



MEDLAB CLINICAL LIMITED

ABN: 51 169 149 071

**HALF YEAR REPORT FOR THE PERIOD
ENDED 31 DECEMBER 2016**

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DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Medlab Clinical Limited and its controlled entities at the end of, or during, the half-year ended 31 December 2016.

Directors

The following persons were directors of the company during the period and up to the date of this report, unless otherwise stated:

S.M. Hall
M.J. Hall
D.A. Townsend

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal Activities

The principal activities of the consolidated group are:

- Sale of nutraceutical products
- Pharmaceutical research

No significant changes in the nature of these activities occurred during the period.

Review of Operations

The loss of the consolidated group after providing for income tax and non-controlling interest amounted to \$1,704,884 (2015: \$1,682,158).

At period end, the economic entity had total assets of \$6,785,320 and total liabilities of \$1,691,599.

Since the end of financial year, Medlab has continued to develop and accelerate its research pathways, with several well advanced and pivotal to potential commercialisation. The Company's major focus has been on Cannabis (Nanabis™) and Atorvastatin (NanoStat™). These 2 programmes both sponsor escalation in our NanoCelle™ delivery platform, as a viable, efficacious and desirable alternative to standard pharmaceutical therapies, eg tablets, capsules, injections. The microbiome projects are well advanced, specifically in the areas of obesity/diabetes and depression as they enter Ethics for approvals to conduct phase 2a human trials.

Medlab's nutraceutical business continues to grow with sales increasing by 178% over the corresponding period last year.

Significant Changes in the State of Affairs.

On 16 August 2016, the Company successfully completed a fully underwritten pro rata renounceable rights issue with the issue of a total of 14,656,490 new shares. Proceeds totalled \$4,396,947 before costs. The remaining shares under the Shortfall being taken up the Underwriter in accordance with the underwriting agreement being 3,214,010 shares. Total funds raised from the rights issue issue was \$5,361,150 before costs.

After Balance Date Events

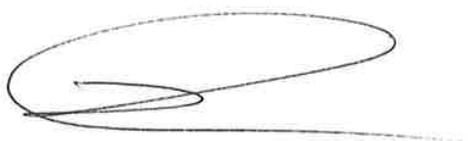
No matters or circumstances have arisen since 31 December 2016 which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

Auditor's Independence Declaration

The lead auditor's independence declaration for the half-year ended 31 December 2016 has been received and can be found on page 5 of the financial report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Board of Directors.



S Hall
Director



D Townsend
Director

Dated this 28th day of February 2017



AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF MEDLAB CLINICAL LIMITED AND ITS CONTROLLED ENTITIES

In accordance with the requirements of section 307C of the Corporations Act, as auditor for the review of Medlab Clinical Limited and its Controlled Entities as at 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

Dated at Sydney the 27th day of February 2017.

A handwritten signature in black ink, appearing to read 'Tim Valtwies', with a checkmark above it.

ESV Accounting and Business Advisors

A larger, more detailed handwritten signature in black ink, appearing to read 'Tim Valtwies'.

Tim Valtwies
Partner

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	Notes	Consolidated	
		31 December 2016	31 December 2015
		\$	\$
Revenue	3	2,123,668	1,157,854
Changes in inventories		62,728	247,671
Raw materials and consumables used		(858,896)	(526,879)
Employee benefits expense		(1,592,178)	(1,263,658)
Depreciation and amortisation expense		(52,507)	(57,147)
Professional and consulting fees		(353,509)	(358,621)
Operating lease costs		(178,280)	(118,600)
Finance costs		(5,137)	(10,238)
Selling & marketing expenses		(168,426)	(106,032)
Other expenses	4	(768,151)	(753,142)
Loss before income tax		(1,790,688)	(1,788,792)
Income tax expense		-	-
Net loss for the period		(1,790,688)	(1,788,792)
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Foreign currency translation		5,735	2,459
Other comprehensive loss for the year, net of tax		5,735	2,459
Total comprehensive loss for the year		(1,784,953)	(1,786,333)
Net loss attributable to:			
Members of the parent entity		(1,704,884)	(1,682,158)
Non-controlling interest		(85,804)	(106,634)
		(1,790,688)	(1,788,792)
Total comprehensive loss attributable to:			
Members of the parent entity		(1,701,443)	(1,680,689)
Non-controlling interest		(83,510)	(105,644)
		(1,784,953)	(1,786,333)
Earnings per share			
Basic earnings per share	6	(0.98)	(1.32)
Diluted earnings per share	6	(0.95)	(1.32)

