



VIRALGENETICS

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2010 Year in Review and 2011 Outlook

February 1, 2011

Dear Fellow Shareholder,

In 2010 Viral Genetics took concrete and measurable steps towards taking its promising drug candidates for cancer, HIV/AIDS and other diseases to patients in the clinic. This progress sets up 2011 to be a year that, we hope, will be one of important regulatory progress as we complete the transition from a preclinical- to clinical-stage biotech company. The past year has brought us closer to fulfilling our mission of bringing new drug compounds to the marketplace. The next step for us is to obtain human data from clinical trials. As 2011 unfolds, we are not only in the strongest position yet to advance the promise of our two drug platforms, but we have also expanded our research to include the development of biofuel technologies through a new subsidiary, VG Energy.

Our licensed patents and proprietary technology are now being developed in conjunction with researchers at Texas A&M University and support from the State of Texas. In 2010, our lead scientist, Dr. M. Karen Newell Rogers, joined the faculty at the Texas A&M University Health Science Center's College of Medicine and the Department of Surgery, Scott and White Hospital in Temple, Texas. We could not imagine a better scenario to advance Dr. Newell Rogers' potential breakthrough discoveries from the lab to the clinic than to be surrounded by leading medical doctors treating patients in a clinical, hospital environment on a day-to-day basis. We are looking forward to many fruitful, mutually beneficial and potentially life-saving milestones from the collaboration this new relationship represents. We are also proud to note that Dr. Newell Rogers was awarded a \$750,000 grant from the Texas Emerging Technologies Fund to research biofuel applications of our Metabolic Disruption Technology (MDT). This grant, in part, enabled

us to open a new research facility in Georgetown, Texas. In parallel, we expanded our research team and brought on specialized employees who are working on advancing our goal of clinical trials in the U.S.

Dr. Newell Rogers' work with MDT, used to target the unique metabolic demands of tumor cells, has also shown potential in modifying the metabolic strategy of algae and plants, thus creating a new approach for improving the yield of biofuels. The promise of this technology prompted us to form VG Energy, Inc. to further develop and market our biofuel technology. In pilot studies, this technology has increased the yields of algae oil by a minimum of 300%.

I will touch on each of our significant 2010 accomplishments below, as well as what the year ahead holds for the Company.

New Research Facility and Staff

In our prior State of the Company update in February 2010, we spoke of having established a solid foundation to take our drug therapies from the laboratory to the marketplace and that our most promising compounds were moving closer to clinical trials. Through multiple studies, laboratory work and research we succeeded in advancing to that goal and made several other major steps forward in 2010. I take this opportunity to thank all of the Company's team and in particular our researchers for all their hard work in getting us here.

The first half of 2010 saw Viral Genetics and lead scientist Dr. M. Karen Newell Rogers open a brand new research facility in Georgetown, Texas. The 2,000 square-foot laboratory is located in the heart of the life science cluster in Georgetown. This move provides the Company the opportunity to work more closely with Texas A&M University, where lead scientist Dr. Karen Newell Rogers is now a member of the faculty.

Along with the opening of the new facility in Texas, we expanded our team to increase the speed of the development of drugs and bringing them to market. Jeff Rogers is the new laboratory manager in Georgetown. He has an extensive background in research laboratory organization and management, as well as specialized training in flow cytometry, and adds a wealth of experience to the new lab.

In 2010 we retained services of Kathleen McKee to help with regulatory affairs. She is the company's administrative liaison to the U.S. Food and Drug Administration (FDA) and works with Dr. Newell Rogers at Texas A&M as an Executive Administrative Assistant. The two were instrumental in our compilation and filing of a pre-IND (Investigational New Drug) letter with the FDA for our HIV/AIDS compound (see below). Additionally, Dr. Newell Rogers has added research assistants to aid with laboratory testing.

One major goal for 2011 is the recruitment of a full-time in-house regulatory affairs expert to augment this area further. In particular we hope to source an experienced professional to focus on identification of regulatory opportunities and strategies within our existing intellectual property as well as drafting related correspondence and documentation.

