

**Memphasys Limited
and its Controlled Entities
ABN 33 120 047 556**

**Annual Financial Report
for the year ended 30 June 2017**

Contents

Directors' report	1
Auditor's independence declaration	15
Consolidated statement of profit or loss and other comprehensive income	16
Consolidated statement of financial position	17
Consolidated statement of changes in equity	18
Consolidated statement of cash flows	19
Notes to the consolidated financial statements	20
Directors' declaration	52
Independent audit report to the members	53
Shareholder information	56

Memphasys Limited and its Controlled Entities

Directors' Report

The Directors present their report, together with the consolidated financial statements of the Group, being the company and its controlled entities, for the financial year ended 30 June 2017 and the audit report thereon.

Directors

The names of the Directors of Memphasys Limited in office at any time during or since the end of the financial year are:

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

Company Secretary

The Company Secretary services are managed by Mr Andrew Metcalfe, an experienced independent company secretary and business consultant. Mr Metcalfe was appointed to the position on the 29 November 2016 replacing Ms Stephanie Georgiou who held the position of interim Company Secretary following the resignation of Mr Mark Studd (Boardroom) on the 30 September 2016. Mr Metcalfe is well qualified for the position having been a company secretary and governance advisor to ASX listed companies for over 20 years.

Names, Qualifications, Experiences, Special Responsibilities and Shareholding	Shares interests & unlisted options at the reporting date
<p>Ms Alison Coutts B.E (Chem), MBA, Grad Dip Biotech Executive Chairman and member of the Audit and Risk and the Nomination and Remuneration Committees.</p> <p>Ms Alison Coutts has extensive experience across a number of industry sectors and disciplines. This includes international engineering project management, strategy consulting, executive search, investment banking and technology commercialisation.</p> <p>Ms Coutts is formerly Chair of CSIRO's Health Sector Advisory Council and co-founded a corporate finance advisory business, eG Capital, that specialised in the life sciences sector. She also co-founded a clinical development stage drug development company, Mariposa Health Ltd, that is focussing on chronic obstructive pulmonary disease, and a medical device company Micro-X Ltd (ASX: MX1) that is developing innovative, lightweight mobile X-Ray machines for medical use.</p> <p>Ms Coutts is the Executive Chairman of Memphasys Ltd and is also a Non-Executive Director of Lanka Graphite Ltd.</p> <p>Ms Alison Coutts has a Chemical Engineering degree and a Graduate Diploma in Biotechnology from the University of Melbourne and an MBA from Melbourne Business School.</p>	<p>Direct 608 ordinary shares 1,200,000 unlisted options</p> <p>Indirect 3,787,600 ordinary shares Nil unlisted options</p>
<p>Andrew Goodall Non-Executive Director and member of the Audit and Risk and Nomination and Remuneration Committees.</p> <p>Mr Goodall, a significant shareholder in Memphasys, is an entrepreneur who successfully founded, built and sold two retail businesses. He now runs a private business involved in Commercial Property in New Zealand.</p>	<p>Direct 206,319,342 ordinary shares 1,500,000 unlisted options</p> <p>Indirect 33,783,256 ordinary shares Nil unlisted options</p>

Memphasys Limited and its Controlled Entities

Directors' Report

Names, Qualifications, Experiences, Special Responsibilities and Shareholding	Shares interests & listed options at the reporting date
<p>Dr Robert Gilmour B.SC, MB, ChB. Non-Executive Director.</p> <p>Dr Gilmour was a director of the Company for the first few months of the reporting period resigning on the 29 September 2016.</p>	<p>Direct Nil ordinary shares 4,000,000 unlisted options</p> <p>Indirect 9,500,000 ordinary shares Nil unlisted options</p>
<p>Mr John Pereira B. Juris LLB Non-Executive Director and Chairman of the Nomination and Remuneration Committee and Audit and Risk Committee from September 2016.</p> <p>Mr Pereira, has had an extensive professional career encompassing funds management, banking and law. Mr Pereira was the founder and CEO of India Equities Limited which listed on ASX in 2007. He also created Olympus Funds Management to offer a wide range of investment opportunities in alternative investment markets.</p> <p>Mr Pereira has maintained a close interest in India, his country of birth, and is a former President (Victoria) and Deputy Chairman of the Australia India Business Council.</p> <p>Alongside Mr Pereira's commercial activities, he has been admitted to the Supreme Courts of NSW and Victoria and has held a legal practising certificate for over 20 years.</p>	<p>Direct 1,100,000 ordinary shares</p> <p>Indirect Nil</p>

Meetings of Directors

The following table sets out the numbers of meetings of the company's Board of Directors and meetings of each Board committee held during the year ended 30 June 2017 and the number of meetings attended by each Director.

	Board Meetings		Audit & Risk Committee Meetings		Nomination and Remuneration Committee Meetings	
	Attended	Held*	Attended	Held*	Attended	Held*
Alison Coutts	9	9	3	3	2	2
Andrew Ernest Goodall	9	9	3	3	2	2
Robert Farrer Gilmour	3	5	1	1	-	-
John Pereira	6	6	2	2	2	2

* Represents number of meetings held whilst director was in office during the year

Rounding of amounts

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the directors' report and in the financial report have been rounded to the nearest dollar.

Memphasys Limited and its Controlled Entities

Directors' Report

CORPORATE INFORMATION

Corporate Structure

Memphasys Limited is a company limited by shares, incorporated and domiciled in Australia with its registered office at 30 Richmond Road, Homebush, NSW 2140. It has prepared a consolidated financial report incorporating the entities it controlled during the financial year. Refer to Note 26 of the financial statements for a list of entities it controlled during the financial year.

Dividends

No dividends were paid during the year and no dividend is recommended.

REVIEW OF OPERATIONS

Whilst Memphasys had a difficult year, it made great advances in developing its core technology and is now positioned well for the future.

The year started with the change of name to Memphasys Limited from NuSep Holdings Ltd to reflect the renewed focus on high value biological separations using specialist membranes.

Memphasys' patented technology enables the efficient separation of high value proteins and cells from biological fluids. The technology enables separation by size and charge, utilising proprietary membranes and the application of electrophoresis. Its lead program, Felix (formerly known as SpermSep), efficiently separates the best quality, least DNA damaged sperm from a semen sample in preparation for human IVF.

As announced on 4 April 2017 and 18 May 2017, Memphasys contracted Melbourne-based specialist medical device development partner, Hydrix, to develop the next generation cartridge for the Felix device, which is a novel, re-usable prototype cartridge for efficiently processing the most viable sperm for human IVF. The new cartridges were made with a three-fold higher processing volume than previously to potentially enable a full ejaculate to be processed. They contain the new bio-compatible membranes, reformulated buffers and an altered fluid flow and electrical configuration that is even gentler on the sperm than the previous research-grade CS10 device but still provides efficient separation of the most viable sperm. This new cartridge design has been tested in-house with healthy human male ejaculates and is now undergoing further testing and optimisation studies by Professor John Aitken's research team at the University of Newcastle.

Memphasys is also applying the core bio-separation technology to assisted animal reproduction, most notably for horses and cattle. This work is being carried out in conjunction with Professor John Aitken and his research team at the University of Newcastle together with Minitube GmbH ("Minitube"), the largest global provider of animal Artificial Reproductive Technologies (ART) products.

Memphasys' consultancy arrangement with the University of Melbourne Chemical and Biomolecular Engineering Department has led to the development of a new, biocompatible and readily manufactured hydrogel membrane for Felix. Memphasys is continuing with the consultancy with the development of new membranes and high value bio-separations.

During the year, the precast gels business sale was completed; Memphasys is no longer in the precast gels business.

Significant corporate achievements in September 2017

Memphasys achieved settlement of the long running litigation with PRIME Biologics Private Limited ("PRIME") and Pulau Manukan Ventures Labuan Ltd ("Manukan") shortly after reporting date. Some key outcomes were that Memphasys consented to Manukan's full rights and ownership over the Preference B Shares in PRIME and that PRIME and Manukan will no longer pursue any claim against Memphasys in relation to the SGD4,801,408 debt. The background to the litigation has been provided in various ASX announcements released during the period.

On 27 September it was reported that settlement actions have been completed with PRIME and Manukan, in accordance with the Settlement Agreement between the parties, whereby Manukan now has full rights and ownership over the Preference B Shares in PRIME and the SGD4,801,408 debt has been cleared.

The \$250,000 borrowings plus interest was also fully repaid to Crescendas Projects Pte Ltd.

Memphasys Limited and its Controlled Entities

Directors' Report

Memphasys advised on 8 September 2017 that the litigation with former corporate advisor and fund raiser, Transocean Securities Pty Ltd ("Transocean"), had also been resolved through mediation.

Financial Performance

Directors have contributed most of the funds for the Company this financial year. Director contributions from Alison Coutts and Andrew Goodall were respectively \$993,007 and \$604,833 totalling \$1,597,840.

Further funding was arranged through a \$250,000 loan from Crescendas Projects, as announced on 2 March 2017.

Memphasys also obtained a \$500,000 bond facility, through Platinum Road Pty Ltd, as announced on 4 April 2017. The bond allows shares to be issued against funds that are provided. The facility was drawn down to \$244,872 at 30 June 2017 with \$255,128 remaining for potential draw down post reporting date.

During the year, the Board continued to focus on value adding R&D activities and on streamlining operations. Overhead costs are now at the lowest point in the history of the Company.

The Company has only one source of revenue which is the tax refund on R&D activities. We expect an R&D tax refund of approximately \$431,000 for FY2017.

Memphasys incurred a \$1,898,898 loss from continuing operations (2016: loss of \$2,174,721). General and Administrative expenses of \$1,971,689 (2016: \$1,659,341) was the largest expense category including legal fees for \$953,809 (2016: \$413,094). An approximate amount of \$221,000 in legal fees was spent with William Partners Pty Ltd. Memphasys' non-executive director John Pereira is the principal of the firm. To avoid conflict of interest for Mr. Pereira, instructions were transmitted from Memphasys' Executive Chairman to a senior lawyer of the firm. Full disclosure was made through Letters of Engagements and a Costs Agreement.

As the Company has recently settled the legal disputes with PrIME/Manukan and Transocean, legal expenses, which have been a substantial cash drain on the business for the last two financial years, will decrease significantly.

Memphasys continued investing in high value-adding bio-separation projects which will not be revenue generating for at least the next 18 months. Capitalised expenditure on the two projects in the development stage, as allowed by accounting standards, is as follows:

- Felix which received an investment of \$633,437 (2016: \$717,001); and
- New membranes for the Felix device, which received an investment of \$206,893 (2016: \$213,450).

Memphasys also invested in researching other new membranes and new methods for high value biological separations, at a cost of \$137,594 (2016: \$178,573). As this project is still in the research stage, its costs have been booked as expenses and will not be capitalised as intangible assets until the project enters the development stage.

The other major contributor to the operating loss was the interest charges on finance costs of \$129,674 (2016: \$326,015). The significant reduction from the financial year 2016 was due to having ceased the accrual of interest payments on the SGD4,801,408 debt in August 2016.

Foreign exchange partially offset the operating losses contributing a gain of \$259,556 (2016: losses of \$156,425). The revaluation of the Australian dollar against the Singaporean dollar, which had a positive impact on the SGD4,801,408 debt, was the main reason for this gain.

Memphasys Limited and its Controlled Entities

Directors' Report

Board and management

Memphasys appointed John Pereira to the Board as a non-executive director on 30 August 2016. Dr Robert Gilmour resigned from the board on 29 September 2016.

Outlook for 2018

The development of the next generation Felix device is expected to be key value driver for the company over the next 12 months. As reported post reporting date on 7 August 2017, testing of the current new re-usable cartridges demonstrated that cartridges efficiently separate viable sperm from ejaculate in healthy human males.

