Appendix 4D

Half year report

Name of the entity:	**Memphasys Limited**
ABN:	**33 120 047 556**

Half year ended ('current period')	Half year ended ('previous corresponding period')
31 December 2016	31 DECEMBER 2015

Results for announcement to the market

				$A'000
Sales from continuing operations	**Remained**	**0%**	**to**	**0**
Gross profit from continuing operations	**Remained**	**0%**	**to**	**0**
Loss from continuing activities after tax attributable to members	**Down**	**23%**	**to**	**(835)**
Net Loss for the period attributable to members	**Down**	**23%**	**at**	**(932)**

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend	Nil	Nil
Previous corresponding period	Nil	Nil

Record date for determining entitlements to the dividend, N/A

Brief explanation of any of the figures reported above:

Refer attached press release and notes to the accounts.

NTA backing	**31 December 2016**	31 December 2015
Net tangible asset backing per ordinary security	**(0.0037) dollars**	(0.0096) dollars

Audit/Review Status

This report is based on accounts to which one of the following applies:(Tick one)

The accounts have been audited		The accounts have been subject to review	X
The accounts are in the process of being audited or subject to review		The accounts have not yet been audited or reviewed	

If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:

The review report includes modification related to ownership and carrying value of the investment in Series B preference shares of PrIME Biologics Pte Ltd and emphasis of matter on going concern and legal disputes.

Extract of review report qualification and emphasis of matter are included below.

Basis for Qualified Conclusion

Memphasys Limited's investment in Series B preference shares of PrIME Biologics Pte Ltd (the shares), an entity incorporated in Singapore is carried at cost of $3,824,888 in the statement of financial position as at 31 December 2016. We were unable to obtain sufficient appropriate audit evidence of the ownership and the recoverable amount of Memphasys Limited's investment in the Series B Preference shares of PrIME Biologics Pte Ltd as at 31 December 2016 because of the Call Option agreement between Pulau Manukan Ventures Labuan Ltd (Manukan) and Memphasys Limited and the Court decision in relation to the ownership of the shares. The Courts ruled on 13 January 2017 that the temporary injunction placed on the transfer of shares from the company to Manukan be discharged, however, Manukan is legally restrained from dealing with the shares unless the Call Option is found to be enforceable. Consequently, we were unable to determine whether any adjustments to the financial statements in relation to the ownership and carrying amount of the shares is necessary.

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 2(b) Going Concern in the financial report which indicates that the consolidated entity incurred a loss for the half-year ended 31 December 2016 of $932,447 and combined net cash outflows from operating and development expenditure of $966,381. The consolidated entity also had a deficiency in working capital of $5,004,943 and net asset deficiency of $545,204 as of 31 December 2016. In Note 2(b) it is stated that the consolidated entity is dependent on the raising of additional funds for working capital and to continue to develop and commercialise the technology. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

We draw attention to Note 11 to the financial report which describes the uncertainty related to the outcome of the lawsuit filed against the company by Transocean Securities Pty Ltd and the arbitration filed by the Company to hear and resolve the dispute between the company, PrIME Biologics Pte Ltd and Manukan.

Memphasys Limited
and its Controlled Entities
ABN 33 120 047 556

Interim Financial Report
for the half-year ended 31 December 2016

Contents

Directors' Report	3
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	6
Condensed Consolidated Statement of Financial Position	7
Condensed Consolidated Statement of Changes in Equity	8
Condensed Consolidated Statement of Cash Flows	9
Notes to the Condensed Consolidated Interim Financial Statements	10 – 16
Directors' Declaration	17
Auditor's Independence Declaration	18
Independent Auditor's Review Report to the Members of Memphasys Limited	19 – 21
Corporate Directory	22

Directors' Report

The Directors submit their report for the consolidated entity consisting of Memphasys Limited and its controlled entities for the half-year ended 31 December 2016.

Directors

The names of the Directors of Memphasys Limited (Memphasys) in office at any time during or since the end of the interim period are:

Ms Alison Coutts	Executive Chairman
Mr Andrew Goodall	Non-Executive Director
Dr Robert Gilmour	Non-Executive Director (Resigned 29 September 2016)
Mr John Pereira	Non-Executive Director (Appointed 30 September 2016)

PRINCIPAL ACTIVITIES

Memphasys' focus is separating high value biological substances from fluids utilising its proprietary hydrogel membranes and electrophoresis processes. Emphasising this focus on membrane-based bio-separation systems, the Company changed its name on 1 July 2016 to Memphasys Limited from NuSep Holdings Ltd.

SpermSep

Memphasys' lead program, SpermSep, gently and efficiently separates the best quality sperm from a semen sample in preparation for IVF without imparting DNA damage to the sperm. The SpermSep device has been shown in laboratory testing to separate viable sperm far more efficiently and with less DNA damage than conventional methods.