As some of our laboratory research programs begin to bear fruit and warrant study in human trials, the regulatory process comes squarely into play. Following the last few years' preclinical research, we believe that we now have several therapies for use in treating multiple diseases that are ready for pre-IND level review and feedback from the FDA. Depending on this feedback, there may be additional studies to be completed prior to moving to full IND filings. One of our first priorities for this year is to bring on an expert who can manage, guide and accelerate this process. A major component of this role will be to review our existing data and, in effect, cross reference against unmet medical needs and FDA regulations to identify new compounds to promptly bring before the agency for early review.

Lead Scientist Transitions to Texas

Viral Genetics' lead scientist, Dr. M. Karen Newell Rogers, has transitioned from her previous teaching and research position at the University of Colorado at Colorado Springs to a new position as the Raleigh R. White Jr. Endowed Professor of Surgical Research at Scott and White Hospital's Department of Surgery, affiliated with Texas A&M University Health Science Center's College of Medicine, located in Temple, Texas. In addition, 10 percent of her appointment involves her work with Texas A&M's AgriLife Research and their team to develop algae and plant-based biofuel. Overall, the move to Texas now allows Dr. Newell Rogers to focus more on her research and should shorten the timeline for bringing new products to the clinic or marketplace as she is now surrounded by medical doctors practicing in a clinical setting, and at the same time, working with leading energy and agriculture researchers.

In 2010, Dr. Newell Rogers obtained a \$750,000 grant to support her research in Texas. The grant comes from the Texas Emerging Technology Fund and is aimed at promoting research into new biofuels. This development of biofuels is an outgrowth of her work on Metabolic Disruption Technology on cancer cells. Dr. Newell Rogers is the inventor on an issued patent on metabolic modifications in plants and on several patent applications covering a process for increasing the volume of oil, or lipids, naturally produced by algae and other plants. For more information on this work, see VG Energy below.

Dr. Newell Rogers' work with Texas A&M University's AgriLife Research Center and the concentration of Texas A&M researchers involved in energy and agricultural research directly contributed in 2010 to the development of the Company's new VG Energy subsidiary. Notably, experts at Texas A&M independently validated Dr. Newell Roger's ability to increase yields of various plant oils by a minimum of 300% using MDT compounds. Scientists and researchers at Texas A&M and affiliated institutions in the areas of (i) algae biofuel production processes, (ii) the economics of biofuel production, and (iii) algal strain development are continuing to provide valuable assistance as VG Energy works to scale up the technology from laboratory pilot studies to industrial mass production environments.

In 2010 Dr. Newell Rogers published, with several other research team members, a manuscript entitled "TLR-mediated B cell activation results in ectopic CLIP expression that promotes B cell-dependent inflammation" in the esteemed peer-reviewed Journal of Leukocyte Biology. The publication is the first peer-reviewed article published on the "self peptide (CLIP) displacing mechanism" upon which the Company's Targeted Peptides approach. The year also saw increased attention paid to Dr. Newell Rogers and her research, including both Targeted Peptides and MDT related work, as other researchers continued to increasingly reference it in their own publications.

Clinical Development and Regulatory Affairs

HIV/AIDS

In 2010 we submitted to the FDA a pre-IND letter to review our HIV/AIDS compound and a proposed plan for moving to human clinical trials in the U.S. The FDA issued a pre-IND number

and a date to meet with the agency during the first quarter of 2011 for a formal review of the plan. A “pre-IND letter” is a summary of information and proposed clinical trial protocol for a drug that the FDA reviews and provides feedback to prior to a full IND application. The review of the proposed development plan will result in comments and feedback from the FDA that essentially provide a blueprint for Viral Genetics’ researchers to follow in developing the APi1177 Targeted Peptide compound (also known as VGV-X when in injectable form), our HIV/AIDS candidate.