The ensuring development steps entail:

- The testing and optimisation of the reusable cartridges, initially with Professor John Aitken's research group at the University of Newcastle.
- Further testing using clinical ejaculate samples by our UNSW IVF clinical partner under the guidance of Professor John Aitken.
- Use of clinical test results to guide the development of the final fully disposable cartridge.
- Clinically testing and publishing results on the utility of the next generation prototype device containing the fully disposable cartridge by Key Opinion Leaders in leading global IVF centres.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The following events occurred subsequent to end of the financial year:

- On 3 July 2017 the Company announced that Alison Coutts agreed to extend the line of credit by a further \$200,000.
- On 13 July 2017 the Company announced that the first two cartridges for the next generation "Felix" device met the first performance requirements after internal testing by Memphasys.
- On 17 July 2017 the Company issued 32,941,177 ordinary shares at \$0.00085 per share to Bridge Road Capital, converting \$28,000 drawdown against the Platinum Bond facility.
- On 20 July 2017 the Company lodged the R&D tax claim for an amount of \$431,529 which was approved by AusIndustry on 31 July 2017 and is expected to be received from the ATO in early October 2017.
- On 27 July 2017 the Company announced that it had successfully concluded mediation with Pulau Manukan Ventures Labuan Ltd ("Manukan") and PrIME Biologics Private Limited ("PrIME") and reached full settlement on all outstanding disputes. Settlement actions have subsequently been completed in accordance with the Settlement Agreement signed between the parties on 24 July 2017 such that:
 - Manukan now has full rights and ownership over the Preference B Shares in PrIME formerly owned by Memphasys.
 - Memphasys is clear of the SGD4,801,408 debt.
- The loan from Crescendas Projects Pte Ltd was repaid in full on 4 September 2017.
- On 8 September 2017 the Company advised that the legal dispute with Transocean Securities Pty Ltd was settled through mediation under confidential terms.

SHARE OPTIONS

There were 11,700,000 unlisted options on issue to shareholders at 30 June 2017.

Memphasys Limited and its Controlled Entities

Directors' Report

Set out in the table below are summaries of options issued, exercised and lapsed during the year.

Grant date	Expiry date	Vesting commencement date	Exercise price	Balance at start of year	Issued during the year	Exercised during the year	Lapsed /cancelled during the year	Balance at end of the year
Consolidated and parent entity – 2016:								
22 December 2014	1 November 2016	-	\$0.112	2,000,000	-	-	2,000,000	-
04 April 2016	30 November 2016	-	\$0.016	284,617,002	-	-	284,617,002	-
22 December 2014	5 December 2016	-	\$0.1015	1,200,000	-	-	1,200,000	-
22 December 2014	1 November 2017	-	\$0.112	1,500,000	-	-	-	1,500,000
22 December 2014	5 December 2017	-	\$0.1015	1,200,000	-	-	-	1,200,000
30 November 2016	25 November 2019	-	\$0.020	-	4,000,000	-	-	4,000,000
4 April 2017	31 December 2018	-	\$0.0060	-	5,000,000	-	-	5,000,000
Total		-		290,517,002	9,000,000	-	287,817,002	11,700,000

The number of options over ordinary shares in Memphasys issued to related parties during the year are as follows:

2017	Balance at start of year	Granted	Exercised during the year	Cancelled during the year	Balance at end of the year	Exercisable	Non Exercisable
Andrew Goodall	121,786,047	-	-	120,286,047	1,500,000	1,500,000	-
Alison Coutts	2,400,000	-	-	1,200,000	1,200,000	1,200,000	-
Syrah Trustee Limited	6,750,000	-	-	6,750,000	-	-	-
Total	130,936,047	-	-	128,236,047	2,700,000	2,700,000	-

Memphasys Limited and its Controlled Entities

Directors' Report

ENVIRONMENTAL ISSUES

The Group has assessed whether there are any particular or significant environmental regulations that apply. It has determined that the risk of non-compliance is low and has not identified any compliance breaches during the year.

INDEMNIFYING OFFICERS

During the financial year, the company paid an insurance premium of \$35,000 to insure all directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the company, other than conduct involving a wilful breach of duty in relation to the company.

The company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer of the company or any related body corporate against a liability incurred by such an officer.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2017 has been received and can be found on page 15 as part of this Directors Report.

NON-AUDIT SERVICES

No fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2017.

Memphasys Limited and its Controlled Entities

Directors' Report

REMUNERATION REPORT – AUDITED

Outlined below are the guiding principles used by Memphasys Limited to set the remuneration of the organisation.

Principles used to determine the nature and amount of remuneration

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for Memphasys' size and type of business. The Nomination and Remuneration Committee evaluates the executive directors and the CEO/Executive Chairman reviews the senior executive team. In general, the Board and specifically the Nomination and Remuneration Committee ensure that executive reward satisfies the following key criteria for good employee and non-executive director reward governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage/alignment of executive compensation
- Transparency
- Capital management

The individual performance element of the remuneration policy for senior executives and professional staff is based on performance against KPIs set for the year under review. An individual's KPIs will be agreed at the commencement of employment and reviewed and updated annually thereafter to ensure alignment with the current goals and objectives of the company.

A percentage component of the total remuneration package is based on the company's performance and the market position of Memphasys Limited. The remuneration packages are flexible to allow adjustment depending on company and market circumstances as determined by the Nomination and Remuneration Committee and approved by the Board.

New employment contracts of all personnel commenced on 1 July 2016 following a review which included the re-drafting of all job descriptions and key performance indicators which were developed to reward key staff for delivering on the reformulated strategic needs of the business, especially on development and commercialisation of core intellectual property.

A revised ESOP program for all key employees was approved at the AGM in December 2015.

Employment contracts

The contract of the Executive Chairman, Alison Coutts has no duration and stipulates that either party may terminate the employment by providing the other with six months' written notice. The Company may terminate the employment without any period of notice or payment in lieu of notice if the executive engages in serious misconduct.

Non-Executive Directors

The Board has set its remuneration of Non-Executive Directors in line with market-based remuneration in small listed biotechnology companies. The Chairman's fees are determined independently to the fees of Non-Executive Directors based on responsibility of the role and are also in line with the remuneration of Chairmen of small listed biotechnology companies. The Chairman is not present at any discussions relating to determination of remuneration. Subject to shareholder approval, Non-Executive Directors may opt each year to receive a percentage of their remuneration in Memphasys Limited shares and/or options.

Directors' Fee Pool

The current maximum non-executive Directors fee pool limit is \$450,000 per year.

Executive Remuneration

Executive remuneration includes:

- Base remuneration;
- Bonus remuneration for outstanding performance; and
- Other remuneration such as superannuation.

As the entity is in development stage, there is no relationship between performance and KMP remuneration at this point in time.

Memphasys Limited and its Controlled Entities

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

Base Remuneration

Structured as a total employment cost package that may be delivered as a mix of cash and prescribed non-financial benefits at the executives' discretion.

Details of Remuneration

Details of the nature and amount of each element of the emoluments of each Director of Memphasys Limited and specified executives of the Company and the consolidated entity with the highest authority levels for the year ended 30 June 2017 are set out in the following tables which break out directors and executive remuneration separately.

Directors of Memphasys Limited

	Cash salary and fees	STI cash bonus	Proportion of remuneration performance related	Non-monetary benefits and allowances	Movement in leave provisions	Superannuation @	Value of options	Value of options as proportion of remuneration	Total
2017	\$	\$	%	\$	\$	\$	\$	%	\$
Alison Coutts	277,500	-	-	-	21,215	19,613	-	-	318,328
Andrew Goodall	50,000	-	-	-	-	-	-	-	50,000
Robert Gilmour #	12,083	-	-	-	-	-	-	-	12,083
John Pereira *	41,667	-	-	-	-	-	-	-	41,667
Total	381,250	-	-	-	21,215	19,613	-	-	422,078

* Appointed during the year.

Resigned during the year.

@ There has been no post-employment retirement benefits, except for superannuation, paid to any Director in the 30 June 2017 financial year.

	Cash salary and fees	STI cash bonus	Proportion of remuneration performance related	Non-monetary benefits and allowances	Other long-term benefits	Post-employment Superannuation @	Value of options	Value of options as proportion of remuneration	Total
2016	\$	\$	%	\$	\$	\$	\$	%	\$
Alison Coutts	277,500	-	-	-	-	19,308	-	-	296,808
Andrew Goodall	50,000	-	-	-	-	-	-	-	50,000
Michael Graham #	25,000	-	-	-	-	-	-	-	25,000
Mark Gell #	37,494	-	-	-	-	-	-	-	37,494
Robert Gilmour *	10,833	-	-	-	-	-	40,000	-	50,833
Total	400,827	-	-	-	-	19,308	40,000	-	460,135

* Appointed during the year.

Resigned during the year.

@ There has been no post-employment retirement benefits, except for superannuation, paid to any Director in the 30 June 2016 financial year.

Memphasys Limited and its Controlled Entities

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

Senior Executive Employment Agreements

The present contracts for senior executives include employment terms, remuneration and termination payments. Under the general terms of the current executive contracts:

- Have no duration.
- The executive may resign from their position and thus terminate the contract by giving, depending on the executive, between three and four months' written notice. On resignation any options are forfeited.
- The agreement automatically terminates unless the agreement is renewed by the parties, in writing, prior to the expiration of the initial term. Employee's employment automatically continues on an at-will basis on the terms stipulated in the contract.

Executives of Memphasys Limited and Subsidiaries

	Cash salary and fees	Termination payments	STI cash bonus	Non-monetary benefits and allowances	Movement in leave provisions	Post-employment Superannuation @	Value of options	proportion of remuneration	Total
2017	\$	\$	\$	\$	\$	\$	\$	%	\$
Mike Richardson *	43,974	41,565	-	-	-	6,790	-	-	92,329
Pablo Neyertz	121,000	-	-	-	4,474	12,801	-	-	138,275
Total	164,974	41,565	-	-	4,474	19,591	-	-	230,604

* Retired in December 2016.

@ There have been no post-employment retirement benefits, except for superannuation, paid to any Executive in the 30 June 2017 financial year.

	Cash salary and fees	Termination payments	STI cash bonus	Non-monetary benefits and allowances	Other long-term benefits	Post-employment Superannuation @	Value of options	proportion of remuneration	Total
2016	\$	\$	\$	\$	\$	\$	\$	%	\$
Mike Richardson	100,000	-	-	-	-	9,500	-	-	109,500
Pablo Neyertz	121,000	-	-	-	-	11,495	-	-	132,495
Total	221,000	-	-	-	-	20,995	-	-	241,995

@ There have been no post-employment retirement benefits, except for superannuation, paid to any Executive in the 30 June 2016 financial year.

Share options granted to Directors

There were no share options issued during the financial year ended 30 June 2017.

Share options granted to Executives

There were no share options issued during the financial year ended 30 June 2017.

Memphasys Limited and its Controlled Entities

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

Directors & their shareholding

Directors & their shareholding	Balance as at 1 July 2016	Net movement	Director resigned	Balance as at 30 June 2017
Alison Coutts (a)	20,719,208	(16,931,000)	-	3,788,208
Andrew Goodall (b)	170,408,439	69,694,159	-	240,102,598
Dr Robert Gilmour #	9,500,000	-	(9,500,000)	-
John Pereira *	-	1,100,000	-	1,100,000
Total	200,627,647	53,863,159	(9,500,000)	244,990,806

* Directors appointed during the year. # Directors resigned during the year.

(a) Alison Coutts' shareholding comprises 608 shares held directly and 3,787,600 held indirectly.

(b) Andrew Goodall's shareholding comprises 206,319,342 shares held directly and 33,783,256 shares held indirectly.

Directors & their shareholding	Balance as at 1 July 2015	Net movement	Director resigned	Balance as at 30 June 2016
Alison Coutts (a)	311,252	20,407,956	-	20,719,208
Andrew Goodall (b)	57,666,836	112,741,603	-	170,408,439
Michael Graham #	-	-	-	-
Mark Gel #	-	22,407,895	(22,407,895)	-
Dr Robert Gilmour *	-	9,500,000	-	9,500,000
Total	57,978,088	165,057,454	(22,407,895)	200,627,647

* Directors appointed during the year. # Directors resigned during the year.

