

Appendix 4D

Half year report

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

Half year ended
(‘current period’)

31 December 2018

Half year ended
(‘previous corresponding period’)

31 DECEMBER 2017

Results for announcement to the market

| \$A'000 | | | | |
|--|---------------------|--------|-----------------------------|-------|
| Sales from continuing operations | Remained | 0% | to | 0 |
| Gross profit from continuing operations | Remained | 0% | to | 0 |
| Profit (loss) from continuing activities after tax attributable to members | Down | 1,791% | to | (567) |
| Net Profit (loss) for the period attributable to members | Down | 1,791% | at | (567) |
| | | | | |
| Dividends (distributions) | Amount per security | | Franked amount per security | |
| Final dividend | Nil | | Nil | |
| Previous corresponding period | Nil | | Nil | |
| | | | | |
| Record date for determining entitlements to the dividend, | <div>N/A</div> | | | |
| Brief explanation of any of the figures reported above: | | | | |
| Refer to “Principal Activities and review of operations in the directors report attached to the Appendix 4D” | | | | |

| NTA backing | 31 December 2018 | 31 December 2017 |
|--|------------------|------------------|
| Net tangible asset backing per ordinary security | (0.0021) dollars | 0.001 dollars |

Audit/Review Status

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

| | | | |
|---|--------------------------|--|-------------------------------------|
| The accounts have been audited | <input type="checkbox"/> | The accounts have been subject to review | <input checked="" type="checkbox"/> |
| The accounts are in the process of being audited or subject to review | <input type="checkbox"/> | The accounts have not yet been audited or reviewed | <input type="checkbox"/> |

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

The review report is an unqualified review opinion with an emphasis of matter on going concern.

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

**Interim Financial Report
for the half-year ended 31 December 2018**

Memphasys Limited and its Controlled Entities

Financial report 31 December 2018

Contents

| | |
|---|---------|
| Directors' Report | 3 |
| Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income | 7 |
| Condensed Consolidated Statement of Financial Position | 8 |
| Condensed Consolidated Statement of Changes in Equity | 9 |
| Condensed Consolidated Statement of Cash Flows | 10 |
| Notes to the Condensed Consolidated Interim Financial Statements | 11 – 16 |
| Directors' Declaration | 17 |
| Auditor's Independence Declaration | 18 |
| Independent Auditor's Review Report to the Members of Memphasys Limited | 19 – 20 |
| Corporate Directory | 21 |

Memphasys Limited and its Controlled Entities

Directors' Report

The Directors submit their report for the consolidated entity consisting of Memphasys Limited (MEM) and its controlled entities for the half-year ended 31 December 2018.

Directors

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

| | |
|-------------------|------------------------|
| Ms Alison Coutts | Executive Chairman |
| Mr Andrew Goodall | Non-Executive Director |
| Mr Marjan Mikel | Non-Executive Director |

PRINCIPAL ACTIVITIES

Memphasys' core bio-separations technology combines patented electrophoresis processes, patented hydrogels and size exclusion membranes. Memphasys is focussing this technology on the efficient and cost-effective selection of valuable cells from biological fluids, with the main application being the selection of very high quality sperm cells from semen for the human IVF market.

Memphasys' unique device, "Felix", which is close to commercialisation, is positioned to be used in IVF clinics globally to address male factor infertility. Memphasys is developing Felix with its engineering development partner, Melbourne-based Hydrix, and world renowned fertility expert Professor John Aitken and his research team at the University of Newcastle.

In addition, Memphasys has an ongoing collaborative agreement with Monash IVF. Monash IVF personnel, led by Prof Michelle Lane, are providing crucial clinical testing and technical, clinical and regulatory advice to assist Memphasys in bringing the product to market.

REVIEW OF OPERATIONS

The Felix Device

Over the six months to December 31, 2018, the main focus of the Company was the commercial development of the Felix device, a unique device for separating the most viable sperm in a semen sample for use in human IVF.

After much testing of the performance of the re-usable prototype device at Memphasys, at the University of Newcastle and at Monash IVF, Memphasys is now well into the engineering development of the final device which will use single-use disposable cartridges. The hand-assembled CNC devices and cartridges are currently being manufactured and bids are being received from plastic moulding subcontractors for manufacturing the final cartridge product and the console in which the cartridges are placed to process the semen samples.