This same separation methodology can also be applied to Assisted Animal Reproduction. The first commercial application is likely to be for equine fertility. Memphasys is a participant with the University of Newcastle in developing improved equine fertility outcomes through an ARC Linkage grant. Memphasys will also continue work with its partner in Assisted Animal Reproduction, Minitube, in the equine field.

The company's SpermSep technology was developed in partnership with Professor John Aitken from the University of Newcastle, Australia. Professor Aitken, a world-leader in human fertility research, has received global awards for his research excellence in reproductive biology. Memphasys has legal collaborative agreements with the University of Newcastle and Professor Aitken.

The SpermSep clinical prototype for human IVF has an entirely redesigned, miniaturised disposable cartridge and contains a new, cost efficient, biocompatible hydrogel membrane and modified buffers which improve performance. Patents have been lodged for both the new membrane and the new cartridge separation system.

Further funding is required to manufacture the prototype to be used by global key clinical IVF opinion leaders who will evaluate the SpermSep method against current sperm preparation practices in IVF clinics.

Upon completion of the SpermSep clinical trials and the engineering completion of the next-generation clinical grade SpermSep product, the company plans to market the product through international distributors.

The intangible assets relating to the SpermSep business on the Condensed Consolidated Statement of Financial Position have been held at cost similar to prior year, at $2,665,851 (June 2016: $2,483,114). This is not a market-based valuation but the cost of what the Company has been spending on this project since it started the development stage.

Membrane Technology Development

The Company's original polyacrylamide membranes have been replaced in the new SpermSep device with one of the new hydrogel membranes as the old polyacrylamide membranes are not biocompatible and are hard to manufacture at scale.

The consultancy arrangement with the University of Melbourne Chemical and Biomolecular Engineering Department has provided valuable input to the development of our new hydrogel membranes and will provide further value add to the development of new bio-separation applications beyond SpermSep.

REVIEW OF OPERATIONS

Memphasys sold its precast gels business in April 2016. Post commissioning the gel manufacturing plant for its new owner in China in early 2017, Memphasys will not be involved in any further precast gels business activities.

The Company received a tax refund on R&D activities for $497,355 on 8 October 2016.

The largest current liability, shown as $4.6 million, is the debt associated with the fit out of the rental facility used by PrIME Biologics Pte Ltd ("PrIME") in Singapore. When Memphasys received the B class (non voting) shares in the PrIME spin out it agreed to take responsibility for payment of the debt. PrIME also guaranteed the payment by NuSep (now Memphasys) of the debt and has paid the debt through a loan provided to it by Pulau Manukan Ventures Labuan Ltd ("Manukan"), a major shareholder in PrIME.

The Company has been in an extensive and expensive litigation against PrIME and Manukan. The litigation has been about this debt, the B class shares that Memphasys received in PrIME and the ownership for the GF100 machine that Memphasys rented to PrIME in Singapore but which PrIME is now claiming to own.

The three parties, Memphasys, PrIME and Manukan, have agreed for the disputes regarding the debt and the B class shares to be heard and resolved by Arbitration in Singapore. Memphasys is optimistic that this process will enable the disputes to be resolved fairly and efficiently. Further details about the disputes are provided in Note 11.

The value of the B class shares held in PrIME has been maintained at the same cost value as the prior year. Given that the range of reasonable fair value estimates on these shares is significant and the probabilities of the various estimates cannot be reasonably assessed at this stage, Memphasys is precluded from measuring the investment at fair value.

The Company raised $940,000 through the issue of secured convertible notes to Directors Alison Coutts, Andrew Goodall and Professor John Aitken of the University of Newcastle. The directors each contributed $450,000 and Professor John Aitken contributed $40,000 as loan funds from consulting fees to be converted to equity. The conversion for directors is subject to shareholder vote at a subsequent general meeting of shareholders.

The Company subsequently announced a further proposed capital raising in December 2016 to raise a minimum of $800,000 from Directors, Alison Coutts and Andrew Goodall, and up to $1 million through the issue of convertible notes, but revised this announcement stating that it was looking at various other options to fund working capital. Post reporting date, loan funding of $300,000 from Executive Director, Alison Coutts was received. In addition, Alison Coutts has offered Memphasys further funding by way of a line of credit of up to $200,000 for a period of 12 months and the Company is expecting further loan funding from a third party for at least $250,000.

Board and management

During the financial year Memphasys appointed John Pereira to the Board as a non-executive director and Dr Robert Gilmour resigned. Dr Gilmour also discontinued his consultancy to the Company. As part of his reduced consultancy, the Company agreed to grant Dr Gilmour a reduced quantity of 4 million options which was ratified by shareholder vote at the 2016 AGM.

On 30 September 2016, Stephanie Georgiou was temporarily appointed as Company Secretary, replacing Mark Studd. Stephanie was replaced on 29 November 2016 by Andrew Metcalfe.