(a) Alison Coutts' shareholding comprises 16,931,608 shares held directly and 3,787,600 shares held indirectly.

(b) Andrew Goodall's shareholding comprises 149,498,897 shares held directly and 20,909,542 shares held indirectly.

Convertible Notes - Number of Convertible Notes held by Directors and Key Management Personnel

2017 Director / Key Management Personnel	Balance 1 July 2016	Received as Remuneration	Additions	Balance 30 June 2017
Alison Coutts	-	-	427,000	427,000
Andrew Goodall	-	-	450,000	450,000
Total Convertible notes	-	-	877,000	877,000

Memphasys Limited and its Controlled Entities

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

The number of options over ordinary shares in Memphasys issued to related parties during the year are as follows:

2017	Balance at start of year	Granted	Exercised during the year	Cancelled during the year	Balance at end of the year	Exercisable	Non Exercisable
Andrew Goodall	121,786,047	-	-	120,286,047	1,500,000	1,500,000	-
Alison Coutts	2,400,000	-	-	1,200,000	1,200,000	1,200,000	-
Syrah Trustee Limited *	6,750,000	-	-	6,750,000	-	-	-
Total	130,936,047	-	-	128,236,047	2,700,000	2,700,000	-

* Related to Dr Robert Gilmour (resigned 29 September 2016)

Memphasys Limited and its Controlled Entities

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

Transactions with related parties

i) At 30 June 2017, payables to related parties were as follows:

	2017 \$	2016 \$
Andrew Goodall director fees	37,500	21,478
Andrew Goodall reimburse of expenses	8,635	7,509
Robert Gilmour director fees	-	11,917
Robert Gilmour consulting fees	-	28,417
Alison Coutts salaries	81,474	13,553
Alison Coutts reimburse of expenses	1,549	1,503
Pablo Neyertz salaries	44,240	20,904
Pablo Neyertz reimburse of expenses	401	171
Mike Richardson salaries	18,975	8,584
	192,774	114,036

ii) Loans payable to related parties - principal:

		Current balances:		Non-current balances:		
		2017 \$	2016 \$	2017 \$	2016 \$	
Andrew Goodall	(a)	133,333	-	(d)	450,000	-
Ms Chang Seow Ying Alison	(b)	26,334	26,334	-	-	-
Goodall Family Super Fund	(a)	21,500	-	-	-	-
Alison Coutts	(c)	545,665	-	(d)	427,000	10,000
Alison Coutts Super Fund	(a)	16,500	-	(d)	23,000	19,307
Total		743,332	26,334		900,000	29,307

Loan ref	Currency	Interest rate	Maturity	Security
a)	AUD	10%	Feb 18	Unsecured
b)	AUD	0%	At call	Unsecured
c)	AUD	10%	Feb 18	Secured
d)	AUD	10%	Sep 18	Secured

iii) Loans payable to related parties - interest:

	Current balances:		Non-current balances:	
	2017 \$	2016 \$	2017 \$	2016 \$
Andrew Goodall	2,087	-	34,250	-
Goodall Family Super Fund	19	-	-	-
Alison Coutts	24,415	-	32,500	44
Alison Coutts Super Fund	36	-	1,750	5
Total	26,557	-	68,500	49

Memphasys Limited and its Controlled Entities

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

iv) Interest paid on financial liabilities with related parties:

	2017 \$	2016 \$
Andrew Goodall – interests	36,578	32,912
Ti Rakau Developments Ltd	487	-
Alison Coutts	53,371	1,366
Mark Gell	-	7,918
Alison Coutts Super Fund	2,067	912
Goodall Family Super Fund	17	4,107
Mark Gell Super Fund	-	3,831
	<hr/>	<hr/>
	95,520	51,046

v) Loans converted into shares:

	Number of shares		Converted loan balance	
	2017	2016	2017 \$	2016 \$
Andrew Goodall and related parties	-	111,974,600	-	1,119,746
Alison Coutts and related parties	-	3,706,500	-	37,065
Mark Gell and related parties	-	20,407,900	-	204,079
	<hr/>	<hr/>	<hr/>	<hr/>
Total	-	136,089,000	-	1,360,890

This concludes the Remuneration Report, which has been audited.

CORPORATE GOVERNANCE

The company's corporate governance statement is published in Memphasys' website www.memphasys.com.

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

Alison Coutts
Executive Chairman



Sydney
29 September 2017

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF MEMPHASYS LIMITED
ABN 33 120 047 556**

In relation to the independent audit for the year ended 30 June 2017, 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.

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



M A GODLEWSKI

Partner

PITCHER PARTNERS

Sydney

29 September 2017

Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2017

		2017	2016
	Notes	\$	\$
Continuing operations:			
Revenue	5	-	63,960
Gross profit		-	63,960
Other income	5	80,503	81,673
General and administration expenses		(1,971,689)	(1,659,341)
Research and development expenses		(137,594)	(178,573)
Finance cost expenses	6	(129,674)	(326,015)
Exchange gain / (loss)	6	259,556	(156,425)
Loss before income tax		(1,898,898)	(2,174,721)
Income tax expense	7	-	-
Loss after tax from continuing operations		(1,898,898)	(2,174,721)
Discontinued operations:			
Loss from discontinued operations, net of tax	8	(100,993)	(130,803)
Net loss for the year attributable to members of parent		(1,999,891)	(2,305,524)
Other comprehensive (expense)/income:			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Exchange translation differences		-	(73,559)
Total other comprehensive result for the year		-	(73,559)
Total comprehensive expense for the year		(1,999,891)	(2,379,083)
Total comprehensive expense attributable to:			
Owners of the Company		(1,999,891)	(2,379,083)
Non-controlling interest		-	-
Total comprehensive expense for the year		(1,999,891)	(2,379,083)
Earnings per share (EPS)			
	9	Dollar/share	Dollar/share
- basic loss per share		(0.0034)	(0.0069)
- diluted loss per share		(0.0034)	(0.0069)
Earnings per share - continuing operations			
	9	Dollar/share	Dollar/share
- basic loss per share		(0.0032)	(0.0065)
- diluted loss per share		(0.0032)	(0.0065)

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

Consolidated statement of financial position
As at 30 June 2017

		30 June 2017	30 June 2016
	Notes	\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10	2,349	19,003
Trade and other receivables	11	52,769	277,266
Other current assets	12	424,108	528,230
Financial assets	13	3,824,888	-
TOTAL CURRENT ASSETS		4,304,114	824,499
NON-CURRENT ASSETS			
Financial assets	13	-	3,824,888
Property, plant and equipment	14	41,281	61,977
Intangible assets	15	2,956,295	2,483,114
TOTAL NON-CURRENT ASSETS		2,997,576	6,369,979
TOTAL ASSETS		7,301,690	7,194,478
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	16	822,000	753,536
Interest bearing liabilities	17	5,714,322	4,813,959
Non-interest bearing liabilities	18	26,334	26,334
Lease liabilities	28	4,260	3,162
Tax liabilities	19	(2,780)	(20,898)
Short-term provisions	20	96,647	71,788
TOTAL CURRENT LIABILITIES		6,660,783	5,647,881
NON-CURRENT LIABILITIES			
Lease liabilities	28	9,391	13,652
Interest bearing liabilities	17	1,011,544	29,357
Long-term provisions	20	22,212	25,937
TOTAL NON-CURRENT LIABILITIES		1,043,147	68,946
TOTAL LIABILITIES		7,703,930	5,716,827
NET ASSETS / (LIABILITIES)		(402,240)	1,477,651
EQUITY			
Issued capital	21	36,019,885	35,909,885
Reserves	23	936,060	926,060
Accumulated losses		(37,358,185)	(35,358,294)
TOTAL EQUITY / (DEFICIENCY)		(402,240)	1,477,651

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

Consolidated statement of changes in equity
 For the year ended 30 June 2017

	Notes	Issued Capital \$	Foreign Currency Translation Reserve \$	Share Options Reserve \$	Accumulated Losses \$	Total Equity \$
Balance 1 July 2015		33,582,742	73,559	143,060	(33,052,770)	746,591
Movement						
Loss for the period		-	-	-	(2,305,524)	(2,305,524)
Foreign currency translation differences		-	(73,559)	-	-	(73,559)
Total comprehensive income for the period		-	(73,559)	-	(2,305,524)	(2,379,083)
Issue of share capital	21	2,915,406	-	-	-	2,915,406
Transaction costs on share issue	21	(588,263)	-	-	-	(588,263)
Share options issued	23	-	-	783,000	-	783,000
Balance 30 June 2016		35,909,885	-	926,060	(35,358,294)	1,477,651
Balance 1 July 2016		35,909,885	-	926,060	(35,358,294)	1,477,651
Movement						
Loss for the period		-	-	-	(1,999,891)	(1,999,891)
Total comprehensive income for the period		-	-	-	(1,999,891)	(1,999,891)
Issue of share capital	21	110,000	-	-	-	110,000
Share options issued	23	-	-	10,000	-	10,000
Balance 30 June 2017		36,019,885	-	936,060	(37,358,185)	(402,240)

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

Consolidated statement of cash flows
For the year ended 30 June 2017

		2017	2016
	Notes	\$	\$
Cash flows from operating activities			
Payments to suppliers and employees		(1,721,336)	(1,553,125)
Government grant receipts		497,355	297,291
Finance costs		(4,614)	(14,746)
Net cash flows used in operating activities	10 (a)	(1,228,595)	(1,270,580)
Cash flows from investing activities			
Interest received		1,211	2,223
Purchase of property, plant and equipment		-	(5,081)
Receipts from sales of property, plant and equipment		13,965	-
Receipts from sales of business		118,503	48,036
Payments for internal development	15	(664,733)	(615,488)
Cash flows relating to discontinued operations	8	(90,379)	(170,249)
Net cash flows provided by / (used in) investing activities		(621,433)	(740,559)
Cash flows from financing activities			
Proceeds from issue of shares		110,000	1,538,775
Share issue costs		(107,002)	(82,771)
Receipts from third party loans		350,000	-
Repayment of third party loans		(110,000)	(250,073)
Receipts from related party loans		1,671,376	664,926
Repayment of related party loans		(81,000)	(15,500)
Net cash flows provided by financing activities		1,833,374	1,855,357
Net decrease in cash and cash equivalents		(16,654)	(155,782)
Cash and cash equivalents at beginning of year		19,003	174,785
Cash and cash equivalents at end of year	10	2,349	19,003

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

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

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. The consolidated financial statements of the Company as at and for the year ended 30 June 2017 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities'). The Group is a for-profit entity and is primarily involved in the development and manufacture of cell and protein separation devices, and associated consumables, for use in Healthcare, Veterinary and Biotechnology market sectors.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 29 September 2017.

b) Basis of measurement

The consolidated financial statements have been prepared on an accruals basis and are based on historical cost.

c) Functional and presentation currency

The financial information of each of the Group's foreign entities is measured using the currency of the primary economic environment in which it operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the Group's primary functional currency.

d) Use of estimates and judgements

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Going concern – refer to Note 3(a);
- Other receivables impairment – refer to Note 11;
- Measurement of financial investments – refer to Note 13; and
- Intangible assets impairment review – refer to Note 15(d).

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a) Going concern

The financial statements have been prepared on a “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 coming financial year, Memphasys’ commercial development strategy will continue to 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 Group:

- The Group made a net loss for the year ended 30 June 2017 of \$1,999,891 (2016: \$2,305,524).
- For the year ended 30 June 2017 the Group had net cash outflows from operating activities of \$1,228,595 (2016: \$1,270,580) and net cash outflows from investing activities of \$621,433 (2016: \$740,559).
- At 30 June 2017 the Group had a deficiency in working capital of \$2,356,669 (2016: \$4,823,382).
- At 30 June 2017 the Group had net asset deficiency of \$402,240 (2016: net assets surplus \$1,477,651).