The device gently and efficiently separates sperm in 3 minutes in a simple, single, automated process. This is a marked improvement on the current sperm preparation and separation processes, "density gradient centrifuge" and/or "swim up" that are currently used in IVF clinics. These processes are laborious, variable (not automated), take up 30 to 40 minutes and they do not necessarily select the most viable sperm with least DNA damage, but instead can damage the sperm DNA.

During the period, Memphasys provided updates on the development of Felix and post record date, on 29 January 2019, provided a further update on commercialisation progress.

Memphasys personnel attended human fertility conferences in Europe ("ESRE") and the USA ("ASRM") in July and October 2018 respectively. Memphasys' attendance at these conferences generated much interest from leading key opinion leaders ("KOLs"). Consequently, Memphasys was able to recruit selected KOLs to participate in *in-vitro* testing of the Felix device, anticipated for the second half of 2019. Memphasys announced three KOLs had agreed to join the testing program and subsequently, post half-year end date, a further four KOLs joined the program. Memphasys expects the final number of KOLs to be around 15 and is close to finalising MOUs with these clinics.

Memphasys Limited and its Controlled Entities

Assisted Reproduction Applications for Animals

Whilst the main focus during the period was around developing Felix for launching into the human IVF market, anticipated in the second half of 2020, the Company continued to progress other applications of the technology, most notably for use of the technology in assisted reproduction for horses.

Equine

Using the current prototype reusable Felix device as a test bed, Memphasys is making in-roads with the University of Newcastle researchers to improve the yield of very high quality sperm from stallion semen with the device. Whilst there have been pleasing recent results using this equipment, a new device will be required to cope with the much greater volume of horse semen (10 to 100 times greater) than for humans, and the far greater stallion sperm concentration.

The current device conformation could provide sufficient sperm for Intra Cytoplasmic Sperm Injection ("ICSI") procedures, but this is a niche market for only extremely high value animals. Memphasys wants to offer a device that will be able to prepare sperm for artificial insemination ("AI"), the main way that assisted reproduction is performed in animals. AI requires much greater quantities of viable sperm than the amount required for ICSI.

Memphasys is engaging with micro-fluidic bioreactor design specialists at the UNSW to do real time imaging of sperm fluid flow under an electric field and to model fluid dynamics of current and future cartridge designs in order to improve efficiency of separation and cope with the much greater volume required for artificial insemination applications.

Application to other animals and to other cells

Development of a next generation device for equine sperm separation will be valuable, not just for the equine market but also for its applicability to humans (potentially for the next generation Felix device) and to other animals such as cows, sheep and pigs.

Memphasys believes this will also be a useful model system to apply to other high value cells apart from sperm cells, for example, to cells used for cell therapy.

Membrane Technology Development

The Company also made great progress on improving consistency and determining how to scale up to commercially produce its proprietary hydrogel membrane. This membrane is unique in its formulation and its method of manufacture and must be produced at high consistency and low unit cost. It is a key component of the cartridge and will be needed in large quantities, initially for the KOL studies.

Strategy

Whilst focus is on the commercial development of Felix for human IVF, the Company will continue to work on scaling up the technology to apply to horses and other animals.

During the period, Memphasys finalised its formal review of potential market opportunities of other bio-separations against its core technical capabilities. It determined there was an attractive market in cell therapy applications and is now embarking on studies to determine the applicability of its core technology to this field.

Board and management

There were no changes to the board or management during the half year period.

Memphasys Limited and its Controlled Entities

Financial performance

At 31 December 2018, the Group had a deficiency in working capital of \$735,467 (30 June 2018: surplus \$37,879), and a cash balance of \$215,961 (30 June 2018: \$201,807). The deficiency in working capital will revert once the directors and shareholders Alison Coutts and Andrew Goodall convert to equity \$400,000 and \$600,000 of their respective current loans to the Company in the proposed capital raising announced on 27 February 2019.

The proposed capital raising, to occur via a non-renounceable pro-rata entitlement issue, will raise up to approximately \$3.64 million (before costs) and is to be fully underwritten by Patersons Securities Limited.