Financial performance

For the half-year ended 31 December 2016 the Group made a net loss of $932,447 (2015: loss $1,210,836), which included a loss from discontinued operations of $97,165 (2015: $121,741).

Although in the current half-year legal fees increased by 82% from $229,556 to $418,073, Memphasys has decreased operating costs by 12% from $880,252 to $771,993.

At 31 December 2016, the Group had a net working capital deficiency of $5,004,943 (30 June 2016: deficiency $4,823,382). This deficiency is mainly caused by the debt that Memphasys took over when it spun out PrIME. This debt, which stood at $4,607,384 at the end of the period, has as underlying asset the shares that Memphasys holds in PriME which are still classified as non-current.

The Group received a net R&D grant of $497,355 during the period (2015: $300,550). Overall, the Group had operating cash outflows of $621,851 for the half-year ended 31 December 2016 (half-year ended 31 December 2015: net cash outflows of $449,925).

The Group will continue to actively seek funding to continue its R&D program.

Outlook for 2017

The development of the next generation SpermSep device for human IVF and the planning of *in-vitro* clinical trials for the device with global key opinion leaders will be the near- term key value drivers. In addition, the Company plans to undertake further research into equine fertility issues with the University of Newcastle and Minitube and develop a device for the equine industry. It will also continue with its research into developing new, high value bio-separations, such as for blood platelet cells.

Memphasys is optimistic that the arbitration process that it has commenced in Singapore will efficiently and cost effectively resolve all disputes between Memphasys, PrIME and Manukan and that it will result in a satisfactory outcome for all. Once this is resolved it will allow Memphasys to focus entirely on its bio-separation core business.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 in relation to the review for the half-year is set out on page 18 of this report.

This report is signed in accordance with a resolution of the Board of Directors.

Alison Coutts
Executive Chairman

Sydney
27 February 2017

Memphasys Limited and its Controlled Entities

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 31 December 2016

	Note	**Half-year 31 December 2016 $**	Half-year 31 December 2015 $
			Restated
Continuing operations			
Other Revenue			
Grant income		**37,046**	97,839
Other income		**14,747**	53,416
General and administration expenses		**(771,993)**	(880,252)
Research and development expenses		**(85,164)**	(217,419)
Finance cost expenses		**(29,918)**	(142,679)
Loss before income tax		**(835,282)**	(1,089,095)
Income tax expense		**-**	-
Loss after tax from continuing operations		**(835,282)**	(1,089,095)
Discontinued Operation			
Loss from discontinued operation, net of tax	5	**(97,165)**	(121,741)
Net loss for the year attributable to members of parent		**(932,447)**	(1,210,836)
Other comprehensive loss			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign exchange gain from translation of net investments		**-**	(1,924)
Exchange translation differences of foreign subsidiaries' accounts	2.d	**-**	(1,200)
Total other comprehensive loss for the period		**-**	(3,124)
Total comprehensive loss for the period		**(932,447)**	(1,213,960)
Earnings per share (EPS)		**Dollar/share**	**Dollar/share**
– Basic loss per share		**(0.0016)**	(0.0050)
– Diluted loss per share		**(0.0016)**	(0.0050)
Earnings per share - continuing operations		**Dollar/share**	**Dollar/share**
– Basic loss per share		**(0.0015)**	(0.0045)
– Diluted loss per share		**(0.0015)**	(0.0045)

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

Memphasys Limited and its Controlled Entities

Condensed Consolidated Statement of Financial Position
As at 31 December 2016

	Note	As at 31 December 2016 $	As at 30 June 2016 $
CURRENT ASSETS			
Cash and cash equivalents		**3,299**	19,003
Trade and other receivables		**178,111**	277,266
Other current assets		**245,838**	528,230
TOTAL CURRENT ASSETS		**427,248**	824,499
NON-CURRENT ASSETS			
Financial assets	6	**3,824,888**	3,824,888
Property, plant and equipment	7	**51,629**	61,977
Intangible assets	8	**2,665,851**	2,483,114
TOTAL NON-CURRENT ASSETS		**6,542,368**	6,369,979
TOTAL ASSETS		**6,969,616**	7,194,478
CURRENT LIABILITIES			
Trade and other payables		**604,948**	753,536
Interest bearing liabilities	9	**4,732,535**	4,813,959
Non-interest bearing liabilities		**26,334**	26,334
Lease liabilities		**3,257**	3,162
Tax liabilities (assets)		**(12,884)**	(20,898)
Short-term provisions		**78,001**	71,788
TOTAL CURRENT LIABILITIES		**5,432,191**	5,647,881
NON-CURRENT LIABILITIES			
Lease liabilities		**11,999**	13,652
Interest bearing liabilities	9	**964,283**	29,357
Long-term provisions		**15,939**	25,937
TOTAL NON-CURRENT LIABILITIES		**992,221**	68,946
TOTAL LIABILITIES		**6,424,412**	5,716,827
NET ASSETS		**545,204**	1,477,651
EQUITY			
Issued capital		**35,909,885**	35,909,885
Reserves		**926,060**	926,060
Accumulated losses		**(36,290,741)**	(35,358,294)
TOTAL EQUITY		**545,204**	1,477,651

