



medlab

MEDLAB CLINICAL LIMITED

ABN: 51 169 149 071

**HALF YEAR REPORT FOR THE PERIOD
ENDED 31 DECEMBER 2017**

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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 2017.

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 \$2,269,323 (2016: \$1,704,884).

At period end, the economic entity had total assets of \$3,674,829 and total liabilities of \$2,204,254.

Medlab has progressed significantly since our last reporting period. Medlab was granted licences to supply Schedule 8 Drugs which allows the Company to sell NanaBis™, Medlab's cannabis-based (CBD:THC) medicine under the Government's Special Access Scheme. At the time of writing, manufacture of NanaBis is nearing completion. Medlab's education outreach to Doctors commences end of February, thus allowing the medical community to understand the trial (at Royal North Shore Hospital with advanced cancer patients suffering intractable pain), its endpoints, and dosage regimes.

Medlab's second cannabis programme, NanaBidal™, Medlabs cannabis-based medicine (CBD only) is also underway, with Ethics approval for human trials, and manufacturing scheduled late March. Both products are designed to a TGA compliant schedule 8 drug specification, with NanaBis™ available under SAS approval within a few short weeks.

Medlab's other research projects are progressing well. Of note, Medlab's work in Depression continues, with small but significant changes to the Phase 2a trial design in efforts to align closer to needed information for a future TGA drug application.

Other work in the human microbiome, especially in the area of Diabetes is moving along nicely.

The nutraceutical business has organic growth of 32% over the corresponding period last year, with a number of pharmacy groups supporting the brand through prescribing practitioners. Over the next two years subject to no unforeseen circumstances your Board and Senior Management expect our sales to increase significantly based on natural growth from current products plus obvious sales expansion from the products derived from our research.

Currently Medlab is in discussion with several international companies regarding both sales and research expansion, and whilst too early to report, the management team maintains a bullish outlook for the 18 months to 2 years.

Significant Changes in the State of Affairs.

No significant changes in the consolidated group's state of affairs occurred during the period.

After Balance Date Events

No matters or circumstances have arisen since 31 December 2017 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 other than on 25 January 2018, the Company completed a share placement to institutional and sophisticated investors. On 1 February 2018, 26,666,667 fully paid ordinary shares were issued at \$0.90 per share.

Auditor's Independence Declaration

The auditor's independence declaration for the half-year ended 31 December 2017 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 2018



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 2017, 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 2018

ESV Accounting and Business Advisors

Tim Valtwies
Partner

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

	Notes	Consolidated	
		31 December 2017 \$	31 December 2016 \$
Revenue	3	2,437,236	2,123,668
Changes in inventories		247,791	62,728
Raw materials and consumables used		(1,219,091)	(858,896)
Employee benefits expense		(1,876,163)	(1,592,178)
Depreciation and amortisation expense		(49,044)	(52,507)
Professional and consulting fees		(346,202)	(353,509)
Operating lease costs		(220,790)	(178,280)
Finance costs		(23,415)	(5,137)
Selling & marketing expenses		(363,883)	(168,426)
Other expenses	4	(946,795)	(768,151)
Loss before income tax		(2,360,356)	(1,790,688)
Income tax expense		-	-
Net loss for the period		(2,360,356)	(1,790,688)
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(14,558)	5,735
Other comprehensive loss for the year, net of tax		(14,558)	5,735
Total comprehensive loss for the year		(2,374,914)	(1,784,953)
Net loss attributable to:			
Members of the parent entity		(2,269,323)	(1,704,884)
Non-controlling interest		(91,033)	(85,804)
		(2,360,356)	(1,790,688)
Total comprehensive loss attributable to:			
Members of the parent entity		(2,278,057)	(1,701,443)
Non-controlling interest		(96,857)	(83,510)
		(2,374,914)	(1,784,953)
Earnings per share			
Basic earnings per share	6	(1.29)	(0.98)
Diluted earnings per share	6	(1.22)	(0.95)

The accompanying notes form part of these financial statements

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	Consolidated	
	31 December 2017 \$	30 June 2017 \$
ASSETS		
Current Assets		
Cash and cash equivalents	789,691	1,497,600
Trade and other receivables	1,066,823	1,700,790
Inventories	985,281	761,059
Other assets	418,304	285,133
Total Current Assets	3,260,099	4,224,582
Non-Current Assets		
Property, plant and equipment	414,730	452,972
Total Non-Current Assets	414,730	452,972
TOTAL ASSETS	3,674,829	4,697,554
LIABILITIES		
Current Liabilities		
Trade and other payables	1,239,560	1,062,439
Employee benefits	230,218	194,321
Provisions	-	-
Borrowings	5 635,151	32,267
Total Current Liabilities	2,104,929	1,289,027
Non-Current Liabilities		
Employee benefits	46,825	44,059
Provisions	52,500	47,500
Other liabilities	-	2,025
Borrowings	-	264,454
Total Non-Current Liabilities	99,325	358,038
TOTAL LIABILITIES	2,204,254	1,647,065
NET ASSETS	1,470,575	3,050,489
EQUITY		
Issued capital	6 16,393,420	15,598,420
Reserves	59,306	68,040
Accumulated losses	(14,052,229)	(11,782,906)
Equity attributable to the owners of Medlab Clinical Limited	2,400,497	3,883,554
Outside equity interest	(929,922)	(833,065)
TOTAL EQUITY	1,470,575	3,050,489

The accompanying notes form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

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 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

	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 2017	15,598,420	(11,782,906)	68,040	3,883,554	(833,065)	3,050,489
Loss after income tax for the period		(2,269,323)		(2,269,323)	(91,033)	(2,360,356)
Other comprehensive income for the period, net of tax			(8,734)	(8,734)	(5,824)	(14,558)
Total comprehensive income for the period		(2,269,323)	(8,734)	(2,278,057)	(96,857)	(2,374,914)
Transactions with owners in their capacity as owners:						
Shares issued (net)	795,000			795,000		795,000
Balance at 31 December 2017	16,393,420	(14,052,229)	59,306	2,400,497	(929,922)	1,470,575

The accompanying notes form part of these financial statements.

**STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

	Consolidated	
	31 December 2017	31 December 2016
	\$	\$
Cash Flows from Operating Activities		
Receipts from customers	2,344,813	1,444,890
Receipts from R&D Tax refund	927,245	911,325
Payments to suppliers and employees	(4,983,398)	(3,828,604)
Finance costs	(19,468)	(1,306)
Interest received	4,626	26,756
Net (used) from operating activities	(1,726,182)	(1,446,939)
Cash flows from Investing Activities		
Purchase of plant and equipment	(10,347)	(38,620)
Net cash (used in) investing activities	(10,347)	(38,620)
Cash flows from Financing Activities		
Net proceeds from borrowings	241,345	-
Proceeds from issue of shares	795,000	5,361,150
Capital raising costs	-	(374,140)
Net cash from financing activities	1,036,345	4,987,010
Net increase in cash held	(700,184)	3,501,451
Cash and cash equivalents at beginning of financial year	1,497,600	801,368
Exchange rate adjustments	(7,725)	6,313
Cash and cash equivalents at end of the financial half-year	789,691	4,309,132

The accompanying notes form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

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 2018.

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 2017 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 2017**

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 2017			
Revenue			
Sales to external customers	1,961,821	5,789	1,967,610
Intersegment sales	-	-	-
Total sales revenue	1,961,821	5,789	1,967,610
Other revenue	-	465,000	465,000
Total segment revenue	1,961,821	470,789	2,432,610
Intersegment eliminations			
<i>Unallocated revenue:</i>			
Interest revenue			4,626
Total revenue			2,437,236
EBITDA	(1,410,048)	(882,475)	(2,292,523)
Depreciation and amortisation			(49,044)
Interest revenue			4,626
Finance costs			(23,415)
Loss before income tax expense			(2,360,356)
Income tax expense			-
Loss after income tax expense			(2,360,356)
Assets			
Segment assets	2,010,316	874,822	2,885,138
Intersegment eliminations			
<i>Unallocated assets:</i>			
Cash and cash equivalents			789,691
Receivables			-
Total assets			3,674,829
Liabilities			
Segment liabilities	1,388,849	547,003	1,935,852
Intersegment eliminations			
<i>Unallocated liabilities:</i>			
Loans			268,402
Total liabilities			2,204,254

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

NOTE 2 – SEGMENT REPORTING (CONTINUED)

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

NOTE 3 – REVENUE	Consolidated	
	31 December 2017 \$	31 December 2016 \$
Sales revenue:		
- Sale of goods	1,961,821	1,482,585
- Rendering of R&D services & consultation	5,789	-
	1,967,610	1,482,585
Other revenue:		
- Interest received	4,626	29,758
- R&D tax incentive	465,000	611,325
	469,626	641,083
Total revenue	2,437,236	2,123,668

NOTE 4 – OTHER EXPENSES	Consolidated	
	31 December 2017 \$	31 December 2016 \$
Other expenses includes the following specific expenses:		
Lab Consumables	27,967	51,820
Telephone and internet	52,534	47,312
Travel	148,529	108,448

NOTE 5 – BORROWINGS

The Company entered into a Debtor Finance Facility Agreement with Scottish Pacific Business Finance on 6 December 2017, with a facility limit of \$1,000,000 for a minimum period of 24 months on eligible debtor balance. As at 31 December 2017, the outstanding balance under the debtor financing facility is \$254,218.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

NOTE 6 – ISSUED CAPITAL

	31 December 2017 Number	31 December 2017 \$
Ordinary shares – fully paid	181,355,000	16,393,420
	<u>181,355,000</u>	<u>16,393,420</u>

Movements in ordinary share capital

Details	Date	No of shares	Issue Price \$	Amount \$
Balance	30 June 2017	178,705,000		15,598,420
Exercise of options	16 November 2017	2,650,000	0.30	795,000
Balance	31 December 2017	181,355,000		16,393,420
Costs of Capital Raising				-
				<u>16,393,420</u>

NOTE 7 – EARNINGS PER SHARE

	Consolidated 31 December 2017 \$	31 December 2016 \$
Loss for the period	2,360,356	1,790,688
Non-controlling interest	(91,033)	(85,804)
Loss attributable to the owners of Medlab Clinical Limited	<u>(2,269,323)</u>	1,704,844
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	179,356,639	173,967,081
Adjustments for calculation of diluted earnings per share:		
- Options over ordinary shares	5,798,597	5,822,944
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>185,155,236</u>	179,790,025
	Cents	Cents
Basic earnings per share	(1.27)	(0.98)
Diluted earnings per share	(1.23)	(0.95)

NOTE 8 – EVENTS SUBSEQUENT TO BALANCE DATE

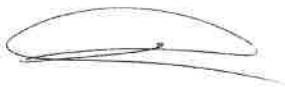
No matters or circumstances have arisen since 31 December 2017 which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years other than on 25 January 2018, the Company completed a share placement to institutional and sophisticated investors. On 1 February 2018, 26,666,667 fully paid ordinary shares were issued at \$0.90 per share.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 6 to 14;
 - 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 2017 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 2018



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 2017 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 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 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 half-year 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 2017 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 Group's financial position as at 31 December 2017 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*.

Dated at Sydney the 28th day of February 2018

ESV

ESV Accounting and Business Advisors

Tim Valtwies
Partner