The net loss for the half-year ended 31 December 2018 was \$566,680 (2017: net profit of \$33,502). The difference was mainly due to the one-off net gain on settlement of a debt of \$896,232 related to the PRIME spin out reached in the six month period to December 2017.

The other substantial item having a, this time positive, impact on the bottom line was the finance cost expenses which decreased by 87% (from \$218,425 to \$28,640) due to a reduction in the debt of the Group in the six month period to 31 December 2018. This was due to the capital raising program held in December 2017 where debt of over \$1.5m was converted to equity.

The Group received from the Australian Taxation Office a R&D grant of \$592,734 during the period (2017: \$431,529).

Overall, the Group had operating cash inflows of \$120,233 for the half-year ended 31 December 2018 (2017: cash outflows \$19,099).

The Group will continue to actively seek funding to continue its R&D program and to progress the commercialisation of the Felix device.

Outlook for 2019

It is an exciting time for Memphasys, with the anticipated commercial launch of Felix in the second half of 2020, subject to receipt of necessary regulatory approvals.

Given the importance of the Felix product to pass key commercialisation milestones before it is approved for sale and launch, Memphasys will continue to focus on all of the key activities required for Felix's successful commercial development.

These key activities, described in the 29 January 2019 ASX announcement, include:

- Furthering engineering development of the cartridge and the console to enable production of a batch of final Felix devices for KOL testing, planned for the September quarter of 2019, and simultaneously for testing at Monash IVF for creating clinical data to be used in the technical file for regulatory submissions.
- Developing the protocols and preparing for the KOL study which will commence when KOLs receive the devices, then managing the study. Initial study results are expected to favourably coincide with Felix's market launch.
- Continuing to prepare for and make regulatory submissions, initially to the TGA and EU for CE Mark. Preparation of an FDA submission, which typically takes longer to complete, is also underway.
- Attending major fertility conferences, liaising with KOLs, developing the KOL network and assessing potential distributors.

The time from EU regulatory submission to market launch has been estimated from past regulatory approval time frames, however the EU is making its medical device regulations more stringent under new Medical Device Regulations ("MDR") and the time frame for approval could therefore take longer than previously was the case.

Memphasys will also continue work with the University of Newcastle researchers on equine and other animal applications of the core technology and involve University of NSW in bio-reactor design and scale up. We feel positive this work will yield new, innovative methodologies with new IP for scaling up the current Felix device and also that it will lead to new possibilities for other high value cell separations.

Memphasys Limited and its Controlled Entities

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, unless otherwise specified.

AUDITOR'S INDEPENDENCE DECLARATION

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

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

A handwritten signature in black ink, appearing to read 'Alison Coutts'.

Alison Coutts
Executive Chairman

Sydney
27 February 2019

Memphasys Limited and its Controlled Entities

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income For the half-year ended 31 December 2018

| | Half-year 31 December 2018 \$ | Half-year 31 December 2017 \$ |
|---|--|--|
| Continuing operations | | |
| Other Revenue | | |
| Grant income | 46,034 | 72,317 |
| Interest income | 1,117 | 617 |
| Net gain on settlement of debt | - | 896,232 |
| General and administration expenses | (479,366) | (550,758) |
| Research and development expenses | (105,825) | (166,481) |
| Finance cost expenses | (28,640) | (218,425) |
| Profit (loss) before income tax | (566,680) | 33,502 |
| Income tax expense | - | - |
| Profit (loss) after tax from continuing operations | (566,680) | 33,502 |
| Net profit (loss) for the year attributable to members of parent | (566,680) | 33,502 |
| Other comprehensive profit (loss) | - | - |
| Total other comprehensive profit (loss) for the period | - | - |
| Total comprehensive profit (loss) for the period | (566,680) | 33,502 |
| Earnings per share (EPS) * | Dollar/share | Dollar/share |
| – Basic loss per share | (0.0016) | 0.0005 |
| – Diluted loss per share | (0.0016) | 0.0005 |

* The current and comparative period calculation has been adjusted for the share consolidation on 17 August 2018.