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

Memphasys Limited and its Controlled Entities

Condensed Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2016

	Issued capital $	Share options reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2016	**35,909,885**	**926,060**	**(35,358,294)**	**1,477,651**
Loss for the period	-	-	(932,447)	(932,447)
Total comprehensive loss for the period	**-**	**-**	**(932,447)**	**(932,447)**
Transactions with owners recorded directly in equity:				
Transaction costs on share issue	-	-	-	-
Balance 31 December 2016	**35,909,885**	**926,060**	**(36,290,741)**	**545,204**

	Issued capital $	Foreign currency translation reserve $	Share options reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2015	**33,582,742**	**73,559**	**143,060**	**(33,052,770)**	**(746,591)**
Loss for the period	-	-	-	(1,210,836)	(1,210,836)
Currency translation on net investments	-	(1,924)	-	-	(1,924)
Currency translation difference of foreign subsidiaries' accounts	-	(1,200)	-	-	(1,200)
Total comprehensive loss for the period	**-**	**(3,124)**	**-**	**(1,210,836)**	**(1,213,960)**
Transactions with owners recorded directly in equity:					
Issue of share capital	266,997	-	-	-	266,997
Transaction costs on share issue	(65,718)	-	-	-	(65,718)
Balance 31 December 2015	**33,784,021**	**70,435**	**143,060**	**(34,263,606)**	**(266,090)**

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

Memphasys Limited and its Controlled Entities

Condensed Consolidated Statement of Cash Flows
For the half-year ended 31 December 2016

	Note	**Half-year 31 December 2016 $**	Half-year 31 December 2015 $
			Restated
Cash flows from operating activities			
Payments to suppliers and employees		**(1,114,592)**	(744,276)
Net proceeds from government grants		**497,355**	300,550
Finance costs paid		**(4,614)**	(6,199)
Net cash flows from / (used in) operating activities		**(621,851)**	(449,925)
Cash flows from investing activities			
Interest received		**303**	543
Proceed from sale assets		**13,965**	-
Purchase of property, plant and equipment		**-**	(4,319)
Development expenditure		**(344,530)**	(343,696)
Cash flow relating to discontinued operations	5	**3,477**	63,532
Net cash flows used in investing activities		**(326,785)**	(283,940)
Cash flows from financing activities			
Proceeds from issue of shares		**-**	266,997
Share issue costs		**(62,610)**	(35,104)
Proceeds from related party borrowings		**1,030,542**	620,118
Repayment of borrowings to related parties		**(35,000)**	-
Repayment of borrowings to third parties		**-**	(250,073)
Net cash flows provided by financing activities		**932,932**	601,938
Net (decrease) / increase in cash and cash equivalents		**(15,704)**	(131,927)
Cash and cash equivalents at beginning of period		**19,003**	174,785
Cash and cash equivalents at end of the half-year		**3,299**	42,858

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the condensed consolidated interim financial statements

1. Reporting entity

Memphasys Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 30 Richmond Road, Homebush, NSW 2140, Australia. These condensed consolidated interim financial statements as at and for the six months ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group" or "Consolidated entity").

The Group is a for-profit entity and is primarily involved in the development of cell and protein separation devices, and associated consumables, for use in Healthcare, Veterinary and Biotechnology market sectors.

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2016 are available at www.memphasys.com.

2. Basis of preparation

a) Statement of compliance

The half-year condensed consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard *AASB 134 'Interim Financial Reporting'*.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Memphasys Limited and its controlled entities as at and for the half year ended 31 December 2016. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2016, together with any public announcements made during the half-year period.

The same accounting policies and methods of computation have been followed in this interim report as were applied in the most recent annual financial statements except for the adoption of New Accounting Standards and Interpretations as described in Note 3 below.

These condensed interim financial statements were authorised for issue by the Board of Directors on 24 February 2017.

b) Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

In the near future, Memphasys's commercial development strategy will be focused on the SpermSep business unit and the development of new membranes. To complete the commercialisation of the SpermSep animal artificial insemination and IVF applications and to complete the development of new membranes, Memphasys will require extra funding.

The directors note further the following in relation to the financial affairs of the consolidated entity:

- The consolidated entity made a net loss of $932,447 for the half year ended 31 December 2016.
- For the half year ended 31 December 2016 the consolidated entity had net cash outflows from combined operating activities and development expenditure of $966,381.
- At 31 December 2016 the consolidated entity had a deficiency in working capital of $5,004,943.