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:

- On 4 April 2017 the Company announced that it obtained a \$500,000 bond facility from the corporate advisors, Platinum Road Pty Ltd, of which at 30 September 2017 Memphasys has \$255,128 remaining for potential draw down.
- On 3 July 2017 the Company announced that Alison Coutts agreed to extend the line of credit by a further \$200,000 of which, as at the date of submission of this report, Memphasys has \$62,500 remaining for potential drawdown.
- AusIndustry has approved the R&D tax claim for an amount of \$431,529 which is expected to be received in early October 2017.
- Legal expenditures arising from the disputes against PrIME Biologics/Manukan and Transocean, which consumed substantial cash from the business for the last two financial years, will finalise by November 2017, when Memphasys will have paid all outstanding associated legal debts.
- The Group has the ability to access funds through further issues of securities by the parent entity.

Notwithstanding the above, Memphasys will continue to need access to adequate funding to both conduct its activities and to advance the development of the Felix technology to commercialisation. There is material uncertainty as to whether adequate funding will be available. This may cast doubt on the Group’s ability to continue as a going concern and therefore, that it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

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.

3. Significant accounting policies (continued)

b) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved when the company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the company controls an investee if and only if the company has all the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. A list of controlled entities is contained in Note 26 to the financial statements. All controlled entities have a June financial year-end.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered or left the consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

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 consistency with those policies applied by the parent entity.

c) Segment reporting

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

d) Foreign currency transactions and balances

i) Foreign currency transactions

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Exchange differences arising on the translation of monetary items are recognised through profit or loss.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised through profit or loss.

ii) Foreign operations

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- Retained earnings / accumulated losses are translated at the exchange rates prevailing at the date of the transactions.

All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity. This will be recognised in profit or loss when the foreign operation or net investment is disposed of.

3. Significant accounting policies (continued)

e) Income tax

The income tax expense for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities / assets are therefore measured at the amounts expected to be paid to / recovered from the relevant taxation authority.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax is recognised for the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

f) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to sell.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

The Consolidated Statement of Profit or Loss, the Consolidated Statement of Cash Flows and some notes have been restated due to the reclassification of their items related to discontinued operations.

g) Financial instruments

i) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset.

3. Significant accounting policies (continued)

ii) Classification and subsequent measurement

Finance instruments are subsequently measured at either fair value or amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted. Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost.

Amortised cost is calculated as:

- The amount at which the financial asset or financial liability is measured at initial recognition;
- Less principal repayments;
- Plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- Less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows necessitate an adjustment to the carrying value with a consequential recognition of income or expense in profit or loss.

Loans and receivables

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at cost.

iii) Fair value

Fair value is determined based on current bid prices for all quoted investments. If possible, valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions and reference to similar instruments.

iv) Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, objective evidence that an available-for-sale financial asset is impaired includes observable data indicating that there is a measurable decrease in the expected cash flows to be derived from the financial asset. Impairment losses are recognised through profit or loss.

v) De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

3. Significant accounting policies (continued)

h) Property, plant and equipment

Each class of property, plant and equipment is carried at historic cost less, where applicable, any accumulated depreciation and impairment losses.

i) Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. Cost includes expenditures that are directly attributable to the acquisition of the asset. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

ii) Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

	2017	2016
Plant and equipment	10% - 33%	10% - 33%
Leasehold improvements	14% - 20%	14% - 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in the statement of profit or loss and other comprehensive income.

i) Intangible assets

i) Research and development costs

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs capitalised comprises all directly attributable costs, including cost of materials, services, direct labour and an appropriate proportion of overheads. Development costs have a finite life and are amortised from the point at which the asset is ready for use on a systematic basis matched to the future economic benefits over the useful life of the project.

ii) Patents and trademarks

Costs associated with patents and trademarks are expensed in the year in which they are incurred, unless the expenditure will generate future economic benefits. Patents and trademarks capitalised are included in internal development costs and have a finite useful life and are carried at cost less any accumulated amortisation and impairment losses.

iii) Amortisation

Amortisation is based on the cost of the asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

iv) Impairment

Impairment testing is performed annually for intangible assets with indefinite lives or assets under development.

3. Significant accounting policies (continued)

j) Impairment of assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed through profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

k) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the reporting date. Employee benefits that are expected to be settled wholly within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be paid for those benefits. Those cash flows are discounted using market yields on corporate bonds with terms to maturity that match the expected timing of cash flows.

i) Equity-settled Compensation

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

ii) Retirement benefit obligations

All employees of the group are entitled to benefits from the group's superannuation plan on retirement. Contributions to the defined contribution fund are recognised as an expense as they become payable.

l) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

m) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are classified within short-term borrowings in current liabilities in the statement of financial position.

n) Trade and other payables

Trade and other payables represent liabilities outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within short-term credit terms.

3. Significant accounting policies (continued)

o) Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities. A sale is recorded when goods or services have been despatched to a customer pursuant to a sales order and the associated risks and rewards of ownership have passed to the customer. Where cash is received for goods not yet despatched revenue is deferred until risk and rewards of ownership are transferred to the customer.

p) Government grants

A government grant is considered as assistance by a state authority in the form of transfers of resources to the group in return for past or future compliance with certain conditions relating to the operation of the group. The R&D Tax Incentive Scheme for small companies is considered a government grant. Although it is administered by the government through the ATO, it is not linked to the level or availability of taxable profits.

In accordance with AASB120 *Accounting for Government Grants and Disclosure of Government Assistance*, grant income is recognised as receivable at fair value where there is reasonable assurance that the grant will be received and all grant conditions have been satisfied.

The portion of the government grant relating to development assets is credited to deferred income at fair value under development costs of the intangible assets they relate to. The deferred income is recognised through profit or loss on a straight-line basis over the expected useful life of the asset once development is completed. Government grants relating to costs incurred in the profit or loss statement are recognised as grant income in the same period.

q) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as an expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

r) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

s) Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

t) Earnings per Share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted by bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing cost associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3. Significant accounting policies (continued)

u) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Corporations (Rounding in Financial / Director's Reports) Instrument 2016/191. Accordingly, amounts in the financial statements and directors' report have been rounded off where appropriate to the nearest \$1,000, unless otherwise specified.

v) New accounting standards issued but not yet effective

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the group. The group has decided not to early adopt any of these new and amended pronouncements. The group's assessment of the new and amended pronouncements that are relevant to the group but applicable in future reporting periods is set out below.

AASB 9: Financial Instruments (applicable for annual reporting periods commencing on or after 1 January 2018).

- The Standard will replace AASB 139: Financial Instruments: Recognition and Measurement. The key changes that may affect the group on initial application of AASB 9 and associated amending Standards include: simplifying the general classifications of financial assets into those carried at amortised cost and those carried at fair value;
- permitting entities to irrevocably elect on initial recognition to present gains and losses on an equity instrument that is not held for trading in other comprehensive income (OCI);
- simplifying the requirements for embedded derivatives, including removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in OCI, except when it would create an 'accounting mismatch';
- introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and
- requiring impairment of financial assets carried at amortised cost to be based on an expected loss approach.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 15: Revenue from Contracts with Customers (applicable to for profit entities for annual reporting periods commencing on or after 1 January 2018).

AASB 15 will provide (except in relation to some specific exceptions, such as lease contracts and insurance contracts) a single source of accounting requirements for all contracts with customers, thereby replacing all current accounting pronouncements on revenue.

The Standard provides a revised principle for recognising and measuring revenue. Under AASB 15, revenue is recognised in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the provider of the goods or services expects to be entitled.

AASB 15 also provides additional guidance to assist entities in applying the revised principle to licences of intellectual property, warranties, rights of return, principal/agent considerations and options for additional goods and services.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the group's reported revenue, it is impracticable at this stage to provide a reasonable estimate of such impact.

3. Significant accounting policies (continued)

v) New accounting standards and interpretations for application in future periods (continued)

AASB 16: Leases (applicable for annual reporting periods commencing on or after 1 January 2019).

AASB 16 will replace AASB 117: Leases and introduces a single lessee accounting model that will require a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

- right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for in accordance with a cost model unless the underlying asset is accounted for on a revaluation basis, in which case if the underlying asset is:
 - investment property, the lessee applies the fair value model in AASB 140: Investment Property to the right-of-use asset; or
 - property, plant or equipment, the lessee can elect to apply the revaluation model in AASB 116: Property, Plant and Equipment to all of the right-of-use assets that relate to that class of property, plant and equipment; and
- lease liabilities are accounted for on a similar basis as other financial liabilities, whereby interest expense is recognised in respect of the liability and the carrying amount of the liability is reduced to reflect lease payments made.

Although the directors anticipate that the adoption of AASB 16 may have an impact on the group's accounting for its operating leases, impact is yet to be assessed.

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

4. Parent entity disclosures

The following information has been extracted from the books and records of Memphasys Limited and has been prepared in accordance with the basis of preparation disclosed in Note 2.

	2017 \$	2016 \$
Statement of financial position		
Assets:		
Current assets	<u>4,950,655</u>	590,006
Total assets	<u><u>4,950,655</u></u>	<u><u>4,414,896</u></u>
Liabilities:		
Current liabilities	<u>6,346,050</u>	5,300,931
Total liabilities	<u><u>7,379,806</u></u>	<u><u>5,330,288</u></u>
Equity:		
Issued capital	36,019,885	35,909,885
Accumulated losses	(39,385,096)	(37,751,337)
Options reserve	<u>936,060</u>	926,060
Total deficiency in equity	<u><u>(2,429,151)</u></u>	<u><u>(915,392)</u></u>
Statement of profit or loss and other comprehensive income		
Total loss for the year	<u><u>(1,633,759)</u></u>	<u><u>(1,796,498)</u></u>
Total comprehensive expense for the year	<u><u>(1,633,759)</u></u>	<u><u>(1,796,498)</u></u>

Guarantees

Memphasys Limited has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

Contingent liabilities

At 30 June 2017, Memphasys Limited is a party to legal disputes that settled post balance date. Refer Note 29 for details. At 30 June 2016, Memphasys was a party to legal dispute with Pulau Manukan Ventures Labuan Ltd ("Manukan") and PrIME Biologics Private Limited ("PrIME") that settled in July 2017 as disclosed in Note 29.

Contractual commitments

At 30 June 2017 Memphasys Limited:

- Was a party on a mandate signed with Transocean Securities Pty Ltd ("Transocean") for the provision of exclusive capital raising and corporate advisory services. On 8 September 2017 the Company advised that the legal dispute with Transocean was settled through mediation under confidential terms.
- When spinning out Prime Biologics Pte Ltd, Memphasys agreed to take responsibility for payment of the debt with A-Bio Pharma Pte Ltd. For more information about this commitment, please refer to Note 17.
- Had not entered into any contractual commitments for the acquisition of property, plant and equipment (2016: \$nil).

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

5. Revenue / other income- Continuing operations

	2017 \$	2016 \$
Sales revenue		
Rent	-	63,960
Total revenue	<u>-</u>	<u>63,960</u>
Other income		
Grant income	64,378	79,453
Finance income	2,160	2,220
Gain on sale of assets	13,965	-
Total other income	<u>80,503</u>	<u>81,673</u>
Total revenue and other income	<u><u>80,503</u></u>	<u><u>145,633</u></u>

6. Loss for the year- Continuing operations

Loss for the year is arrived at after charging / (crediting) the following amounts:

	Note	2017 \$	2016 \$
Expenses			
Depreciation:			
Plant and equipment	14	7,061	5,810
Leasehold improvements	14	13,636	13,636
Total depreciation expense		<u>20,697</u>	<u>19,446</u>
Finance costs:			
Interest expense on financial liabilities with related parties	26(f)	92,521	51,046
Other interest expense		37,153	274,969
		<u>129,674</u>	<u>326,015</u>
Staff costs:			
Salaries		675,485	666,597
Superannuation		55,765	55,739

Salaries include amounts which have been capitalised under development expenditure.