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

Memphasys Limited and its Controlled Entities

Condensed Consolidated Statement of Financial Position As at 31 December 2018

| | Note | As at 31 December 2018 \$ | As at 30 June 2018 \$ |
|--------------------------------------|------|---------------------------------|-----------------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 215,961 | 201,807 |
| Other current assets | | 550,277 | 659,454 |
| TOTAL CURRENT ASSETS | | 766,238 | 861,261 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 4 | 32,431 | 22,732 |
| Intangible assets | 5 | 3,882,728 | 3,333,180 |
| TOTAL NON-CURRENT ASSETS | | 3,915,159 | 3,355,912 |
| TOTAL ASSETS | | 4,681,397 | 4,217,173 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 268,358 | 222,428 |
| Interest bearing liabilities | 6 | 495,561 | 471,736 |
| Non-interest bearing liabilities | 7 | 626,334 | 26,334 |
| Lease liabilities | | 3,552 | 3,552 |
| Tax liabilities | | 8,967 | 10,146 |
| Short-term provisions | | 98,933 | 89,186 |
| TOTAL CURRENT LIABILITIES | | 1,501,705 | 823,382 |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | | 4,994 | 6,746 |
| Long-term provisions | | 40,441 | 35,465 |
| TOTAL NON-CURRENT LIABILITIES | | 45,435 | 42,211 |
| TOTAL LIABILITIES | | 1,547,140 | 865,593 |
| NET ASSETS | | 3,134,257 | 3,351,580 |
| EQUITY | | | |
| Issued capital | 8 | 40,420,471 | 40,095,314 |
| Reserves | | 1,039,810 | 1,015,610 |
| Accumulated losses | | (38,326,024) | (37,759,344) |
| TOTAL EQUITY | | 3,134,257 | 3,351,580 |

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

Memphasys Limited and its Controlled Entities

Condensed Consolidated Statement of Changes in Equity For the half-year ended 31 December 2018

| | Note | Issued capital \$ | Share options reserve \$ | Accumulated losses \$ | Total equity \$ |
|---|----------|-------------------------|-----------------------------------|-----------------------------|--------------------|
| Balance at 1 July 2018 | | 40,095,314 | 1,015,610 | (37,759,344) | 3,351,580 |
| Loss for the period | | - | - | (566,680) | (566,680) |
| Total comprehensive loss for the period | | - | - | (566,680) | (566,680) |
| Transactions with owners recorded directly in equity: | | | | | |
| Issue of share capital | | 355,000 | - | - | 355,000 |
| Transaction costs on share issue | | (29,843) | - | - | (29,843) |
| Issue of share options | | - | 24,200 | - | 24,200 |
| Balance 31 December 2018 | 8 | 40,420,471 | 1,039,810 | (38,326,024) | 3,134,257 |

| | Note | Issued capital \$ | Share options reserve \$ | Accumulated losses \$ | Total equity \$ |
|---|----------|-------------------------|-----------------------------------|-----------------------------|--------------------|
| Balance at 1 July 2017 | | 36,019,885 | 936,060 | (37,358,185) | (402,240) |
| Profit for the period | | - | - | 33,502 | 33,502 |
| Total comprehensive loss for the period | | - | - | 33,502 | 33,502 |
| Transactions with owners recorded directly in equity: | | | | | |
| Issue of share capital | | 3,777,821 | - | - | 3,777,821 |
| Transaction costs on share issue | | (307,920) | - | - | (307,920) |
| Issue of share options | | - | 79,550 | - | 79,550 |
| Balance 31 December 2017 | 8 | 39,489,786 | 1,015,610 | (37,324,683) | 3,180,713 |

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

Memphasys Limited and its Controlled Entities

Condensed Consolidated Statement of Cash Flows For the half-year ended 31 December 2018