- At 31 December 2016 the consolidated entity had net assets of $545,204.

The Directors believe that the Group will continue as a going concern, and accordingly have prepared the financial statements on a going concern basis after considering the following:

- The Company has received a loan of $300,000 from Executive Director, Alison Coutts. In addition, Alison Coutts has offered Memphasys further funding by way of a line of credit of up to $200,000 for a period of 12 months.
- The Company expects to receive a tax refund in September 2017 of over $450,000 from the Australian Tax Office for eligible research and development activities carried out in the financial year ending 30 June 2017 under the research and development tax credit scheme.
- The Group expects to substantially reduce its losses from continuing activities in the upcoming financial year by mainly decreasing legal expenditure. The legal fees incurred on the legal cases with PrIME and Transocean totalled $348,000.

No adjustments have been made to the financial report relating to the recoverability and classification of the carrying amounts of assets and classification of liabilities that might be necessary should the Group not continue as a going concern.

c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Memphasys Limited as at 31 December 2016 and the results of all controlled entities for the period then ended.

A controlled entity is any entity over which Memphasys Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

d) Foreign currency transactions

At each end of the reporting period:

- Foreign currency monetary items shall be translated using the closing rate;
- Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the translation; and
- Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured.

e) Judgement and estimates

In preparing these interim financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2016.

3. Significant accounting policies

The accounting policies applied in the interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 30 June 2016. The

adoption of all new revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior half-year.

4. Operating Segments

As a result of discontinued operations, there is only one segment.

5. Discontinued operation

Discontinued operations include activities relating with the gels business and distribution of biological products, both of them included in the consumable products segment. As the distribution of biological products was discontinued in June 2016, its figures were not classified as a discontinued operation in the Condensed Consolidated Statement of Profit or Loss and the Condensed Consolidated Statement of Cash Flows for the six- month period ended 31 December 2015. Therefore, the comparative figures presented in these two statements have been restated to include the distribution of biological products.

The results for discontinued operations were as follows:

	31 December 2016	31 December 2015
	$	$
		Restated
Revenue	**46,651**	226,170
Expenses	**(143,816)**	(347,911)
Results from operating activities	**(97,165)**	(121,741)
Income tax expense	**-**	-
Loss for the year	**(97,165)**	(121,741)

Cash flows relating to discontinued operations were as follows:

	31 December 2016	31 December 2015
	$	$
		Restated
Net cash flow used in operating activities	**3,477**	65,532
Net cash flow used in investing activities	**-**	-
Net cash flow from financing activities	**-**	-
Net cash flows relating to discontinued operations	**3,477**	65,532

Loss per share on results relating to discontinued operations were as follows:

	31 December 2016	31 December 2015
	$	$
	Dollar/share	Dollar/share
Basic loss per share	**(0.0002)**	(0.0005)
Diluted loss per share	**(0.0002)**	(0.0005)

6. Financial assets – available-for-sale

	31 December 2016	30 June 2016
	$	$
Shares in unlisted entities – at cost		
PrIME Biologics Pte Limited at cost	**3,824,888**	3,824,888
	3,824,888	3,824,888

Available-for-sale financial assets comprise an investment in Series B preference shares in a former subsidiary, PrIME Biologics Pte Limited ("PrIME"). There are no fixed returns or fixed maturity dates attached to the investment. The investment is held at cost as the equity instruments do not have a quoted market price in an active market and the fair value cannot be reliably determined.

Measurement of investment in PrIME Biologics Pte Limited

Accounting Standards ordinarily require the investment in PrIME to be recognised at fair value. Memphasys' Series B preference shares in PrIME has notably different rights to the Series A preference shares which have control over all major decisions and can determine future distributions or a liquidating event (refer to Notes 14(b) and 14(c) in the annual financial statements as at 30 June 2016). However, as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed at this stage, Memphasys is precluded from measuring the investment at fair value. As a result, a cost basis is considered appropriate in the circumstances.

PrIME has continued to receive substantial funding from its major shareholders Palau Manukan Ventures Labuan Ltd and JP Asia Capital. PrIME has also achieved its first major milestone on cGMP compliance from the Singaporean Regulatory Authority.