In vitro laboratory studies that we completed have shown that APi1177 has been successful in competing with and displacing a “self” peptide (i.e., a peptide produced by our own bodies) called CLIP (“Class II Invariant Chain Peptide”). Dr. Newell Rogers found that some infected T-Cells will display CLIP on their surface under certain circumstances. Up until her discovery it was thought that CLIP would virtually always be found on the inside of certain cells. We hypothesize that externally-displayed CLIP is responsible for two harmful consequences: first, it may allow HIV-infected cells to remain invisible to the immune system, therefore shielding them from attack; and second, it appears to simultaneously cause chronic inflammation that is a necessary component of HIV/AIDS disease progression. We believe that if APi1177 successfully displaces CLIP in people infected with HIV, we may be able to remove these harmful effects and allow the body’s immune system to better respond to the infection, ultimately reducing the level of virus or “viral load” and allowing the body’s immune system to restore itself—two of the standard goals of HIV treatment.

Subject to completion of any required studies, Viral Genetics believes that an initial HIV/AIDS clinical trial in humans would likely be a Phase 1-A safety study to determine levels of toxicity, if any. Subsequent studies would be determined by the results of this first human trial as well as any additional pre-clinical work performed by Viral Genetics. However, the established regulatory pathway is for a Phase 1-B or Phase 2 study to follow successful completion of Phase 1.

We may perform clinical trials of APi1177 in South Africa parallel to U.S. studies given the need there, and to be able to take advantage of our level of development and pre-existing relationships in that country. Such studies would likely be done under an FDA-approved protocol, allowing data generated from them to be used in the U.S. and elsewhere.

Oncology

As a result of work we completed last year, in 2011 we are beginning clinical trials at Scott and White Hospital under investigator INDs for compounds to treat “treatment refractory” patients with drug-resistant forms of skin, ovarian, breast, and other cancers. Drug resistance is the leading cause of treatment failure in cancer patients. An “investigator study” is one in which a physician directly asks the FDA for permission to use experimental drug compounds on patients that are considered to have no other treatment options. This study is being funded by a \$1.5 million grant made recently to the Scott and White hospital by an anonymous donor.

The principle investigator on the initiative is Ed Childs, M.D., vice chairman of research for the Department of Surgery at Scott & White Hospital, and professor of surgery at the Texas A&M Health Science Center College of Medicine. Juan Posada, M.D., hematologist/oncologist at Scott & White, will serve as the lead oncologist and co-investigator. Dr. Posada is also a professor at the Texas A&M Health Science Center College of Medicine.

As Dr. Childs said in a recent press release of ours, “Viral Genetics, Dr. Posada and I are looking forward to potentially offering an alternative treatment strategy to patients that are considered treatment refractory. Our hopes are that patients that don’t respond to current treatment regimens may benefit from this metabolically disruptive technology.”

Using various combinations of our MDT compounds, the goal is to interfere with the energy demands of tumors, i.e., to starve them for energy, and simultaneously interfere with the cell’s survival strategy using other compounds including standard cancer therapies that form a “cocktail” approach. The goal is to kill the tumor directly or to promote its death by the immune system following deprivation of critical energy sources including glucose, lipids and access to the patient’s own blood supply through angiogenesis (formation of blood vessels that feed the tumor). Animal studies using this approach have been successful in shrinking tumors with minimal apparent toxicity.

The proposed studies at Scott and White will likely involve approximately 4-6 weeks of treatment and 12 months of follow up. If the studies are successful, we will initiate the pre-IND process with the FDA prior to moving towards a full IND. The compounds we are testing in combination with each other and with standard chemotherapy are drugs that, individually, have already received approval from the FDA for other indications besides cancer or are chemicals with known

safety profiles. As a result, we expect that the regulatory process will be accelerated as compared to entirely novel compounds. Our intellectual property in this area protects methods and products targeting the mechanism of action that we have unraveled and the actual compounds and combinations of compounds that target the tumor's energy strategy for survival. Dr. Newell Rogers was one of the pioneers of this technology and her work has been widely cited by multiple researchers and scientists.

Viral Genetics has created a wholly owned subsidiary called MetaCytoLytics, Inc., dedicated to advancing new treatments based on our Metabolic Disruption Technology.