| | Note | Half-year 31 December 2018 \$ | Half-year 31 December 2017 \$ |
|--|------|-------------------------------------|-------------------------------------|
| Cash flows from operating activities | | | |
| Payments to suppliers and employees | | (468,065) | (783,487) |
| Net proceeds from government grants | | 592,734 | 831,529 |
| Finance costs paid | | (4,436) | (67,141) |
| Net cash flows provided by (used in) operating activities | | 120,233 | (19,099) |
| Cash flows from investing activities | | | |
| Interest received | | 621 | 427 |
| Purchase of property, plant and equipment | | (13,702) | - |
| Development expenditure | | (1,018,155) | (624,817) |
| Cash flow relating to discontinued operations | | - | 47,755 |
| Net cash flows used in investing activities | | (1,031,236) | (576,635) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 355,000 | 1,694,349 |
| Share issue costs | | (29,843) | (92,779) |
| Proceeds from related party borrowings | | 709,000 | 251,330 |
| Repayment of borrowings to related parties | | (109,000) | (166,880) |
| Proceeds from third party borrowings | | 50,000 | 660,000 |
| Repayment of borrowings to third parties | | (50,000) | (310,000) |
| Net cash flows provided by financing activities | | 925,157 | 2,036,020 |
| Net increase in cash and cash equivalents | | 14,154 | 1,440,286 |
| Cash and cash equivalents at beginning of period | | 201,807 | 2,349 |
| Cash and cash equivalents at end of the half-year | | 215,961 | 1,442,635 |

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

Memphasys Limited and its Controlled Entities
Notes to the Condensed Consolidated Financial Statements
For the half-year ended 31 December 2018

Notes to the condensed consolidated interim financial statements

1. Reporting entity

Memphasys Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 30 Richmond Road, Homebush, NSW 2140, Australia. These condensed consolidated interim financial statements as at and for the six months ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group" or "Consolidated entity").

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

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2018 are available at www.memphasys.com.

2. Basis of preparation

a) Statement of compliance

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

This interim financial report is intended to provide users with an update on the latest annual financial statements of Memphasys Limited and its controlled entities as at and for the half year ended 31 December 2018. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2018, together with any public announcements made during the half-year period.

The same accounting policies and methods of computation have been followed in this interim report as were applied in the most recent annual financial statements.

These condensed interim financial statements were authorised for issue by the Board of Directors on 27 February 2018.

b) Going Concern

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

Memphasys is focused on the commercial development of the Felix device for human IVF. To complete the commercialisation of the animal artificial insemination and IVF applications, Memphasys will require additional funding.

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

- The consolidated entity made a net loss of \$566,680 for the half year ended 31 December 2018.
- For the half year ended 31 December 2018 the consolidated entity had net cash outflows from combined operating activities and investing activities of \$911,003.
- At 31 December 2018 the consolidated entity had a deficiency in working capital of \$735,467 and a cash balance of \$215,961.

Memphasys Limited and its Controlled Entities
Notes to the Condensed Consolidated Financial Statements
For the half-year ended 31 December 2018

- At 31 December 2018 the consolidated entity had net assets of \$3,134,257.

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

- The Company has recently announced a capital raising program which will have a combined increase in net assets of over \$3.3m (between cash received and reduction of debts).
- The Company expects to receive in September 2019 a tax refund of around \$1,500,000 from the Australian Tax Office for eligible research and development activities carried out in the financial year ending 30 June 2019 under the research and development tax credit scheme.

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

c) Principles of consolidation

The consolidated financial statements incorporate the 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 for the year ended 30 June 2018. 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 half-year then ended. Where controlled entities have entered or left the consolidated group during the half-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.

d) Foreign currency transactions

At each end of the reporting period:

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

Memphasys Limited and its Controlled Entities
Notes to the Condensed Consolidated Financial Statements
For the half-year ended 31 December 2018

e) Judgement and estimates

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2018.

g) 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, unless otherwise specified.

3. Significant accounting policies

The accounting policies applied in the interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 30 June 2018.

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

| | Property, Plant and Equipment | Total |
|--|--|---------------|
| | \$ | \$ |
| Carrying amount at 1 July 2018 | 22,732 | 22,732 |
| Additions | 13,702 | 13,702 |
| Depreciation | (4,003) | (4,003) |
| Carrying amount at 31 December 2018 | 32,431 | 32,431 |

5. Non-Current Assets – Intangible Assets

| | 31 December 2018 | 30 June 2018 |
|---|-------------------------|---------------------|
| | \$ | \$ |
| Carrying amount at the beginning of the period | 3,333,180 | 4,145,541 |
| Internally developed expenditure | 972,651 | 1,306,441 |
| ATO Tax Incentive - deferred income for the period / accumulated grant income | (423,103) | (2,118,802) |
| Carrying amount at the end of the period | 3,882,728 | 3,333,180 |