7. Non-Current Assets - Property, Plant & Equipment

	Plant and equipment	Leasehold improvements	Total
	$	$	$
Carrying amount at 1 July 2016	34,706	27,271	61,977
Depreciations	(3,530)	(6,818)	(10,348)
Carrying amount at 31 December 2016	**31,176**	**20,453**	**51,629**

8. Non-Current Assets – Intangible Assets

	31 December 2016	30 June 2016
	$	$
Carrying amount at the beginning of the period	2,483,114	2,374,759
Internally developed expenditure	323,428	930,450
Accumulated grant income / grant income for the period	(140,691)	(822,095)
Carrying amount at the end of the period	**2,665,851**	**2,483,114**

9. Interest Bearing Liabilities

	Note	31 December 2016	30 June 2016
Current		**$**	$
Loans from related parties – secured	10.b	125,151	-
Third party debt – secured *		4,607,384	4,813,959
Total current interest bearing liabilities		4,732,535	4,813,959
Non-current			
Loans from related parties - secured		-	29,357
Convertible loans from related parties – secured	10.b	964,283	-
Total non-current interest bearing liabilities		**964,283**	29,357
Total interest bearing liabilities		**5,696,818**	**4,843,316**

* Third party debt associated with the fit out of the rental facility used by PrIME Biologics Pte Ltd ("PrIME") in Singapore. When Memphasys received the B class (non voting) shares in the PrIME spin out it agreed to take responsibility for payment of the debt. PrIME also guaranteed the payment by NuSep (now Memphasys) of the debt and has paid the debt through a loan provided to it by Pulau Manukan Ventures Labuan Ltd ("Manukan"), a major shareholder in PrIME. At the time of spin out, the external investors in PrIME, including Manukan, valued PrIME at S$27 million and the debt was S$4.014 million. As stated in an ASX announcement of 16 January 2017, whilst these B class shares are now held in Manukan's name through Manukan's exercise of the Call Option over these shares,

Manukan is legally restrained from dealing with these shares unless the Call Option is found to be enforceable. Memphasys has taken legal advice as to the enforceability of the Call Option and it has formed that view that it is not enforceable and that Memphasys should be paid the excess value of the B shares above the debt.

On 9 September 2016 the company received a letter of demand from Manukan for the repayment of S$4,821,623. Due to the disputes outlined in Note 11 of the financial statements, the amount payable in the financial statements at 31 December 2016 is the amount stated in the letter of demand, translated to AUD, and no further amounts have been recognized due to the uncertainties associated with the dispute and the resolution of ongoing negotiations and litigation.

Analysis of current debt

31 December 2016	Currency	Interest rate	Year of maturity	Carrying value $
Related party loan – Alison Coutts	AUD	10%	2017	125,151
Third party debt secured - Pulau Manukan Ventures Labuan Ltd	SGD	8%	2016	4,607,384
				4,732,535

30 June 2016	Currency	Interest rate	Year of maturity	Carrying value $
Third party debt secured - Pulau Manukan Ventures Labuan Ltd	SGD	8%	2016	4,813,959
				4,813,959

Analysis of non- current debt

31 December 2016	Currency	Interest rate	Year of maturity	Carrying value $
Convertible notes related parties – secured	AUD	10%	2018	923,250
Convertible note Prof. John Aitken – secured	AUD	10%	2018	41,033
				964,283

Convertible notes have a security over the assets of the Company.

30 June 2016	Currency	Interest rate	Year of maturity	Carrying value $
Related party loans	AUD	10%	2018	29,357
				29,357

10. Related Party Transactions

a) Transactions with key management personnel

Key management personnel received total compensation of $310,939 for the six months ended 31 December 2016 (six months ended 31 December 2015: $269,401). The increase in current year is due to the termination payment paid to Mike Richardson.

b) Other related party transactions

At 31 December 2016 the consolidated entity had $1,089,434 interest bearing liabilities and $26,334 non-interest bearing liabilities to related parties on terms and conditions as outlined in Note 9 (30 June 2016: $29,357 and $26,334 respectively).

11. Legal disputes

Legal disputes with PrIME and Manukan

PrIME Biologics Pte Ltd ("PrIME") is a private company based in Singapore that was spun out of Memphasys Limited (then NuSep Holdings Ltd) in mid-2014 to use technology developed by Memphasys for plasma fractionation. Memphasys received B class (non voting) shares in PrIME and agreed to take responsibility for payment of the debt on the fit out of the Singaporean manufacturing facility that PrIME was renting. PrIME also guaranteed the payment by NuSep (now Memphasys) of the debt and has paid the debt through a loan provided to it by Pulau Manukan Ventures Labuan Ltd ("Manukan"). Manukan is the major shareholder of the A Class (voting) shares in PrIME Biologics Pte Ltd. Manukan is a private company fully owned by Xeraya Capital, the life sciences private equity and venture capital arm of the Malaysian Khazanah Nasional, the Sovereign Wealth Fund of Malaysia.

At the time of spin out, the external investors in PrIME, including Manukan, valued PrIME at S$27 million and the debt was S$4.014 million.

Memphasys is in legal dispute with both PrIME and Manukan in relation to the debt payment, the B class shares that Memphasys received in PrIME and the ownership for the GF100 machine that Memphasys rented to PrIME in Singapore.

PrIME brought a statutory demand against Memphasys for the repayment of the debt but that demand is to be set aside as announced on 15 February 2017, post reporting date.