Preclinical Research and Development

Lyme Disease

The Centers for Disease Control (CDC) reported a 100% increase in confirmed cases of Lyme disease from 1991 to 2006 and existing treatments are limited. The Company is now completing the development of a molecule for the treatment of Lyme disease that is comparable to the APi1177 Targeted Peptide molecule being studied for HIV/AIDS, and that appears to rely on a similar underlying mechanism to assist in the control of inflammation believed to be responsible for certain symptoms of Lyme Disease. Preliminary animal studies of this compound showed positive results in decreasing levels of inflammation in Lyme disease. Our goal is to initiate review of this drug candidate by the FDA through a pre-IND filing in 2011.

Because of the limited and often unsuccessful treatment options for Lyme patients and the infrequent incidence, i.e., a relatively small patient population, the Company is researching whether this compound may be developed as an "orphan drug" which could expedite regulatory review and extend marketing exclusivity to seven years following approval.

Our research into Lyme Disease has been funded in part by grants to the University of Colorado and now to Texas A&M Health Science Center/Scott and White Hospital from two non-profit groups, Time for Lyme and Turn the Corner Foundation. We take this opportunity to recognize and thank them for their ongoing support.

Staph, Strep and Sepsis

We are developing a Targeted Peptide compound to provide an alternative to traditional antibiotics for these infections. Staph and Strep are producing drug resistant strains at a very high rate. Our testing in laboratory animals infected with high levels of Staphylococcus or Streptococcus determined that some infected mice treated with this compound made full recoveries. A control group of sick animals that were not treated with this therapy either took much longer to recover or did not survive the infections. The studies suggest that the compound may have the potential to treat these bacterial infections as well as sepsis, a life-threatening systemic infection.

We are continuing to develop this compound this year, and hope to isolate one or more final molecules to present to the FDA for review as part of the pre-IND process.

VG Energy Inc.: Biofuels and Agricultural Oils

In 2010 we announced exciting new discoveries that allow a minimum 300% increase in the production yields of algae-based biofuel and certain agricultural oils using MDT compounds. By adding these compounds to plants we are able to alter the process that the plant cell uses to convert lipids (fat) into energy. By switching off this “lipid trigger”, we can cause cells to store, and potentially to secrete oils instead of burning them for fuel, allowing the oils to be harvested. The small molecule compounds do not genetically modify the organisms themselves in any way. Equally important is that the compounds are readily broken down by the plants.

As a result of this work, we have formed a new company called VG Energy, Inc., which is majority owned by Viral Genetics and its shareholders and is focused on developing and marketing new energy technologies using the MDT compounds. The new brand will enable us to open doors with energy companies and help us attract investors interested in cost-effective, green-energy solutions.

We have recruited John Sheehan, a renowned algae biofuel expert, to assist us in growing VG Energy. John has drafted an analysis of the impact of our technology on the production of crude oil and “high value oils” used in cosmetics and nutritional product. He is also assisting in introducing potential industry, public and academic partners to the technology. His preliminary, working technical notes are available on our website.

While the Sheehan report is fluid and will be continually updated given the ongoing and developmental nature of this technology, it is possible that we may potentially improve the economics of existing algae biofuel production methods dramatically by reducing current costs by a factor of 5 to 7 times, bringing the cost per barrel close to the current market price of crude oil.

Sheehan’s report examines the use of Metabolic Disruption compounds added to in-use production methods, but does not account for several factors under study that we believe will further critically impact the economic analysis. Key among these is that use of our compounds may allow the reuse of algae harvested for oil, unlike current methods where the algae plants are killed during harvesting and need to be continually replanted. By not having to regenerate new batches of algae, there is a significant time and energy savings in addition to the actual enhancement of oil yields from the individual cells. We are studying this important possibility further as it involves some alteration in existing production processes.

We have yet to finalize which of the MDT compounds are optimal in creating this lipid trigger effect in algae and are working to develop a product that can be commercialized from this pilot-scale technology. It is possible we will license the technology to one or more partners rather than manufacture and market a product ourselves. Our goal, of course, will be to maximize the commercial opportunity for this technology.