The accompanying notes form part of these financial statements

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

	Consolidated	
	31 December 2016 \$	30 June 2016 \$
ASSETS		
Current Assets		
Cash and cash equivalents	4,309,132	801,368
Trade and other receivables	984,753	1,141,211
Inventories	744,045	690,557
Other assets	266,236	136,933
Total Current Assets	6,304,166	2,770,069
Non-Current Assets		
Property, plant and equipment	481,154	495,902
Total Non-Current Assets	481,154	495,902
TOTAL ASSETS	6,785,320	3,265,971
LIABILITIES		
Current Liabilities		
Trade and other payables	1,124,929	906,383
Employee benefits	183,315	147,366
Borrowings	77,092	19,528
Total Current Liabilities	1,385,336	1,073,277
Non-Current Liabilities		
Provisions	42,500	37,500
Other liabilities	6,884	10,482
Borrowings	256,879	253,048
Total Non-Current Liabilities	306,263	301,030
TOTAL LIABILITIES	1,691,599	1,374,307
NET ASSETS	5,093,721	1,891,664
EQUITY		
Issued capital	5 15,598,420	10,611,410
Reserves	65,484	62,043
Accumulated losses	(9,830,146)	(8,125,262)
Equity attributable to the owners of Medlab Clinical Limited	5,833,758	2,548,191
Outside equity interest	(740,037)	(656,527)
TOTAL EQUITY	5,093,721	1,891,664

The accompanying notes form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

Consolidated Group						
	Issued Capital	Accumulated Losses Attributable to members of the parent company	Reserves	Attributable to owners of the parent	Non- Controlling Interests	Total
Consolidated Group	\$	\$	\$	\$	\$	\$
Balance at 30 June 2015	5,252,374	(4,632,179)	63,950	684,145	(427,374)	256,771
Loss after income tax for the period		(1,682,158)	-	(1,682,158)	(106,634)	(1,788,792)
Other comprehensive income for the period, net of tax			(1,718)	(1,718)	990	(728)
Total comprehensive income for the period	-	(1,682,158)	(1,718)	(1,683,876)	(105,644)	(1,789,520)
Transactions with owners in their capacity as owners:						
Shares issued (net)	5,359,036			5,359,036		5,359,036
Balance at 31 December 2015	10,611,410	(6,314,337)	62,232	4,359,305	(533,018)	3,826,287
	Issued Capital	Accumulated Losses Attributable to members of the parent company	Reserves	Attributable to owners of the parent	Non- Controlling Interests	Total
Consolidated Group	\$	\$	\$	\$	\$	\$
Balance at 30 June 2016	10,611,410	(8,125,262)	62,043	2,548,191	(656,527)	1,891,664
Loss after income tax for the period		(1,704,884)		(1,704,884)	(85,804)	(1,790,688)
Other comprehensive income for the period, net of tax			3,441	3,441	2,294	5,735
Total comprehensive income for the period	-	(1,704,884)	3,441	(1,701,443)	(83,510)	(1,784,953)
Transactions with owners in their capacity as owners:						
Shares issued (net)	4,987,010			4,987,010		4,987,010
Balance at 31 December 2016	15,598,420	(9,830,146)	65,484	5,833,758	(740,037)	5,093,721

The accompanying notes form part of these financial statements.

**STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	Consolidated	
	31 December 2016 \$	31 December 2015 \$
Cash Flows from Operating Activities		
Receipts from customers	1,444,890	619,688
Receipts from R&D Tax refund	911,325	839,191
Payments to suppliers and employees	(3,828,604)	(3,216,779)
Finance costs	(1,306)	(6,529)
Interest received	26,756	30,729
Net (used) from operating activities	(1,446,939)	(1,733,700)
Cash flows from Investing Activities		
Purchase of plant and equipment	(38,620)	(26,644)
Net cash (used in) investing activities	(38,620)	(26,644)
Cash flows from Financing Activities		
Repayment of borrowings from directors	-	(755,005)
Proceeds from issue of shares	5,361,150	6,166,900
Capital raising costs	(374,140)	(731,039)
Net cash from financing activities	4,987,010	4,680,856
Net increase in cash held	3,501,451	2,920,512
Cash and cash equivalents at beginning of financial year	801,368	115,815
Exchange rate adjustments	6,313	(6,505)
Cash and cash equivalents at end of the financial half-year	4,309,132	3,029,822

The accompanying notes form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

The consolidated financial statements and notes represent those of Medlab Clinical Ltd and controlled entities (Company, Group or consolidated entity).

The place of business of the Parent Company is:

Medlab Clinical Limited
66 McCauley Street
Alexandria NSW 2015

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only.