Separately, Manukan brought an action against Memphasys to lift the injunction against the exercise of the Call Option over Memphasys's B class shares in PrIME. The injunction was lifted, as announced on 16 January 2017, post reporting date, but whilst these B class shares are now held in Manukan's name, Manukan is legally restrained from dealing with these shares unless the Call Option is found to be enforceable. Memphasys has taken legal advice as to the enforceability of the Call Option; and has formed the view that it is not enforceable and that Memphasys should obtain a net payment for the B shares over and above the debt. An independent valuation of the B class shares by a chartered accountant and registered valuer far exceeds the debt on the fit out of the rental facility.

There is a further remaining court action between Memphasys and PrIME in relation to the GF100 machine which Memphasys rented to PrIME in Singapore but which PrIME is now claiming to own. Memphasys is awaiting the outcome of its application for summary judgement against PrIME in this matter.

The legal disputes with PrIME and Manukan have been expensive and time consuming. Memphasys has attempted to resolve these various disputes in good faith through negotiated settlement and is disappointed that the resolution which appeared so close in December 2016 did not eventuate.

Memphasys has now filed an application for arbitration in Singapore to hear and resolve the dispute between Memphasys, PrIME and Manukan. Arbitration is the dispute resolution mechanism stipulated in the Investment Agreement between the parties and the parties have now agreed to Arbitration.

Arbitration will primarily deal with the S$4.6 million debt associated with the fit out of the rental facility that PrIME is using in Singapore, the value of the B class shares in PrIME and the enforceability of the Option Agreement pertaining to those shares.

Memphasys is optimistic that a positive outcome from the arbitration process will be achieved.

Legal dispute with Transocean Securities

On 21 November 2016 Memphasys received a Statement of Claim from Transocean Securities, the Company's former corporate advisor. Memphasys terminated the mandate for cause. Transocean claims that Memphasys did not have the right to terminate its mandate and appoint new corporate advisors, Platinum Road Pty Ltd, who were appointed under a short-term mandate to raise further funds. Transocean stated that Memphasys had breached its exclusivity arrangement.

Separately, Memphasys has a dispute with Transocean and claims it should be paid a net refund of $118,230.63 of wrongly charged fees for underwriting by Transocean. Transocean charged a 7% fee to convert debt previously provided by directors and the rights take up into equity.

Memphasys sought to settle the matter to avoid litigation, without any admission of liability, but all offers were rejected. It has filed a defence and a counterclaim and anticipates a judicious settlement.

12. Events Subsequent to Reporting Date

The following events occurred subsequent to 31 December 2016:

- On 16 January 2017 the Company announced that the injunction against the exercise of the Call Option by Manukan over Memphasys's B class shares in PrIME was lifted. However, whilst these B class shares are now held in Manukan's name, Manukan is legally restrained from dealing with these shares unless the Call Option is found to be enforceable. Memphasys has taken legal advice as to the enforceability of the Call Option and has formed the view that it is not enforceable and that Memphasys should obtain a net payment for the B shares over and above the debt.
- As announced on 15 February 2017, the statutory demand that PrIME brought against Memphasys on 7 November for the repayment of the debt was set aside.
- As announced on 17 February 2017, Memphasys filed an application for arbitration in Singapore to hear and resolve the dispute between Memphasys, Prime and Manukan to deal with the $4.8 million debt associated with the fit-out of the rental facility that PrIME is using in Singapore, the value of the B class shares in PrIME and the enforceability of the Option Agreement pertaining to those shares.
- As announced on 23 February 2017, the Company has received a loan facility of $300,000 from Executive Director, Alison Coutts. In addition, Alison Coutts has offered Memphasys further funding by way of a line of credit of up to $200,000 for a period of 12 months.

Directors' Declaration

In the opinion of the directors of Memphasys Limited ("the Company"):

1. The condensed consolidated financial statements and notes, as set out on pages 6 to 16 are in accordance with the Corporations Act 2001, including:

   a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

   b) complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Alison Coutts
Executive Chairman

Sydney
27 February 2017

PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

Level 22 MLC Centre
19 Martin Place
Sydney NSW 2000
Australia

Postal Address:
GPO Box 1615
Sydney NSW 2001
Australia

Tel: +61 2 9221 2099
Fax: +61 2 92231762

www.pitcher.com.au
partners@pitcher-nsw.com.au

Pitcher Partners is an association of independent firms
Melbourne | Sydney | Perth | Adelaide | Brisbane | Newcastle

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF MEMPHASYS LIMITED

In relation to the independent auditor's review for the half-year ended 31 December 2016, to the best of my knowledge and belief there have been:

(i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Memphasys Limited and the entities it controlled during the period.