Rental expense relating to operating leases	146,770	142,140
Legal fees	953,809	413,094
Write-off other receivables	66,233	-
Exchange losses / (gains)	<u>(259,556)</u>	<u>156,425</u>

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

7. Income tax expense

a) Income tax expense

	2017 \$	2016 \$
Income tax reported in the statement of profit or loss and other comprehensive income	-	-

b) Reconciliation of effective tax rate

	2017 \$	2016 \$
Accounting loss before tax from continuing operations	(1,898,898)	(2,174,721)

The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:

Prima facie tax benefit on loss from ordinary activities before income tax at 27.5% (2016: 28.5%)	(522,197)	(619,795)
Less:		
Tax effect of:		
Non-deductible expenditure	50,183	326,751
Research and development tax incentive (not taxable)	(17,704)	(22,644)
Losses carried forward	489,718	315,688
Income tax expense recorded in statement of profit or loss and other comprehensive income	-	-

c) Deferred income tax

Deferred tax assets have not been recognised in respect of tax losses and deductible temporary differences.

Deferred tax assets are recognised for deductible temporary differences only if the group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Due to the value of tax losses and the group performance for the year, it is not considered probable that temporary differences will be utilised in the foreseeable future.

d) Tax losses

The Group has separate tax entities within Australia and the United States.

The Australian tax jurisdiction has tax and capital losses which are not recognised in its book at 30 June 2017. The unused tax and capital losses held in the Australian group of companies as at 30 June 2017 is \$31,374,589. The amount of the benefit which may be realised in the future is based on the assumption that no adverse change will occur in the income tax legislation, the group will derive sufficient assessable income to recoup the losses and the group will comply with the conditions of deductibility imposed by the law.

8. Loss from disposal of assets held for sale and discontinued operations

The pre-cast polyacrylamide gel manufacturing business was sold in April 2016 for US\$130,000.

The Company discontinued the distribution of biological products in June 2016.

Discontinued operations in the current financial year include only activities relating with the gels business and the transfer of the equipment to the buyer, which was finalised in March 2017.

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

The comparative figures presented in the consolidated statement of profit or loss and other comprehensive income have been re-presented to show discontinued operations separately from continuing operations.

	2017 \$	2016 \$
Gels business	(100,993)	(133,178)
Distribution of biological products	-	2,375
	<u>(100,993)</u>	<u>(130,803)</u>

The results for discontinued activities relating with the gels business were as follows:

	2017 \$	2016 \$
Revenue	62,939	467,979
Expenses	(163,932)	*(601,157)
Results from operating activities	(100,993)	(133,178)
Income tax expense	-	-
Loss for the year	<u>(100,993)</u>	<u>(133,178)</u>

* Includes inventory written off of \$34,300

The results for discontinued activities relating with the distribution of biological products were as follows:

	2017 \$	2016 \$
Revenue	-	49,563
Expenses	-	(47,188)
Results from operating activities	-	2,375
Income tax expense	-	-
Profit for the year	<u>-</u>	<u>2,375</u>

Cash flows relating to the gels and diagnostics business are as follows:

Cash flows relating to discontinued activities in the current financial year:	2017 \$	2016 \$
Net cash flow used in operating activities	(90,379)	(170,249)
Net cash flow used in investing activities	-	-
Net cash flow from financing activities	-	-
Net cash flows relating to discontinued activities in the current financial year	<u>(90,379)</u>	<u>(170,249)</u>

Loss per share relating to discontinued activities is in respect of the discontinued businesses.

Loss per share on results relating to discontinued activities:	2017 \$ Dollar/share	2016 \$ Dollar/share Restated
Basic loss per share	(0.0002)	(0.0004)
Diluted loss per share	<u>(0.0002)</u>	<u>(0.0004)</u>

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

9. Earnings per share

The income and share data used in the basic and diluted earnings per share computation is:

	2017 \$	2016 \$
Loss after tax from continuing operations	(1,898,898)	(2,174,721)
Loss from discontinued operations	<u>(100,993)</u>	<u>(130,803)</u>
Net loss for the year	<u>(1,999,891)</u>	<u>(2,305,524)</u>
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	584,514,286	336,547,516
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>584,514,286</u>	<u>336,547,516</u>

10. Cash and cash equivalents

	2017 \$	2016 \$
Cash at bank	<u>2,349</u>	<u>19,003</u>

a) Reconciliation of operating loss to net cash outflow from operating activities

	2017 \$	2016 \$
Loss from ordinary activities after income tax expense:	(1,999,891)	(2,305,524)
Depreciation	20,697	19,446
Net finance cost	123,849	309,049
Gain on sale of assets	(13,965)	-
Loss on sale of property, plant and equipment	-	7,602
Shares issued in lieu of director fees and expenses	-	174,573
Loss arising on discontinued operations	100,993	130,803
Foreign exchange translation	(259,556)	156,425
	<u>(2,027,873)</u>	<u>(1,507,626)</u>
Change in operating assets and liabilities:		
(Increase)/decrease in inventories	-	12,376
Increase in trade and other receivables	328,619	(435,436)
(Increase)/decrease in current assets and liabilities classified as held for sale	-	(148,415)
(Decrease)/increase in trade payables	(22,960)	333,099
Increase in tax liabilities	18,118	(19,462)
Decrease in lease liabilities	(3,163)	-
(Decrease)/increase in provisions	21,134	(93,268)
Increase in deferred income	367,151	417,903
Cash flow related to discontinued operation (Note 8)	<u>90,379</u>	<u>170,249</u>
Net cash outflows from operating activities	<u>(1,228,595)</u>	<u>(1,270,580)</u>

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

11. Trade and other receivables

	2017 \$	2016 \$
Trade and other receivables - current		
Trade receivables	52,769	72,657
Other receivables – sale of gels business	-	121,876
Other receivables	-	82,733
	<u>52,769</u>	<u>277,266</u>
	2017 \$	2016 \$
Trade and other receivables – non-current		
Related party receivable – Thee Woon Goh	947,311	947,311
Impairment of related party receivables	<u>(947,311)</u>	<u>(947,311)</u>
	<u>-</u>	<u>-</u>

On 25 November 2011, Mr Thee Woon Goh, a non-executive director at the time of the Singapore subsidiary, Prime Biologics Pte Ltd, exercised 12,622,691 short dated share options. The consideration for these shares was not paid when due in November 2011 and the Company entered into a debt agreement with Mr Thee Woon Goh. Under the terms of the agreement, certain rights and entitlements of the shares were suspended and the Company retained a lien over the securities. The loan has not been repaid during the reporting date and it is envisaged that the parties will re-negotiate terms after the reporting period.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 27(a) to the financial statements.

12. Current assets – other assets

	2017 \$	2016 \$
Term deposit – bank guarantee rent Homebush	37,950	37,950
Security deposit	4,788	4,788
Prepaid expenses	39,421	38,691
Amount receivable under R&D Tax Incentive Scheme	431,529	497,356
Tax liability ATO	<u>(89,580)</u>	<u>(50,555)</u>
	<u>424,108</u>	<u>528,230</u>

The term deposit relates to a rental bond which is deposited in an escrow account.

A portion of the liability owing to Australian Taxation Office has been offset against the research and development incentive grant receivable balance.

13. Financial assets - available-for-sale

	2017 \$	2016 \$
Current		
Shares in unlisted entities - at cost	<u>3,824,888</u>	-
Non-current		
Shares in unlisted entities - at cost	<u>-</u>	<u>3,824,888</u>

Available-for-sale financial assets comprised an investment in Series B preference shares ("B shares") in a former subsidiary, PrIME Biologics Pte Limited ("PrIME") which was spun out of Memphasys in mid-2014. Post the spin out, PrIME was an independent company commercialising technology from Memphasys in the field of human plasma fractionation.

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

In order to obtain the B shares in PrIME, Memphasys agreed to take over a debt on the fit-out of the cGMP production facility in Singapore used by PrIME. By 24 July 2017, the debt plus interest amounted to S\$4,801,408. Over the period from spin out to 24 July 2017, Memphasys became involved in litigation actions against PrIME and its major investor, Pulau Manukan Ventures Labuan Ltd (“Manukan”), as reported in ASX announcements over this period.

On 24 July 2017, Memphasys, Manukan and PrIME successfully concluded all disputes through mediation. The following settlement actions have consequently been completed with PrIME and Manukan in accordance with the Settlement Agreement signed between the parties on 24 July 2017:

- Manukan now has full rights and ownership over the B shares in PrIME formerly owned by Memphasys.
- Memphasys is now clear of the SGD4,801,408.
- Certain payments have also been provided to Memphasys by PrIME and certain equipment is being shipped to Memphasys by PrIME.

Valuation of investment in PRIME Biologics Pte Ltd

Accounting standards ordinarily require the investment in PrIME to be recognised at fair value. However, fair value is defined as the price that would be received to sell an asset in an “orderly” transaction between market participants at the measurement date. Orderly transaction is defined as a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities. Therefore, the Board does not believe that the resulting disposal of the B shares as a result of the court action and mediation would be categorised as an orderly transaction. As there are no other market transactions or valuation reports for the investment available, the Board believes that the investment should be carried at cost. Accordingly, the amount stated in the Settlement Agreement does not constitute fair value as per the accounting standards. Nevertheless, Memphasys has reclassified the B shares from non-current to current knowing that they will be settled within the next financial year.

14. Property, plant and equipment

	Note	Plant & Equipment \$	Leasehold Improvements \$	Total \$
Cost:				
Balance at 1 July 2015		667,045	592,357	1,259,402
Additions		21,384	-	21,384
Disposals		(17,728)	-	(17,728)
		<hr/>	<hr/>	<hr/>
Balance at 30 June 2016		670,701	592,357	1,263,058
		<hr/>	<hr/>	<hr/>
Balance at 1 July 2016		670,701	592,357	1,263,058
Additions		-	-	-
Disposals		-	-	-
		<hr/>	<hr/>	<hr/>
Balance at 30 June 2017		670,701	592,357	1,263,058
		<hr/>	<hr/>	<hr/>
Accumulated depreciation:				
Balance at 1 July 2015		640,310	551,450	1,191,760
Depreciation for the year	6	5,810	13,636	19,446
Disposals		(10,125)	-	(10,125)
		<hr/>	<hr/>	<hr/>
Balance at 30 June 2016		635,995	565,086	1,201,081
		<hr/>	<hr/>	<hr/>
Balance at 1 July 2016		635,995	565,086	1,201,081
Depreciation for the year	6	7,061	13,636	20,697
		<hr/>	<hr/>	<hr/>
Balance at 30 June 2017		635,995	565,086	1,201,081
		<hr/>	<hr/>	<hr/>
Net book value at 30 June 2016		30,706	27,271	61,977
		<hr/>	<hr/>	<hr/>
Net book value at 30 June 2017		27,646	13,635	41,281
		<hr/>	<hr/>	<hr/>

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

15. Intangible assets

a) Reconciliation of movements in intangible assets

	Note	Internal Development \$	Total \$
Cost:			
Balance at 1 July 2015		2,374,759	2,374,759
Additions		930,450	930,450
		<u>3,305,209</u>	<u>3,305,209</u>
Balance at 30 June 2016		3,305,209	3,305,209
Additions		840,332	840,332
		<u>4,145,541</u>	<u>4,145,541</u>
Accumulated grant income:			
Balance at 1 July 2015		404,192	404,192
Grant income for the year	15(c)	417,903	417,903
		<u>822,095</u>	<u>822,095</u>
Balance at 30 June 2016		822,095	822,095
Grant income for the year	15(c)	367,151	367,151
		<u>1,189,246</u>	<u>1,189,246</u>
Balance at 30 June 2017		<u>2,483,114</u>	<u>2,483,114</u>
Net carrying value at 30 June 2016		<u>2,956,295</u>	<u>2,956,295</u>
Net carrying value at 30 June 2017		<u>2,956,295</u>	<u>2,956,295</u>