The Financial Statements were authorised for issue by the Directors on 28 February 2017.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

NOTE 2 – SEGMENT REPORTING

Identification of reportable operating segments

The consolidated entity is organised into two operating segments based on pharmaceutical research and nutraceutical sales. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Operating segment information

	Nutraceutical	Pharmaceutical Research	Total
	\$	\$	\$
Consolidated 2016	<u> </u>	<u> </u>	<u> </u>
Revenue			
Sales to external customers	1,482,585	-	1,482,585
Intersegment sales	-	-	-
Total sales revenue	<u>1,482,585</u>	<u>-</u>	<u>1,482,585</u>
Other revenue	-	611,325	611,325
Total segment revenue	<u>1,482,585</u>	<u>611,325</u>	<u>2,093,910</u>
Intersegment eliminations			
<i>Unallocated revenue:</i>			
Interest revenue			29,758
Total revenue			<u>2,123,668</u>
EBITDA	<u>(1,188,912)</u>	<u>(573,890)</u>	<u>(1,762,802)</u>
Depreciation and amortisation			(52,507)
Interest revenue			29,758
Finance costs			(5,137)
Loss before income tax expense			<u>(1,790,688)</u>
Income tax expense			-
Loss after income tax expense			<u>(1,790,688)</u>
Assets			
Segment assets	<u>1,591,803</u>	<u>880,807</u>	<u>2,472,610</u>
Intersegment eliminations	-	-	-
<i>Unallocated assets:</i>			
Cash and cash equivalents			4,309,132
Receivables			3,578
Total assets			<u>6,785,320</u>
Liabilities			
Segment liabilities	<u>1,059,284</u>	<u>375,436</u>	<u>1,434,720</u>
Intersegment eliminations			1,434,720
<i>Unallocated liabilities:</i>			
Loans			256,879
Total liabilities			<u>1,691,599</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

NOTE 3 – REVENUE	Consolidated	
	31 December 2016 \$	31 December 2015 \$
Sales revenue:		
- Sale of goods	1,482,585	532,540
- Rendering of R&D services & consultation	-	130,401
	1,482,585	662,941
Other revenue:		
- Interest received	29,758	32,757
- R&D tax incentive	611,325	461,192
- Other income	-	964
	641,083	494,913
Total revenue	2,123,668	1,157,854

NOTE 4 – OTHER EXPENSES	Consolidated	
	31 December 2016 \$	31 December 2015 \$
Other expenses includes the following specific expenses:		
Lab Consumables	51,820	34,808
Telephone and internet	47,312	43,134
Travel	108,448	138,581

NOTE 5 – ISSUED CAPITAL	31 December 2016 Number	31 December 2016 \$
	Ordinary shares – fully paid	178,705,000
	178,705,000	15,598,420

Movements in ordinary share capital

Details	Date	No of shares	Issue Price \$	Amount \$
Balance	30 June 2016	160,834,500		10,611,410
Issue of shares – Rights Issue	16 August 2016	14,656,490	0.30	4,396,947
Issue of shares – Rights Issue (Underwriting)	30 August 2016	3,214,010	0.30	964,203
Balance	31 December 2016	178,705,000		15,972,560
Costs of Capital Raising				(374,140)
				15,598,420

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

NOTE 6 – EARNINGS PER SHARE	Consolidated	
	31 December 2016 \$	31 December 2015 \$
Loss for the period	1,790,688	1,788,792
Non-controlling interest	(85,804)	(106,634)
Loss attributable to the owners of Medlab Clinical Limited	1,704,844	1,682,158
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	173,967,081	127,042,535
Adjustments for calculation of diluted earnings per share:		
- Options over ordinary shares	5,822,944	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	179,790,025	127,042,535
	Cents	Cents
Basic earnings per share	(0.98)	(1.32)
Diluted earnings per share	(0.95)	(1.32)

NOTE 7 – EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since 31 December 2016 which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 6 to 13;
 - a. Comply with the Corporations Act 2001, the Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
 - b. Give a true and fair view of the company's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date.
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.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.



S Hall
Director



D Townsend
Director

Dated this 28th day of February 2017



INDEPENDENT REVIEW REPORT TO THE MEMBERS OF MEDLAB CLINICAL LIMITED AND CONTROLLED ENTITIES

Report on the Financial Report

We have reviewed the accompanying half-year financial report of Medlab Clinical Limited and its Controlled Entities ("the Group") which comprises of the statement of financial position as at 31 December 2016 and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration.

Directors' Responsibility for the Financial Report

The Directors of Medlab Clinical Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We have conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



INDEPENDENT REVIEW REPORT TO THE MEMBERS OF MEDLAB CLINICAL LIMITED AND CONTROLLED ENTITIES

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Group, would be in the same terms if given to the directors as at the time of this review report.

Opinion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Medlab Clinical Limited and Controlled Entities is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the financial position of the Group as at 31 December 2016 and of its performance for the year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Dated at Sydney the ^{28th} day of February 2017

ESV Accounting and Business Advisors

Tim Valtwies
Partner