Mark Godlewski

MARK GODLEWSKI

Partner

PITCHER PARTNERS

Sydney

27 February 2017

An independent New South Wales Partnership. ABN 35 415 759 892
Liability limited by a scheme approved under Professional Standards Legislation

an independent member of BAKER TILLY INTERNATIONAL

PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

Level 22 MLC Centre
19 Martin Place
Sydney NSW 2000
Australia

Postal Address:
GPO Box 1615
Sydney NSW 2001
Australia

Tel: +61 2 9221 2099
Fax: +61 2 92231762

www.pitcher.com.au
partners@pitcher-nsw.com.au

Pitcher Partners is an association of independent firms
Melbourne | Sydney | Perth | Adelaide | Brisbane| Newcastle

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF MEMPHASYS LIMITED AND CONTROLLED ENTITIES

REPORT ON THE HALF-YEAR FINANCIAL REPORT

We have reviewed the accompanying half-year financial report of Memphasys Limited ("the company") and its Controlled Entities ("the consolidated entity"), which comprises the condensed consolidated statement of financial position as at 31 December 2016, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and consolidated condensed statement of cash flows for the half-year ended on that date, a statement of significant accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising Memphasys Limited and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company 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 gives a true and fair view and 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 conducted our review in accordance with 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 half-year financial report is not in accordance with the *Corporation Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: "*Interim Financial Reporting*" and the *Corporations Regulations 2001*. As the auditor of Memphasys Limited and the entities it controlled, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the half-year financial report consists of making enquiries, primarily of persons responsible for the 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.

An independent New South Wales Partnership. ABN 35 415 759 892
Liability limited by a scheme approved under Professional Standards Legislation

an independent member of BAKER TILLY INTERNATIONAL

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF MEMPHASYS LIMITED AND CONTROLLED ENTITIES

Independence

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

Basis for Qualified Conclusion

Memphasys Limited's investment in Series B preference shares of PrIME Biologics Pte Ltd (the shares), an entity incorporated in Singapore is carried at cost of $3,824,888 in the statement of financial position as at 31 December 2016. We were unable to obtain sufficient appropriate audit evidence of the ownership and the recoverable amount of Memphasys Limited's investment in the Series B Preference shares of PrIME Biologics Pte Ltd as at 31 December 2016 because of the Call Option agreement between Pulau Manukan Ventures Labuan Ltd (Manukan) and Memphasys Limited and the Court decision in relation to the ownership of the shares. The Courts ruled on 13 January 2017 that the temporary injunction placed on the transfer of shares from the company to Manukan be discharged, however, Manukan is legally restrained from dealing with the shares unless the Call Option is found to be enforceable. Consequently, we were unable to determine whether any adjustments to the financial statements in relation to the ownership and carrying amount of the shares is necessary.

Qualified Conclusion

Except for the possible effects of the matter described in the Basis for Qualified Conclusion paragraph, 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 Memphasys Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001.*

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 2(b) Going Concern in the financial report which indicates that the consolidated entity incurred a loss for the half-year ended 31 December 2016 of $932,447 and combined net cash outflows from operating and development expenditure of $966,381. The consolidated entity also had a deficiency in working capital of $5,004,943 and net asset deficiency of $545,204 as of 31 December 2016. In Note 2(b) it is stated that the consolidated entity is dependent on the raising of additional funds for working capital and to continue to develop and commercialise the technology. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

PITCHER PARTNERS

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF MEMPHASYS LIMITED AND CONTROLLED ENTITIES

We draw attention to Note 11 to the financial report which describes the uncertainty related to the outcome of the lawsuit filed against the company by Transocean Securities Pty Ltd and the arbitration filed by the Company to hear and resolve the dispute between the company, PrIME Biologics Pte Ltd and Manukan.

Mark Godlewski

Pitcher Partners

MARK GODLEWSKI

Partner

PITCHER PARTNERS

Sydney

27 February 2017

Corporate Directory

Memphasys Limited
ABN 33 120 047 556

Directors

Alison Coutts	Executive Chairman
Andrew Goodall	Non-Executive Director
Robert Gilmour	Non-Executive Director – resigned 29 September 2016
John Pereira	Non-Executive Director – appointed 30 September 2016

Company Secretary
Andrew Metcalfe
Accosec Pty Ltd
Suite 3, Level 2
470 Collins Street
Melbourne, VIC 3000

Share Registry
Boardroom Limited
Level 7, 207 Kent Street
Sydney, NSW 2000

Registered Office
30 Richmond Road
Homebush, NSW 2140
Australia

Tel: 61 2 8415 7300
Fax: 61 2 8415 7399
Email: info@memphasys.com
Website: www.memphasys.com

Solicitors
William Partners Pty Ltd
Level 7, 114 William Street
Melbourne, VIC 3000

Auditors
Pitcher Partners NSW Pty Limited
Level 22 MLC Centre, 19 Martin Place
Sydney, NSW 2000