Dr. Newell-Rogers was invited to discuss her research and results in this area at the 2010 AREDAY (American Renewable Energy Day) conference at a talk entitled “Disruptive, Breakthrough Renewable Energy Technologies” with three other presenters. Key speakers at this conference also included T. Boone Pickens and Ted Turner. The Company’s biofuel technology also began to receive media attention including coverage in Energy Boom, Oilgae, New Energy World Network, The BioEnergy Site, Ethanol Market, and Algae Industry Magazine. Dr. Newell Rogers received grant funding totaling \$750,000 from the Texas Emerging Technologies Fund to assist in her biofuel research in partnership with Texas A&M AgriLife Research.

In 2011 we are focusing on refining and scaling up the algae biofuel applications and we have applied for grant funding for this research. We are actively pursuing industry partners in the food, chemical and energy sectors. Marshall C. Phelps Jr., a member of our advisory board and former head of intellectual property for Microsoft, will be instrumental in this licensing process.

Settlement of Lawsuit Relating to South African Clinical Trial

On January 3, 2011, we settled the nearly 5 year-old lawsuit that was before the U.S. District Court for the Northern District of Illinois regarding our previous efforts in South Africa. Not only does this settlement free up management time and Company resources that were previously consumed by the expensive litigation process, but it importantly allows us to continue pursuit of development and registration of an HIV/AIDS drug in Africa – the single largest potential market for such a product. It is also noteworthy that work in South Africa in particular can commence again given that country represents the highest level of clinical development the Company has reached to date. See our press release and Interim Report dated January 28, 2011 for additional details of the settlement.

As Monica Ord, our Senior Vice President, Communications and Corporate Development, said, “This day could not have come too soon. We have very solid and substantial relationships in South Africa that we have had to put on pause these last few years. We are elated to move away from the negativity of this lawsuit and forward to do the important work we initially set out to do. With our improved HIV/AIDS drug, we believe we are in an even stronger position to leverage our relationships and expertise in the region including pursuing clinical trials or industry licensing partners.”

We intend to continue our development work in South Africa. Part of this process will be presenting our improved VGV-X product to the South African Medicines Control Council] for their consideration. It is likely that any clinical testing we do in South Africa under the MCC will be conducted under a protocol that is also reviewed and approved by the FDA. It is our intention that any additional South African trials would therefore directly enhance our U.S. regulatory process, and possibly accelerate them by providing human efficacy data much sooner than if we wait for a Phase 1-B or Phase 2 U.S. trial to be approved.

In parallel to this, we settled all outstanding litigation expenses and legal fees in connection with this lawsuit (included in Financial Highlights below).

Distinguished Advisors

Viral Genetics' growing Board of Advisors contains prominent scientists, pharmaceutical and medical experts, accomplished business veterans and two Nobel Laureates. Over the course of 2010, members of the advisory board consulted regularly with management and our key personnel such as Dr. Newell Rogers on the research of new drug compounds, on the development of compounds through *in vitro* and animal studies, on development of regulatory strategy with the FDA, clinical trial design, and other critical issues facing the Company. We are honored that they are sharing their expertise and guidance in bringing these promising new treatments to the marketplace.

In 2010 a second Nobel Laureate, Dr. Baruch S Blumberg, MD, Ph.D., joined the advisory board. He discovered the Hepatitis-B virus and developed a diagnostic test for its detection. He also created the first retroviral vaccine for protection from Hepatitis-B and is credited with saving millions of lives. As the leading expert on the HBV virus, Dr. Blumberg is assisting Dr. Newell Rogers' work in understanding the genetics of chronic HBV infection in the pursuit of a Targeted Peptide-based compound to treat it. He joins Dr. Luc Montagnier as a fellow Nobel Prize winner on our Board of Advisors.

Biofuel specialist John Sheehan was also appointed to the Viral Genetics advisory board in 2010. As work continues on the potential biofuel applications of Dr. Newell-Rogers' research, Dr. Sheehan is providing his expert advice in this field. Sheehan has spent nearly two decades working on biofuels, including coordinating research at the University of Minnesota's Institute on the Environment and as a project manager at the National Renewable Energy Laboratory (NREL) in Golden, Colorado.