The Group capitalises development costs based on time spent by employees, the type of project, related development tasks and other related factors. The intangible assets will be amortised when they are available for use.

b) Reconciliation of intangible assets carrying value by project

	2017 \$	2016 \$
SpermSep separations – humans	2,300,005	2,060,866
SpermSep separations – animals	418,923	301,688
Membranes – SpermSep	237,367	120,560
	<u>2,956,295</u>	<u>2,483,114</u>

c) Reconciliation of grant income receivable at 30 June

	Note	2017 \$	2016 \$
Analysis of grant income receivable:			
Component relating to projects under development	15(a)	367,151	417,903
Recognised as grant income in the current period		64,378	79,453
		<u>431,529</u>	<u>497,356</u>
Total government grants receivable	12	<u>431,529</u>	<u>497,356</u>

d) Impairment review of intangible assets under development

In assessing whether there are any indicators of impairment relating to the Felix business (formerly known as SpermSep), the following factors have been taken into account:

- Memphasys engaged Hydrix, its engineering development partner, to build cartridges for its next generation “Felix” device. The cartridges process up to 1.8ml of semen, which is three times the volume of the earlier research-grade device, the CS10. This increased volume enables processing of about ¾ of the average human male ejaculate. The cartridges, which contain reusable membranes including the new, biocompatible membranes developed in association with the University of Melbourne Chemical and Biomolecular Engineering Department, enable cost effective research to optimise operating parameters. The cartridges have improved fluid dynamics and modified buffers to enable gentler electrical operating conditions. Their new design has enabled easier sample loading for operators and flexibility to research a multitude of cellular separations, in addition to sperm from semen.
- The prototype re-usable Felix cartridge has further use in for optimising operating conditions in animal assisted reproduction, for example for bovine and equine IVF and artificial insemination procedures.
- The initial cartridges have met the first performance requirements. In-house testing and initial testing by researchers at the University of Newcastle of healthy male human semen samples show that the cartridges separate viable sperm without imparting DNA damage.
- Researchers at the University of Newcastle under the guidance of Professor John Aitken are now optimising operating conditions (buffer chemistry, voltage current etc) using the prototype cartridges to guide the final specification for developing the final fully disposable cartridges that will ultimately be provided to the IVF clinics. Optimisation studies by the University of Newcastle researchers have been providing heartening results.
- Memphasys’ consultancy arrangement with the University of Melbourne Chemical and Biomolecular Engineering Department enabled the development of a new membrane that is now part the prototype Felix cartridge, which is to be commercially developed. Memphasys has an ongoing relationship with this Department and is continuing to work on other potential high value bio-separations.
- The Group has assessed that future economic benefits from the intangible assets will be greater than the sum of development costs at the reporting date plus future development costs to commercialise the assets.
- The Group has assessed that there are no new specific risks in relation to the development and commercialisation of the projects. The key risk remains the generation of adequate funding to complete commercialisation.
- Memphasys is confident it will be able to generate sufficient funding in the coming year to advance the commercialisation of the Felix device.

16. Trade and other payables

		2017	2016
		\$	\$
	Note		
Trade payables		334,732	430,208
Government grants refundable		-	-
Payable to related parties	25(f)(i)	192,774	114,036
Other creditors and accruals		294,494	209,462
		822,000	753,536

The Group’s exposure to liquidity and market risk risks related to trade and other payables are disclosed in Note 27.

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

17. Interest bearing liabilities

	Note	2017 \$	2016 \$
Current:			
Loans from related parties – secured	25(f)(ii)	570,080	-
Loans from related parties – unsecured	25(f)(ii)	183,475	-
Third party debt – secured		<u>4,960,767</u>	4,813,959
		<u><u>5,714,322</u></u>	<u>4,813,959</u>

2017 Analysis of debt	Currency	Interest rate	Year of maturity	Face value	Carrying value
Related party loan secured	AUD	10%	2018	570,080	570,080
Related party loan unsecured	AUD	10%	2018	173,475	173,475
Related party loan unsecured	AUD	0%	At call	10,000	10,000
Third party loan – Crescendas Projects Pte Ltd**	SGD	9%	2017	251,849	251,849
Third party loan – Bridge Road Capital Pty Ltd	AUD	10%	2018	159,359	159,359
Third party debt – secured Manukan* Debt	SGD	-	2016	4,549,559	4,549,559
Total current debt at 30 June 2017				<u><u>5,714,322</u></u>	<u><u>5,714,322</u></u>

* Memphasys successfully resolved the dispute on the third party debt through mediation with Manukan and PRIME as reported on 27 July 2017, post reporting date. The result is that the debt is no longer held by Memphasys and Memphasys no longer owns the B class shares in PRIME that it received on spinning PRIME out in mid-2014. Prior to the mediation, the debt payment was guaranteed by PRIME and the Memphasys' B shares in PRIME were held as security for the payment. Please refer to Note 13 for further details of this settlement.

** The loan provided by Crescendas Projects Pte Ltd has been repaid after the end of the financial year.

2016 Analysis of debt	Currency	Interest rate	Year of maturity	Face value	Carrying value
Third party debt – secured A-Bio Debt	SGD	8%	2016	4,813,959	4,813,959
Total current debt at 30 June 2016				<u><u>4,813,959</u></u>	<u>4,813,959</u>

Refer to Note 25(f)(ii) for additional information on related party loans.

	Note	2017 \$	2016 \$
Non-current:			
Loans from related parties – secured	25(f)(ii)	968,500	29,357
Third party debt – secured		<u>43,044</u>	-
		<u><u>1,011,544</u></u>	<u>29,357</u>

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

2017 Analysis of debt	Currency	Interest rate	Year of maturity	Face value	Carrying value
Related party loans - secured	AUD	10%	2018	968,500	968,500
Third party debt – secured	AUD	10%	2018	43,044	43,044
Total non-current debt at 30 June 2017				1,011,544	1,011,544

The related party loans - secured are collateralised with all the assets of Memphasys Limited.

2016 Analysis of debt	Currency	Interest rate	Year of maturity	Face value	Carrying value
Related party loans	AUD	10%	2018	29,357	29,357
Total non-current debt at 30 June 2016				29,357	29,357

Refer to Note 25(f)(ii) for additional information on related party loans.

18. Non-interest bearing liabilities

The balance of \$26,334 relates to a remaining balance originated from a convertible note signed with Ms Chang Seow Ying Alison with a face value of \$387,765, converted into equity after resolutions approved in AGM held on 19 December 2014. The face value represented the original loan plus interests and the effect of foreign currency exchange translations accrued at 30 September 2014. The remainder of this loan relates to interest accrued from 1 October 2014 to the actual date of conversion 22 December 2014. Ms Chang Seow Ying Alison has agreed to convert this balance into shares subject to approval by shareholders at the next AGM.

19. Tax liabilities

	2017	2016
	\$	\$
Office of State Revenue NSW – payroll tax	7,490	663
Australian Taxation Office – GST	(10,270)	(21,561)
	(2,780)	(20,898)

20. Provisions

	2017	2016
	\$	\$
Current:		
Provision for employee benefits - current	96,647	71,788
Non-current:		
Provision for employee benefits – non-current	22,212	25,937
Provision for employee benefits:		
Balance at beginning of year	97,725	190,993
Provision utilised	(34,533)	(35,751)
Recognised through profit or loss	72,232	(25,402)
Paid as a redundancy payment	(16,565)	(32,116)
Balance at end of year	118,859	97,725

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

21. Share capital

a) Share capital

	2017	2016	2017	2016
	Shares	Shares	\$	\$
Ordinary Shares – fully paid	666,880,183	569,234,004	36,019,885	35,909,885

b) Movements in ordinary share capital of the company during the year were as follows:

	Note	2017	2016	2017	2016
		Shares	Shares	\$	\$
Balance at beginning of year		569,234,004	237,606,002	35,909,885	33,582,742
Share issue under share placement		-	37,123,956	-	371,239
Share issue under share purchase plan		-	9,887,045	-	266,997
Shares issue under non-renounceable entitlement offer		-	131,070,701	-	741,707
Share issue in lieu of director fees and expenses	26(f)(v)	-	8,641,400	-	86,414
Share issue in lieu of salaries	26(f)(v)	-	8,815,900	-	88,159
Share issue in lieu of corporate advisory fees		25,000,000	-	-	-
Share issue on conversion of loans	26(f)(iv)	72,646,179	136,089,000	110,000	1,360,890
		666,880,183	569,234,004	36,019,885	36,498,148
Less issue costs		-	-	-	(588,263)
Balance at end of year		666,880,183	569,234,004	36,019,885	35,909,885

i) Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares attending the meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares do not have a par value.

ii) Listed Options

No listed share options were issued during the 2017 financial year (2016: nil).

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

21. Share capital (continued)

c) Unlisted Options

Set out in the table below are summaries of options issued, exercised and lapsed during the year.

Grant date	Expiry date	Vesting commencement date	Exercise price	Balance at start of year	Issued during the year	Exercised during the year	Lapsed /cancelled during the year	Balance at end of the year
Consolidated and parent entity:								
22 December 2014	1 November 2016	-	\$0.112	2,000,000	-	-	2,000,000	-
04 April 2016	30 November 2016	-	\$0.016	284,617,002	-	-	284,617,002	-
22 December 2014	5 December 2016	-	\$0.1015	1,200,000	-	-	1,200,000	-
22 December 2014	1 November 2017	-	\$0.112	1,500,000	-	-	-	1,500,000
22 December 2014	5 December 2017	-	\$0.1015	1,200,000	-	-	-	1,200,000
30 November 2016	25 November 2019	-	\$0.020	-	4,000,000	-	-	4,000,000
4 April 2017	31 December 2018	-	\$0.0060	-	5,000,000	-	-	5,000,000
Total		-		290,517,002	9,000,000	-	287,817,002	11,700,000

The number of options over ordinary shares in Memphasys issued to related parties during the year are as follows:

2017	Balance at start of year	Granted	Exercised during the year	Cancelled during the year	Balance at end of the year	Exercisable	Non Exercisable
Andrew Goodall	121,786,047	-	-	120,286,047	1,500,000	1,500,000	-
Alison Coutts	2,400,000	-	-	1,200,000	1,200,000	1,200,000	-
Syrah Trustee Limited	6,750,000	-	-	6,750,000	-	-	-
Total	130,936,047	-	-	128,236,047	2,700,000	2,700,000	-

2016	Balance at start of year	Granted	Exercised during the year	Cancelled during the year	Balance at end of the year	Exercisable	Non Exercisable
Andrew Goodall	6,325,000	118,286,047	-	2,825,000	121,786,047	3,500,000	118,286,047
Marjorie Anne Goodall	300,000	-	-	300,000	-	-	-
Chang Seow Ying Alison	1,000,000	-	-	1,000,000	-	-	-
Alison Coutts	3,600,000	-	-	1,200,000	2,400,000	2,400,000	-
Syrah Trustee Limited	-	6,750,000	-	-	6,750,000	-	6,750,000
Total	11,225,000	125,036,047	-	5,325,000	130,936,047	5,900,000	125,036,047

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

22. Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels and share issues. There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

Refer to Note 3(a) of the financial statements for further details of the company's strategy for capital management.

