



ASX Release

Chairman's Report for Memphasys' Annual General Meeting, November 25 2016

Sydney, Friday 25 November 2016

Dear Shareholders,

I would like to welcome you to the Memphasys' Annual General Meeting today. Firstly, I would like to introduce you to our two non-executive directors, Andrew Goodall, who is also a substantial shareholder, and our recent nominated appointee, John Pereira.

I will now provide you with a brief update on the Company's activities and outlook. You will also be able to obtain a more comprehensive description of the Company's operations from reviewing the presentation that was released to the market yesterday.

As most of you are aware, Memphasys' major focus is separating high value biological substances from fluids, utilising its proprietary separation membranes and electrophoresis. In other words, we separate based on size (with membranes of certain pore size) and charge (with electrophoresis).

Our two main areas of focus are:

- SpermSep;
- Polymer membrane technology development.

SpermSep

Memphasys' lead program, SpermSep, efficiently separates the best quality sperm from a semen sample using electrophoresis and specialist membranes, in preparation for IVF. This same principle can also be applied to assisted animal reproduction.

The SpermSep technology has been developed in partnership with Professor John Aitken from the University of Newcastle. Professor Aitken is a world renowned specialist in reproductive biology, with a particular specialisation in male reproduction.

The SpermSep device has been shown in laboratory testing to separate viable sperm far more efficiently and with less DNA damage than conventional methods. Results of an in-vitro clinical evaluation by Monash IVF announced in April 2016 of the performance of a SpermSep research grade device were positive. This study showed that the device worked well and that there is a market need for a clinical grade device. We now need to develop a clinical grade device.

The SpermSep clinical prototype, which is to be evaluated by global key clinical IVF opinion leaders, has a new, cost efficient, biocompatible membrane and a completely re-engineered, simplified and improved design appropriate for clinical use.

Professor John Aitken and his research team at the University of Newcastle are continuing work in the animal ART field, with in-vitro equine studies and in the oversight of the human IVF in-vitro studies at major Australian clinical IVF centres.

Memphasys is also maintaining its collaboration with Minitube GmbH ("Minitube"), the largest global provider of animal Artificial Reproductive Technologies (ART) products.

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Upon completion of the SpermSep clinical trials and the engineering completion of our next-generation clinical grade SpermSep products, the company plans to commercialise the product through marketing and distribution arrangements with international distributors.

Membrane Technology Development

As part of the development of clinical grade devices, Memphasys will use its new hydrogel membranes which are being developed by the company rather than the Company's traditional polyacrylamide membrane technology. The company expects the newly developed membranes will have improved biocompatibility, much improved production scalability and lower raw material and production cost of manufacture.

Memphasys requires further funding to complete development of the new clinical SpermSep product range and the new membranes, to keep the sperm sample and harvest in the central separation chamber away from the electrodes will be part of this range.

Memphasys also has a consultancy arrangement with the University of Melbourne Chemical and Biomolecular Engineering Department and is working on the development of new membranes and other separation systems for additional high value biological separations beyond SpemSep.

Operations

As reported in our mid year results, it has been a year of "highs and lows" for Memphasys and the lows are reflected in the current share price. There have been many achievements especially on the technical front in developing the next generation SpermSep clinical device. However, the ongoing difficulty with PrIME Biologics Pte Ltd ("PrIME"), the company that Memphasys spun out in June 2014, and the ensuing litigation against PrIME and its major investor, Palau Manukan Ventures Labuan Ltd ("Manukan") which is part of the Malaysian Sovereign Fund, Xeraya, has put a dampener on the overall achievements and has placed an extra requirement on Memphasys for ongoing litigation funding.

PrIME Biologics was spun out of Memphasys in June 2014 to use the technology developed by Memphasys in the field of plasma fractionation.

In order to obtain the B class shares, Memphasys agreed to take over a third party debt to A-Bio Pharma Pte Ltd ("A-Bio") on the GMP production facility in Singapore that PrIME is using.

The third party debt has now been repaid by PrIME who were guarantors of the repayment of the loan.

The litigation involves two separate actions in the Singapore High Court:

- The means of payment by Memphasys against the third party debt payout made by prIME
- The ownership of a machine, The "GF100", a key part of PrIME's cGMP plasma processing facility and for which PrIME had paid rent to Memphasys.

Memphasys remains confident that the value of the B class shares well exceeds the debt payment that has been demanded and that ultimately it will reach a negotiated settlement with PrIME and Manukan.

Memphasys is currently seeking to sell its investment in PrIME. This was announced in April and May 2015 and is still the case. Negotiations are continuing, despite the litigation, and these are focussed on the description and use of the GF100 machine and the quantum net payment to be received by Memphasys for the sale of its B class shares and transfer of the GF100 machine to PrIME.

Outlook

The development of the next generation SpermSep device and new membranes are expected to be value drivers for the company in the foreseeable future, subject to sufficient funding being available and subject to a successful conclusion of the litigation against PrIME and Manukan.

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About Memphasys:

Memphasys limited (*ASX:MEM*) specializes in biological separations for commercial applications. The Company's patented membrane processes enable the selection of high value substances or contaminants from the fluid in which they are contained by applying an electrical field (electrophoresis) to a sample of the fluid that is contained between our "restriction" membranes and flows through another membrane for separation.