Payables		
Trade payables to Regional Health Care Group Pty Limited	-	13,647

Terms and Conditions

All transactions were made on normal commercial terms and conditions, and at market rates.

16. Key Management Personnel

The aggregate compensation made to Directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2015	2014
	$	$
Aggregate compensation	231,174	245,908

17. Commitments

Lease commitments – finance	Consolidated	
Committed at the reporting date and recognised as liabilities, payable:	2015	2014
	$	$
Within one year	20,831	20,822
One to five years	5,378	26,208
	26,209	47,030

	Consolidated	
	2015	2014
Lease commitments – operating	$	$
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	300,023
One to five years	-	-
More than five years	-	-
	-	300,023

	Consolidated	
	2015	2014
Operating Commitments	$	$
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	139,250	139,250
One to five years	-	139,250
More than five years	-	-
	139,250	278,500

18. Interest in Subsidiaries

The consolidated Financial Statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1:

Name	Principal Place of Business / Country of Incorporation	Ownership Interest	
		2015	2014
		%	%
Accugen Pty Limited	Sydney, Australia	100	100

19. Events after the Reporting Period

The consolidated entity entered into a licensing agreement with CSIRO in September 2015 to continue to use their facilities for an additional 12 months. The licence period is from August 2015 until July 2016. The consolidated entity has committed to paying $335,987 to the CSIRO during this period.

No matters or circumstances have arisen since the end of the financial year that significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years, other than the decision by the Board to commence work on an IPO of the Company's shares on the ASX. At the date of this Report the Prospectus is in advanced preparation, but the timing of ASX listing, the amount to be raised and the IPO issue price have yet to be finalised.

No other significant events have occurred after the balance date.

20. Remuneration of Auditor

During the 2014-15 financial year the following fees were paid or payable for services provided by UHY Haines Norton.

	Consolidated	
	2015	2014
	$	$
Audit services – UHY Haines Norton		
Audit of financial statements	20,000	12,000
	20,000	12,000
Other services – BridgePoint Group Accounting		
Preparation of Financial Statements	4,550	4,550
Preparation of Company tax return	1,550	1,500
	6,100	6,050

21. Parent Entity Information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2015	2014
	$	$
Loss after income tax	(1,425,478)	(1,251,258)
Total comprehensive income	(1,425,478)	(1,251,258)

Statement of financial position	**Parent**	
	2015	2014
	$	$
Total current assets	2,623,405	513,775
Total assets	3,395,655	1,216,276
Total current liabilities	458,438	565,578
Total liabilities	463,816	638,285
Net Assets	2,931,839	577,991
Equity		
Issued capital	12,835,702	8,951,776
Application for shares	-	104,600
Accumulated losses	(9,903,863)	(8,478,385)
Total equity	2,931,839	577,991

Guarantees Entered into by the Parent Entity in Relation to the Debts of its Subsidiaries
The parent entity has not entered into a guarantee agreement on behalf of its subsidiaries.

Contingent Liabilities
The parent entity had no contingent liabilities as at 30 June 2015 or 30 June 2014.

Capital Commitments – Property, Plant and Equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2015 or 30 June 2014.

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

Vectus Biosystems Limited

ABN 54 117 526 137

Directors' Declaration

for the Year Ended 30 June 2015

In the Directors' opinion:

1. the attached Financial Statements and notes thereto comply with the Corporations Act 2001, the Australian Accounting Standards – Reduced Disclosure Requirements, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
2. the attached Financial Statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2015, and of its performance for the financial year ended to that date; and
3. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution made pursuant to section 295(5)(a) of the Corporations Act 2001, on behalf of the Directors.