23. Reserves

Share options reserve

The share option reserve is used to recognise the fair value of the following options:

Number of options	Granted to	Granted on	Shareholder's Approval	Reserve amount \$
6,625,000	Andrew Goodall	AGM December 2014	Approved by shareholder's AGM Dec '14	120,500
1,000,000	Chang Seow Ying Alison	AGM December 2014	Approved by shareholder's AGM Dec '14	22,560
Total value of options granted at 30 June 2015				143,060
37,123,956	Transocean Securities Pty Ltd	Private Placement January 2016	Approved by shareholder's AGM Nov '16	74,000
50,000,000	Transocean Securities Pty Ltd	Rights Issue April 2016		100,000
20,000,000	Robert Gilmour	Rights Issue April 2016	4,000,000 approved by shareholder's AGM Nov '16	40,000
284,617,002	Shareholders	Rights Issue April 2016	Approved by shareholder's AGM Nov '16	569,000
Total value of options granted in the financial year ended 30 June 2016				783,000
5,000,000	Bridge Road Capital Pty Ltd	April 2017	Subject to shareholder approval	10,000
Total value of options granted in the financial year ended 30 June 2017				10,000
Total value of options granted at 30 June 2017				936,060

In accordance with *Accounting Standard AASB2 'Share Based payments'*, the options were valued using the Black-Scholes valuation methodology. The fair value of each option is estimated on grant date with the following assumptions used:

- For the options granted to Bridge Road Capital Pty Ltd in April 2017:

Dividend yield	0%
Risk-free interest rate	1.66%
Expected volatility	85%

Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on foreign change gain from translation of net investments in foreign subsidiary companies and exchange translation losses of foreign subsidiaries' accounts.

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

24. Auditors' remuneration

	2017	2016
	\$	\$
<i>Pitcher Partners</i>		
Audit & Assurance services		
Review of interim report	22,500	25,000
Audit of financial report – year end	41,200	40,000
	<hr/>	<hr/>
Total remuneration for services	63,700	65,000
	<hr/> <hr/>	<hr/> <hr/>

25. Related parties

a) Parent and ultimate controlling party

Memphasys Limited (incorporated in Australia) is the ultimate parent entity.

b) Detail of key management personnel

i. Directors

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

ii. Executives

Mike Richardson PhD	Director of Operations (Retired December 2016)
Pablo Neyertz	Director of Finance

c) Key management personnel compensation

The key management personnel compensation included:

	2017	2016
	\$	\$
Short-term employee benefits	613,478	621,827
Post-employment benefits	39,204	40,303
	<hr/>	<hr/>
	652,682	662,130
	<hr/> <hr/>	<hr/> <hr/>

d) Share based compensation - Options

Options remuneration has been calculated in accordance with the fair value measurements provisions of AASB 2 "Share Based Payments".

The amount of options remuneration is determined on a pro rata basis, by expensing the fair value estimate of each option over the vesting period and the individual option grant. The fair value of each option is estimated on grant date using Black-Scholes option pricing model. However, as there was no value vested for these options during the financial year, there was no share based expense recognised in the Consolidated Statement of Profit and Loss.

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

25. Related parties (continued)

e) Shareholding of directors

The numbers of shares in the company held during the financial year by each current Director, and executives of Memphasys Limited and its subsidiaries are set out below. There were no shares granted during the reporting period as director compensation.

Directors & their shareholding	Balance as at 1 July 2016	Net movement	Director resigned	Balance as at 30 June 2017
Alison Coutts (a)	20,719,208	(16,931,000)	-	3,788,208
Andrew Goodall (b)	170,408,439	69,694,159	-	240,102,598
Dr Robert Gilmour #	9,500,000	-	(9,500,000)	-
John Pereira *	-	1,100,000	-	1,100,000
Total	200,627,647	53,863,159	(9,500,000)	244,990,806

* Directors appointed during the year. # Directors resigned during the year.

a. Alison Coutts' shareholding comprises 608 shares held directly and 3,787,600 held indirectly.

b. Andrew Goodall's shareholding comprises 206,319,342 shares held directly and 33,783,256 shares held indirectly.

Directors & their shareholding	Balance as at 1 July 2015	Net movement	Director resigned	Balance as at 30 June 2016
Alison Coutts (a)	311,252	20,407,956	-	20,719,208
Andrew Goodall (b)	57,666,836	112,741,603	-	170,408,439
Michael Graham #	-	-	-	-
Mark Gell #	-	22,407,895	(22,407,895)	-
Dr Robert Gilmour *	-	9,500,000	-	9,500,000
Total	57,978,088	165,057,454	(22,407,895)	200,627,647

* Directors appointed during the year. # Directors resigned during the year.

a. Alison Coutts' shareholding comprised 16,931,608 held directly and 3,787,600 held indirectly.

b. Andrew Goodall's shareholding comprised 149,498,897 held directly and 20,909,542 held indirectly.

f) Other transactions with key management personnel and related parties

i) At 30 June 2017, payables to related parties were as follows:

	Note	2017 \$	2016 \$
Andrew Goodall director fees		37,500	21,478
Andrew Goodall reimburse of expenses		8,635	7,509
Robert Gilmour director fees		-	11,917
Robert Gilmour consulting fees		-	28,417
Alison Coutts salaries		81,474	13,553
Alison Coutts reimburse of expenses		1,549	1,503
Pablo Neyertz salaries		44,240	20,904
Pablo Neyertz reimburse of expenses		401	171
Mike Richardson salaries		18,975	8,584
	16	192,774	114,036

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

25. Related parties (continued)

f) Other transactions with key management personnel

ii) Loans (principal and interest) payable to related parties:

		Current balances:		Non-current balances:	
		2017	2016	2017	2016
		\$	\$	\$	\$
Andrew Goodall	(a)	135,420	-	484,250	-
Ms Chang Seow Ying Alison Goodall Family Super Fund	(b)	26,334	26,334	-	-
Alison Coutts	(a)	21,519	-	-	-
Alison Coutts Super Fund	(c)	570,080	-	459,500	10,044
Pablo Neyertz	(a)	16,536	-	24,750	19,313
	(b)	10,000	-	-	-
Total		779,889	26,334	968,500	29,357

Loan ref	Currency	Interest rate	Maturity	Security
a)	AUD	10%	Feb 18	Unsecured
b)	AUD	0%	At call	Unsecured
c)	AUD	10%	Feb 18	Secured
d)	AUD	10%	Sep 18	Secured

iii) Interest paid on financial liabilities with related parties:

	Note	2017	2016
		\$	\$
Andrew Goodall		36,578	32,912
Ti Rakau Developments Ltd		487	-
Alison Coutts		53,371	1,366
Mark Gell		-	7,918
Alison Coutts Super Fund		2,067	912
Goodall Family Super Fund		18	4,107
Mark Gell Super Fund		-	3,831
		92,521	51,046

iv) Loans converted into shares:

	Number of shares		Converted loan balance	
	2017	2016	2017	2016
			\$	\$
Andrew Goodall and related parties	-	111,974,600	-	1,119,746
Alison Coutts and related parties	-	3,706,500	-	37,065
Mark Gell and related parties	-	20,407,900	-	204,079
Total	-	136,089,000	-	1,360,890

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

25. Related parties (continued)

v) Salaries, director fees, director fees expenses and consulting fees converted into shares:

	Number of shares		Converted amount	
	2017	2016	2017	2016
			\$	\$
Alison Coutts – salaries	-	8,815,900	-	88,159
Alison Coutts – director fees	-	2,330,000	-	23,300
Andrew Goodall – consulting fees	-	2,000,000	-	20,000
Andrew Goodall – director fees	-	3,658,600	-	36,586
Andrew Goodall – travel expenses	-	652,800	-	6,528
Total	-	17,457,300	-	174,573

g) Other transactions with companies and related parties in the group

Transactions between Memphasys Limited and other entities in the wholly-owned group during the year ended 30 June 2017 consisted of loans advanced by Memphasys Limited to its controlled entity SpermSep Pty Ltd.

An approximate amount of \$221,000 in legal fees was spent with William Partners Pty Ltd. Memphasys' non-executive director John Pereira is the principal of the firm. To avoid conflict of interest for Mr. Pereira, instructions were transmitted from Memphasys' Executive Chairman to a senior lawyer of the firm. Full disclosure was made through Letters of Engagements and a Costs Agreement.

26. Controlled entities

Name of entity	Country of Incorporation	Class of share	Equity Holding		
			2017 %	2016 %	
SpermSep Pty Ltd (formerly NuSep Pty Ltd)	Australia	Ordinary	100	100	
KaoSep Inc.	United States	Ordinary	100	100	Dormant
MemSep Pty Ltd (formerly SpermSep Pty Ltd)	Australia	Ordinary	100	100	Dormant
InqSep Inc.	United States	Ordinary	100	100	Dormant
Kaogen Pty Ltd	Australia	Ordinary	100	100	Dormant

27. Financial risk management policies

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, and loans to and from subsidiaries.

a) Credit risk exposures

The carrying amounts of financial assets included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to these assets. The Group minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with strong, creditworthy customers across all business segments.

The Group has no significant concentration of credit risk with respect to any single counter party or group of counter parties other than those receivables specifically provided for and mentioned within this note. The class of assets described as trade and other receivables is considered to be the main source of credit risk related to the Group.

On a geographical basis, the Group has significant risk exposures in Australia.

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

27. Financial risk management policies (continued)

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with aging analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counter party to the transactions. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group. Payment terms are general 30-45 days from the date of the invoice, except for other receivables which includes the receivable from Mr Thee Woon Goh.

The chart below profiles the receivable balances at the reporting date.

	Gross amount	Impairment provision	Within terms	Past due but not impaired		
	\$	\$	\$	<30 days	31-60 days	> 60days
	\$	\$	\$	\$	\$	\$
As at 30 June 2017:						
Trade receivables	52,769	-	-	52,769	-	-
Other receivables	947,311	(947,311)	-	-	-	-
Total	1,000,080	(947,311)	-	52,769	-	-
As at 30 June 2016:						
Trade receivables	72,657	-	7,876	18,876	1,254	44,651
Other receivables	204,609	-	204,609	-	-	-
Other receivables	947,311	(947,311)	-	-	-	-
Total	1,224,577	(947,311)	223,485	18,876	1,254	44,651

b) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing regular rolling cash flow forecasts in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- monitoring the maturity profile of financial liabilities with the realisation profile of financial assets.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that finance facilities will be rolled forward.

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

27. Financial risk management policies (continued)

	Within one year		One to five years		Total	
	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$
Financial liabilities:						
Trade & other payables	822,000	753,536	-	-	822,000	753,536
Interest bearing liabilities	5,714,322	4,813,959	1,011,544	29,357	6,725,866	4,843,316
Non-interest bearing liabilities	26,334	26,334	-	-	26,334	26,334
Lease liabilities	4,260	3,162	9,391	13,652	13,651	16,814
Tax liabilities	(2,780)	(20,898)	-	-	(2,780)	(20,898)
Expected outflows	6,564,136	5,576,093	1,020,935	43,009	7,585,071	5,619,102
Financial assets:						
Cash & cash equivalents	2,349	19,003	-	-	2,349	19,003
Trade receivables	52,769	277,266	-	-	52,769	277,266
Other assets	44,209	43,478	37,950	37,950	82,159	81,428
Tax receivables	341,949	446,801	-	-	341,949	446,801
Investments	3,824,888	3,824,888	-	-	3,824,888	3,824,888
Expected inflows	4,266,164	4,611,436	37,950	37,950	4,304,114	4,649,386
Net expected cash flow	(2,297,972)	(964,657)	(982,985)	(5,059)	(3,280,957)	(969,716)

The deficiency in net expected cash flows has been discussed further in Note 3(a) of the financial statements.

c) Market risk

i) Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. As at 30 June 2017 all of the Company's interest bearing liabilities are at fixed rate, therefore the Group is not exposed to interest rate risk.

ii) Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group. The Group operates internationally and is exposed to foreign exchange risk primarily arising from currency exposures to the US and Singaporean dollars.

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in different currencies, including the functional currency of the operations.