Former Texas State Representative Randal H. Riley and attorney Mitchell Klafter, P.C. also joined our advisory team. Mr. Riley brings years of expertise at all levels of government and regulatory agencies as well as leadership in private industry to the board. Mr. Riley is supporting Viral Genetics' fundraising efforts, facilitating interactions with regulatory and legislative agencies and assisting us as we work with current and potential Texas partners. Mr. Klafter is

providing legal advice in regard to litigation and protection of the Company's assets.

The board now includes:

- C. Everett Koop, MD – Former U.S. Surgeon General
- Baruch Blumberg, MD – Nobel Prize winner for discovery of Hepatitis B virus and inventor of Hep-B vaccine
- Luc Montagnier, MD – Co-winner of the Nobel Prize for Medicine and co-discoverer of HIV virus
- John Sheehan – Algae biofuel expert
- Eric Rosenberg, MD – Associate professor, Harvard Medical School
- Leslie Benet, PhD – Drug development expert
- Marshall C. Phelps – Former head of intellectual property for Microsoft Corporation
- Richard T. Gerstner – Former senior corporate executive for IBM and Telular Corporation
- Anthony Freda, Jr. – Senior executive with global business management experience
- Randall H. Riley – Former Texas State Representative
- Mitchell Klafter – litigation attorney

Expanded Coverage

Viral Genetics continues to gain traction in the investment community and through news outlets. 2010 proved to be fruitful, with expanded coverage and news about the potential for VG Energy's biofuel technology. Boston-based Research 2.0 agreed to begin investment coverage of Viral Genetics with their first report in February 2011, following Zacks "Small Cap Investment Research" group, who issued a report in January 2011. We hope that this coverage will increase our exposure and enable us to get our story out to a broader array of news organizations and potential investors.

Financial Highlights

Financial highlights for the year include:

- Raised a total of \$1.5 million through private placement of common stock and warrants, and warrant exercise.

- Retired a total of approximately \$700,000 of debt through conversion to common stock including legal fees for settled litigation
- Bought back 3% of South American subsidiary bringing our interest to 100%
- Filed updated financial statements and corporate disclosures on the OTCIQ system available at www.pinksheets.com
- Reacquired all African distribution and development rights

In 2011 we believe we will require \$2-\$3 million to fund our preclinical, clinical and other expenses, although our drug-resistant cancer study at Scott and White has been paid for through an anonymous grant of \$1.5 million to the hospital. We continue to rely on private placements and support from long-time shareholders, but have increasingly benefited in recent years from grant funding. The Company is devoting substantial efforts to obtaining additional grant funding to limit additional shareholder dilution.

I am pleased by the successes of 2010, and look forward to a productive 2011. On behalf of all Viral Genetics team members, I thank you for your continued interest and support.

Sincerely,

Haig Keledjian
President

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS:

This news release contains forward-looking statements that involve risks and uncertainties associated with financial projections, budgets, milestone timelines, clinical development, regulatory approvals, and other risks described by Viral Genetics, Inc. from time to time in its periodic reports filed with the SEC. None of Viral Genetics' drug compounds are approved by the US Food and Drug Administration or by any comparable regulatory agencies elsewhere in the world. Further there can be no assurance that our subsidiary, VG Energy, Inc., will be successful in licensing its technology, or developing and marketing any products that will be commercially accepted and successful. While Viral Genetics believes that the forward-looking statements and underlying assumptions contained therein are reasonable, any of the assumptions could be inaccurate, including, but not limited to, the ability of Viral Genetics to establish the efficacy of any of its drug therapies, including VGV-X, VGV-L, and VGV-S, in the treatment of any disease or health condition, the development of studies and strategies leading to commercialization of those drug compounds in the United States, the obtaining of funding required to carry out the development plan, the completion of studies and tests on time or at all, and the successful outcome of such studies or tests. Therefore, there can be no assurance that the forward-looking statements included in this release will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the forward-looking statements should not be regarded as a representation by Viral Genetics or any other person that the objectives and plans of Viral Genetics will be achieved.

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