6. Interest Bearing Liabilities

| | | 31 December 2018 | 30 June 2018 |
|--|-------------|-------------------------|---------------------|
| | | \$ | \$ |
| Current | Note | | |
| Loans from related parties – secured | 9.b | 495,561 | 471,736 |
| Total current interest bearing liabilities | | 495,561 | 471,736 |
| Total interest bearing liabilities | | 495,761 | 471,736 |

Analysis of current debt

| 31 December 2018 | Currency | Interest rate | Year of maturity | Carrying value \$ |
|---|-----------------|----------------------|-------------------------|--------------------------|
| Related party loan secured – Alison Coutts* | AUD | 10% | 2019 | 495,561 |
| Total current debt at 31 December 2018 | | | | 495,561 |

Memphasys Limited and its Controlled Entities
Notes to the Condensed Consolidated Financial Statements
For the half-year ended 31 December 2018

* Remaining debt after capital raising in December 2017, which is repayable in three instalments over a period of 18 months following the General Meeting subject to Memphasys having sufficient funds to make the repayment. Alison Coutts has confirmed that \$400,000 of this debt will be converted to equity in the capital raising program announced on 27 February 2019.

| 30 June 2018 | Currency | Interest rate | Year of maturity | Carrying value \$ |
|--|-----------------|----------------------|-------------------------|------------------------------|
| Related party loan secured – Alison Coutts | AUD | 10% | 2019 | 471,736 |
| Total current debt at 30 June 2018 | | | | <u><u>471,736</u></u> |

7. Non-interest Bearing Liabilities

| | Note | 31 December 2018 \$ | 30 June 2018 \$ |
|---|-------------|--------------------------------|----------------------------|
| Current | | | |
| Loans from third parties – unsecured | | 26,334 | 26,334 |
| Loans from related parties – unsecured | 9.b | 600,000 | - |
| Total current interest bearing liabilities | | <u>626,334</u> | 26,334 |
| Total non-interest bearing liabilities | | <u><u>626,334</u></u> | <u><u>26,334</u></u> |

Analysis of current debt

| 31 December 2018 | Currency | Year of maturity | Carrying value \$ |
|--|-----------------|-------------------------|------------------------------|
| Third party loan unsecured – Ms Chang Sew Ying Alison* | AUD | 2019 | 26,334 |
| Related party loan unsecured – Andrew Goodall** | AUD | 2019 | 600,000 |
| Total current debt at 31 December 2018 | | | <u><u>626,334</u></u> |

* Remaining balance originated from a convertible note signed 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.

** Short term loan advanced in December 2018 to assist the company operate until the capital raising program announced on 27 February 2019 takes place, when this loan will be converted to equity.

| 30 June 2018 | Currency | Year of maturity | Carrying value \$ |
|---|-----------------|-------------------------|------------------------------|
| Third party loan unsecured – Ms Chang Sew Ying Alison | AUD | 2019 | 26,334 |
| Total current debt at 30 June 2018 | | | <u><u>26,334</u></u> |

Memphasys Limited and its Controlled Entities
Notes to the Condensed Consolidated Financial Statements
For the half-year ended 31 December 2018

8. Share capital

a) Share capital

| | December 2018 Shares | June 2018 Shares | December 2018 \$ | June 2018 \$ |
|------------------------------|-------------------------------------|-----------------------------|---------------------------------|-------------------------|
| Ordinary Shares – fully paid | 364,089,145 | 5,108,829,192 | 40,420,471 | 40,095,314 |