....
Bernard Stang, Director

Date: 29 October 2015

Level 11 | 1 York Street | Sydney | NSW | 2000
GPO Box 4137 | Sydney | NSW | 2001
t: +61 2 9256 6600 | f: +61 2 9256 6611
sydney@uhyhn.com.au
www.uhyhnsydney.com.au

INDEPENDENT AUDITOR'S REPORT

To the members of Vectus Biosystems Limited

We have audited the accompanying financial report of Vectus Biosystems Limited, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Level 11 | 1 York Street | Sydney | NSW | 2000
GPO Box 4137 | Sydney | NSW | 2001
t: +61 2 9256 6600 | f: +61 2 9256 6611
sydney@uhyhn.com.au
www.uhyhnsydney.com.au

Independence

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

Auditor's Opinion

In our opinion the financial report of Vectus Biosystems Limited is in accordance with the *Corporations Act 2001,* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

(b) complying with the Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001.*

F. Giannuzzi
Partner

UHY Haines Norton
Chartered Accountants

29 October 2015
Sydney

Corporate Governance

The Board is responsible for the overall corporate governance of the Company. Issues of substance affecting the Company are considered by the full Board, with advice from Board Committees, senior management and other external advisors as required. Each Director must bring an independent view and judgement to the Board, and must promptly declare all conflicts of interest. Directors may not participate in discussions or resolutions pertaining to any matter in which the Director has a material personal interest unless the non-conflicted Directors have separately agreed to their participation.

The Board's role in risk oversight includes receiving regular reports from senior management, and the Audit and Risk Management Committee about material risks faced by the Company, and applicable mitigation strategies and activities. The reports detail the effectiveness of the risk management programme, and identify and address material business risks, such as strategic, business, operational, financial, human resources, product safety, and efficacy and legal / regulatory risks.

The responsibilities of the Board are set down in the Company's Board Charter, which has been prepared having regard to the third edition of the ASX Corporate Governance Council's Principles and Recommendations (ASX Recommendations). A copy of the Vectus Board Charter and of the Charters for each of the Committees mentioned below will be available shortly as part of the Company's Corporate Governance Compliance Manual on its website at www.vectusbiosystems.com.au.

Board Committees

The Board has established three standing Committees to assist the Board in fulfilling its responsibilities. The Board may also establish other committees from time-to-time to assist in the discharge of its responsibilities.

- Audit and Risk Management Committee;
- Remuneration and Nomination Committee; and
- Corporate Governance Committee.

Each of these Committees has the responsibilities described in the Committee Charters (which have been prepared having regard to the ASX Recommendations) adopted by the Company.

Notes

Vectus Biosystems Limited
ABN 54 117 526 137

Corporate Directory

for the Year Ended 30 June 2015

Registered Office
3-11 Primrose Avenue, Rosebery NSW 2018 Australia
Telephone: +61 2 9662 4144
Facsimile: +61 2 9697 0933
Website: www.vectusbiosystems.com.au

Research Division
Level 3, 11 Julius Avenue, North Ryde, NSW 2113 Australia
Telephone: +61 2 8876 8200
Facsimile: +61 2 9870 7420

Directors
Prof Graham Macdonald – Non-Executive Chairman
Dr Karen Duggan – Executive Director and Chief Executive Officer
Mr Maurie Stang – Non-Executive Director and Deputy Chairman
Mr Bernard Stang – Non-Executive Director
Mr Peter Bush – Non-Executive Director
Dr Ron Shnier – Non-Executive Director

Company Secretary
Mr Robert Waring

Share Registry
Boardroom Pty Limited
GPO Box 3993, Sydney NSW 2000 Australia
Telephone: +61 2 9290 9600
Facsimile: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au
Website: www.boardroomlimited.com.au

Corporate Advisor
Gleneagle Securities (Aust) Pty Ltd
Level 27, 25 Bligh Street, Sydney NSW 2000 Australia

Legal Advisor
DibbsBarker
Level 8, 123 Pitt Street, Sydney NSW 2000 Australia

Auditor
UHY Haines Norton
Level 11, 1 York Street, Sydney NSW 2000 Australia

VECTUS BIOSYSTEMS

VECTUS BIOSYSTEMS LIMITED ABN 54 117 526 137

3-11 Primrose Avenue, Rosebery, NSW 2018 Telephone: +61 2 9662 4144 Facsimile: +61 2 9662 6040

Website: www.vectusbiosystems.com.au