Group position at 30 June 2017	Net Financial Assets/(Liabilities) in AUD\$		
	USD \$	SGD \$	Total AUD \$
Financial assets:			
Financial assets - current	-	3,824,888	3,824,888
Financial liabilities:			
Trade and other payables	(4,862)	(64,739)	(69,601)
Interest bearing liabilities - current	-	(4,801,408)	(4,801,408)
Statement of financial position exposure per currency	(4,862)	(1,041,259)	(1,046,121)

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

27. Financial risk management policies (continued)

Group position at 30 June 2016	Net Financial Assets/(Liabilities) in AUD\$		
	USD \$	SGD \$	Total AUD \$
Financial assets:			
Cash and cash equivalents	3,710	-	3,710
Other receivables	121,877	-	121,877
Finance assets	-	3,824,888	3,824,888
Financial liabilities:			
Trade and other payables	(11,730)	-	(11,730)
Interest bearing liabilities - current	-	(4,813,959)	(4,813,959)
Statement of financial position exposure per currency	113,857	(989,071)	(875,214)

Sensitivity analysis

At 30 June 2017, had the United States Dollar and Singaporean Dollar moved as illustrated in the table below, with all other variables held constant, the post-tax loss and equity would have been affected as follows:

Group position at 30 June 2017

	Exposure per currency	Impact of AUD \$ strengthening	Impact of AUD \$ Weakening
USD (movement 1%)	(4,862)	29	(29)
SGD (movement 1%)	(1,041,259)	13,536	(13,536)

Group position at 30 June 2016

	Exposure per currency	Impact of AUD \$ strengthening	Impact of AUD \$ Weakening
USD (movement 1%)	113,857	(1,366)	1,366
SGD (movement 4%)	(989,071)	38,574	(38,574)

28. Capital and leasing commitments

a) Capital commitments

There are no commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities.

b) Operating lease commitments

	2017 \$	2016 \$
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payables:		
Within one year	140,324	146,404
Later than one year but not later than 5 years	-	126,070
	140,324	272,474

At 30 June 2017 the Group had one operating lease for its production and commercial properties in Australia. This is a non-cancellable lease and has a remaining non-cancellable lease term of 11 months.

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

c) Finance lease commitments

	2017 \$	2016 \$
Commitments in relation to finance leases contracted for at the reporting date recognised as liabilities, payables:		
Within one year	4,260	4,260
Later than one year but not later than 5 years	11,597	15,916
	<u>15,857</u>	<u>20,176</u>
	2017 \$	2016 \$
Total lease commitment	15,857	20,176
Lease commitment - interest component	<u>2,206</u>	<u>3,362</u>
Lease commitment – principal component	<u>13,651</u>	<u>16,814</u>

At 30 June 2017 the Group had one finance lease for purchase of telephone equipment. The remaining lease term is 45 months.

d) Available credit facility

The Company obtained a \$500,000 bond facility from the corporate advisors, Platinum Road Pty Ltd. The balance remaining for potential draw down at date of this report is \$255,128.

29. Events after Balance Date

The following events occurred subsequent to 30 June 2017:

- On 3 July 2017 the Company announced that Alison Coutts agreed to extend the line of credit by a further \$200,000.
- On 13 July 2017 the Company announced that the first two cartridges for the next generation “Felix” device met the first performance requirements after internal testing by Memphasys.
- On 17 July 2017 the Company issued 32,941,177 ordinary shares at \$0.00085 per share to Bridge Road Capital, converting \$28,000 drawdown against the Platinum Bond facility.
- On 20 July 2017 the Company lodged the R&D tax claim for an amount of \$431,529 which was approved by AusIndustry on 31 July 2017 and is expected to be received from the ATO in early October 2017.
- On 27 July 2017 the Company announced that it had successfully concluded mediation with Pulau Manukan Ventures Labuan Ltd (“Manukan”) and PrIME Biologics Private Limited (“PrIME”) and reached full settlement on all outstanding disputes. The following settlement actions with PrIME and Manukan were completed and reported to the market on 27 September 2017:
 - Manukan now has full rights and ownership over the Preference B Shares in PrIME formerly owned by Memphasys.
 - Memphasys is clear of the SGD4.8m debt.
- The loan from Crescendas Projects Pte Ltd was repaid in full on 4 September 2017.
- On 8 September 2017 the Company advised that the legal dispute with Transocean Securities Pty Ltd was settled through mediation under confidential terms.

30. Company Details

The registered office and principal place of business of the company is:
30 Richmond Road
Homebush, NSW 2140
Australia

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2017

Directors' Declaration

1. In the opinion of the directors of Memphasys Limited ('the Company'):
 - (a) the consolidated financial statements and notes that are set out on pages 16 to 51 and the Remuneration Report on pages 8 to 14 in the Directors' report, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive chairman and finance director for the financial year ended 30 June 2017.
3. The directors draw attention to Note 2(a) to the consolidated financial statements which include a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:



Alison Coutts
Chairman

Sydney
29 September 2017

**INDEPENDENT AUDITOR'S REPORT
 TO THE MEMBERS OF MEMPHASYS LIMITED
 ABN 33 120 047 556**

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Memphasys Limited "the Company" and its controlled entities "the Group", which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3(a) Going Concern in the financial report which discloses that the Group incurred a net loss for the year ended 30 June 2017 of \$1,999,891, net cash outflows from operating activities of \$1,228,595 and investing activities of \$621,433, had negative net assets of \$402,240 and a deficiency of working capital of \$2,356,669. In Note 3(a) it is stated that the Group is dependent on the raising of additional funds for working capital purposes, primarily to assist in the development and commercialisation of the Felix technology (formerly SpermSep). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities at the amounts stated in the financial statements in the normal course of business.

Key Audit Matters

In addition to the matter described in the "Material Uncertainty Related to Going Concern" section, key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
<p>Impairment assessment of intangible assets <i>Refer to Note 15 Intangible Assets</i></p> <p>At 30 June 2017 the statement of financial position includes intangible assets amounting to \$2.9 million that primarily relate to Felix technology and associated products of "Felix".</p> <p>We have identified this as a key audit matter due to significant judgement and assumptions relating to future performance of Felix. There is also lack of historical cash flows as Felix is yet to be commercialised. As disclosed in Note 15, the Group intends to advance commercialisation of Felix device in the coming year.</p>	<p>Our procedures included amongst others:</p> <ul style="list-style-type: none"> • Documenting and evaluating the design and operating effectiveness of controls in respect of intangible assets. • Gain an understanding of Felix and associated costs incurred to-date related thereto and testing a sample of capitalised expenses to supplier invoices and assessing reasonableness of management's allocation of payroll costs to ascertain the nature and amount of the expenditure and ensure classification to development cost of Felix is appropriate.

The management use judgement to determine that the development costs included in the intangible assets meet the criteria for capitalisation to intangible assets. These criteria include assessing whether the technology and associated products being developed are commercially feasible, whether the Group has adequate technical, financial and other required resources to complete the development and whether the costs will be fully recovered through future commercialisation.

- Discussions with management and the Company's Head of Scientific Advisory Board to gain understanding on the progress of continuing development, any new risks identified and future plans and timing for commercialisation of the Felix technology and associated products.
- Using this understanding, evaluating management's assessment of whether the development costs associated with Felix met the criteria for capitalisation.
- Performing an analysis of management's assessment of the commercial viability of the Felix technology and that the future economic benefits will be greater than the sum of development costs at reporting date plus future development costs to commercialise.

Ownership and recoverability of the carrying value of the investment in PRIME Biologics Pte Limited
Refer to Note 13 Financial Assets

At 30 June 2017 the statement of financial position includes an investment amounting to \$3.8 million in non-voting B-Class preference shares of PRIME Biologics Pte Limited (PRIME).

We have considered this as a key audit matter due to the significant amount at balance date. There was a dispute in regard to the ownership of the B-Class preference shares of PRIME at balance date. On 24 July 2017, the concerned parties successfully concluded all disputes through mediation.

The investment in PRIME is carried at cost as there is no fair value measurement available as disclosed in Note 13.

Our procedures included amongst others:

- Documenting and evaluating the design and operating effectiveness of controls for determining recoverability of the investment including appropriate valuation.
 - Reviewing the terms of the Mediation Agreement dated 24 July 2017 to determine ownership of the investment and impact on the carrying value at year-end.
 - Obtaining solicitor confirmation on the status of the legal proceedings in respect of the ownership of the B-class preference shares in PRIME.
 - Determining whether the mediation process represents an "orderly" transaction between market participants and whether the mediation agreement can be used as a basis of fair value.
-

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors Report and Shareholder Information which were obtained as at date of our audit report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 14 of the directors' report for the year ended 30 June 2017. In our opinion, the Remuneration Report of Memphasys Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



M A GODLEWSKI
Partner



PITCHER PARTNERS
Sydney

Date: 29 September 2017

Shareholder information

The shareholder information set out below was applicable as 22 September 2017.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Holdings Ranges	Holders	Total Units	Percentage
1-1,000	175	46,793	0.007
1,001-5,000	205	423,027	0.060
5,001-10,000	63	469,151	0.067
10,001-100,000	240	10,697,468	1.529
100,001-99,999,999,999	293	688,184,921	98.337
Totals	976	699,821,360	100.000

B. Equity security holders

Twenty largest quoted equity security holders

The name of the twenty largest holders of quoted equity securities are listed below:

Holder Name	Ordinary shares	
	Number Held	Percentage of shares issued
MR ANDREW ERNEST GOODALL	206,319,342	29.48%
TI RAKAU DEVELOPMENTS LIMITED	30,322,061	4.33%
J & TW DEKKER PTY LTD <J & TW DEKKER FAMILY A/C>	22,457,477	3.21%
MR RODNEY JAMES WELLSTEAD	22,073,808	3.15%
B ARTHUR PTY LTD <BARRY ARTHUR SUPER FUND A/C>	21,000,000	3.00%
MARBRIJEN PTY LTD <MARBRIJEN SUPER FUND A/C>	20,000,000	2.86%
CGAM PTY LTD	14,153,990	2.02%
MR MARK EDWARD GELL	12,090,094	1.73%
PREMIUM INVESTMENT HOLDINGS PTE LTD	10,892,019	1.56%
GELLOYCE PTY LTD <GELLOYCE SUPER FUND A/C>	10,317,801	1.47%
MR THEE WOON GOH	10,182,691	1.46%
MR ROBERT BRYDON RUDD	10,000,000	1.43%
MR CHUNHANG LI	10,000,000	1.43%
SYRAH TRUSTEE COMPANY LIMITED	9,500,000	1.36%
MR JOHN MANUSU	8,731,178	1.25%
CHANG SEOW YING ALISON	8,372,715	1.20%
DOUKAKIS HOLDINGS PTY LTD <DOUKAKIS SUPERANNUATION A/C>	8,000,000	1.14%
MR STEPHEN PATRICK GAFFNEY	7,281,700	1.04%
LEE SWEE YIN	7,112,676	1.02%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,300,129	0.90%
	455,107,681	65.03%

Shareholder information

C. Substantial Shareholders as at 22 September 2017

Ordinary shares

Holder Name	Number Held	Percentage
MR ANDREW ERNEST GOODALL	206,319,342	29.48%

D. Unquoted Equity Securities

	Number on Issue	Number of Holders
Memphasys Limited Directors, Employee and Consultants Option Plan	-	-
	-	-

E. Voting Rights

The voting rights attaching to each class of equity securities are set out below:

a) Ordinary Shares

On a show of hands, one vote for every member or proxy of a member present and entitled to vote. On a poll, every member shall have one vote for each fully paid share held.

b) Options

No voting rights.

Corporate Directory

Memphasys Limited
ABN 33 120 047 556

Directors

Alison Coutts	Executive Chairman
Andrew Goodall	Non-Executive Director
John Pereira	Non-Executive Director

Company Secretary and

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

Share Registry

Boardroom Pty 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 Lawyers & Consultants
Level 13, 114 William Street
Melbourne, VIC 3000

Auditors

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