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

| | 2018 Shares | 2017 Shares | 2018 \$ | 2017 \$ |
|--|------------------------|------------------------|--------------------|--------------------|
| Balance at beginning of half-year | 5,108,829,192 | 666,880,183 | 40,095,314 | 36,019,885 |
| Share issue under share placement | - | 1,884,603,180 | - | 1,884,603 |
| Share issue in lieu of consulting fees | - | 77,126,282 | - | 75,552 |
| Share issue under non-renounceable entitlement offer | - | 459,718,760 | - | 759,719 |
| Share issue in lieu of director fees and expenses | - | 84,818,980 | - | 84,819 |
| Share issue in lieu of salaries | - | 117,360,000 | - | 117,360 |
| Share issue in lieu of corporate advisory fees | 350,000,000 | - | 350,000 | - |
| Share issue on conversion of loans | - | 1,818,321,807 | - | 1,813,381 |
| Consolidation of shares * | (5,094,906,715) | - | - | - |
| Exercise of options | 166,668 | - | 5,000 | - |
| | 364,089,145 | 5,108,829,192 | 40,450,314 | 40,455,319 |
| Less issue costs | | | (29,843) | (360,005) |
| Balance at end of half-year | 364,089,145 | 5,108,829,192 | 40,420,471 | 40,095,314 |

* On 17 August 2018 the company conducted a share consolidation on a ratio of 15:1.

9. Related Party Transactions

a) Transactions with key management personnel

Key management personnel received total compensation of \$215,263 for the six months ended 31 December 2018 (six months ended 31 December 2017: \$215,022).

b) Other related party transactions

At 31 December 2018 the consolidated entity had \$495,561 interest bearing liabilities (30 June 2018: \$471,736) and \$600,000 non-interest bearing liabilities (30 June 2018: \$0) payable to related parties on terms and conditions as outlined in Notes 6 and 7, respectively

10. Fair Value

The carrying amounts of cash and cash equivalents, other current assets, trade and other payables and current borrowings are assumed to approximate their fair values due to their short-term nature.

Memphasys Limited and its Controlled Entities
Notes to the Condensed Consolidated Financial Statements
For the half-year ended 31 December 2018

11. Events Subsequent to Reporting Date

The following event occurred subsequent to 31 December 2018:

- On 27 February 2019 the company announced that has resolved to proceed with a non-renounceable pro-rata entitlement issue on the basis of one (1) share (New Share) for every two (2) shares held by eligible shareholders on the record date at an issue price of \$0.02 per New Share. The entitlement issue, to raise up to approximately \$3.64 million (before costs), is to be fully underwritten by Memphasys' corporate finance advisors, Patersons Securities Limited.

Directors' Declaration

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

1. The condensed consolidated financial statements and notes, as set out on pages 7 to 16 are in accordance with the Corporations Act 2001, including:
 - a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
 - b) complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Alison Coutts
Executive Chairman

Sydney
27 February 2019

Level 22 MLC Centre
19 Martin Place
Sydney NSW 2000
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MEMPHASYS LIMITED AND CONTROLLED ENTITIES

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF MEMPHASYS LIMITED

In relation to the independent auditor's review for the half-year ended 31 December 2018, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of any applicable code of professional conduct.



MARK GODLEWSKI

Partner

PITCHER PARTNERS

Sydney

27 February 2019

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

REPORT ON THE HALF-YEAR FINANCIAL REPORT

We have reviewed the accompanying half-year financial report of Memphasys Limited ("the company") and its Controlled Entities ("the consolidated entity"), which comprises the condensed consolidated statement of financial position as at 31 December 2018, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and consolidated condensed statement of cash flows for the half-year ended on that date, a statement of significant accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising Memphasys Limited and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *"Review of a Financial Report Performed by the Independent Auditor of the Entity"*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporation Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *"Interim Financial Reporting"* and the *Corporations Regulations 2001*. As the auditor of Memphasys Limited and the entities it controlled, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

the financial statements in relation to the ownership and carrying amount of the shares is necessary.

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 2(b) Going Concern where the directors have stated that the consolidated entity is dependent on the raising of additional funds for working capital and to continue to develop and commercialise the technology.

These events or conditions, along with other matters as set forth in Note 2 (b), indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.



MARK GODLEWSKI

Partner

27 February 2019



PITCHER PARTNERS

Sydney

Corporate Directory

Memphasys Limited **ABN 33 120 047 556**

Directors

| | |
|----------------|------------------------|
| Alison Coutts | Executive Chairman |
| Andrew Goodall | Non-Executive Director |
| Marjan Mikel | Non-Executive Director |

Company Secretary

Andrew Metcalfe
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Auditors

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