

ASX Release

CHAIRMAN'S ADDRESS FOR THE ANNUAL GENERAL MEETING

Friday, 19 December 2014

Review of Operations

I would like to welcome you - our shareholders and supporters and will shortly introduce our two new directors, Michael Graham and Mark Gell. Particularly I would like to express my thanks to Andrew Goodall for his ongoing support through what has been a sometimes challenging period. I would also like to thank shareholders for their patience. It has been a year of transition, with many major achievements but also with some difficulties, most of which were inherited.

The Company's achievements include the de-consolidation of PrIME Biologics and the focusing of NuSep's efforts on SpermSep – a technology that has significant potential in the area of assisted reproduction in animals and humans. These achievements have been crystallised in the midst of an extensive and expensive ASIC investigation.

That investigation has now concluded for the company. I am glad to say that we now have that behind us and we are now positioned to build value.

Thematically there are three phases for NuSep:

- Stabilise
- Build
- Grow

We are currently at the second half of the stabilise phase

- As you will note, we have executed an Enforceable Undertaking with ASIC as a result of investigations conducted by the regulator over matters primarily concerning governance and capital management within the company in the period 2009 to 2012. The investigation is now behind us and we are working closely with ASIC and implementing the various governance controls that are required.
- Following the PrIME transaction, we were left with more than \$2.5 million of outstanding bills which we have had to negotiate our way through. We are now up to date.
- We have cut operating costs by approximately \$3 million
- We have appointed two new independent directors to our Board to bolster the depth and expertise of our Board, and I might add this is already paying dividends. A few words about each:
 - Originally qualifying as a company secretary, Michael Graham has worked in mining, retail and services. He spent 10 years working in the UK, USA and Australia in Marketing Services in a division of WPP, the global marketing

communications group. Since 2010, he has been the CEO of a technology company specialising in telemetry for motor vehicles.

- Mark Gell has over 25 years experience providing strategy, equity markets and issues management counsel in his roles on the senior management teams of some of Australia's largest corporations and more recently through his own advisory business. He also is involved with a number of start-ups in the technology and real estate fields.

We have not stood still on the business and we have entered the build phase

- Now we have a leaner and more focussed organisation
- We have "spun off" our PRIME subsidiary, which is commercialising the plasma processing application in its Singapore facility
 - NuSep currently has 74% of PRIME and PRIME's prospects are positive for hitting its next milestone, cGMP accreditation, and obtaining its next external tranche of funding. We remain closely interested in the progress of PRIME.
- We have refocused the core business of NuSep on the SpermSep product for the human and animal reproduction markets
- We have announced a Heads of Agreement with MiniTube headquartered in Germany. Minitube is the largest global provider of animal Artificial Reproductive Technologies and is a powerful alliance partner
 - Subject to testing, performance assessment and final commercial terms agreed, MiniTube will be our distributors of animal ART products globally
 - We are also doing collaborative research with MiniTube and are about to embark on bovine reproduction studies in Germany.
- We have re-established a relationship with Professor John Aitken and his research team at the University of Newcastle. Professor Aitken is a pre-eminent specialist in the area of IVF and reproductive technologies generally.
 - With Prof Aitken we are currently negotiating with a number of leading Australian Human IVF clinics with the view to beginning *in vitro* clinical trials of the SpermSep product starting 1Q 2015.
 - We have begun *in vitro* equine studies with Prof Aitken's group.
- We have also established a research program with the University of Sydney in sheep reproduction

The Growth phase will begin once the SpermSep clinical trials are completed.

- We have confidence that the SpermSep product will work based on our internal trials.
- The next phase will be to commercialise the product and through arrangements with international distributors, market our products globally.
- We are also beginning to develop new biological separation technology for new identified market opportunities. It is in early stages but our internal tests so far are exciting.

I would now like to make some comments regarding the the Enforceable Undertaking:

- NuSep has yesterday executed and released to the ASX an Enforceable Undertaking with ASIC as a result of investigations conducted by the regulator over matters concerning the company and in a period 2009 - 2012. Those matters are detailed in the Enforceable Undertaking, along with the agreed undertakings.
- It is regrettable that this has taken so much productive management time over the past months however we do not expect that the signing of the Undertaking will have any detrimental effect on NuSep's business going forward.

With regards to NuSep's Financial Performance:

- The deconsolidation of Prime Biologics Pte Ltd was a major step for NuSep to take and we are pleased that we did this. However, even though it was a positive business decision, it had a negative effect on the balance sheet in FY'14, which resulted in an ascribed negative net asset position for NuSep.
- Due to accounting rules, the value of the PRIME investment was decreased to the value of the \$3.8 million debt that NuSep took on for the Singaporean facility. NuSep agreed to adopt that liability as part of the PRIME spin out transaction.
- Simultaneously, as part of the deconsolidation of PRIME, NuSep had to write off approximately \$6 million it had invested in the PRIME project since its inception. The \$3.8 million was not a "fair value" but, as fair value was hard to determine at this stage, a cost base was used.
- In addition the book value of SpermSep was also maintained on a cost basis rather than valued at fair value.
- We expect the present book value of \$3.8m of the PRIME asset on NuSep's balance sheet will substantially increase over the time, which will have a positive impact on NuSep's net asset position. Also, as we grow the SpermSep business, its value should also improve and add to a more positive net asset position.
- In addition, we wish to convert various debt into equity to achieve a less debt-laden balance sheet and that is a factor for having so many resolutions to be voted upon today.

In conclusion, we have had a lot of high points but also some challenges, however we think we have now dealt with the major difficulties. We have a much more streamlined, focussed organisation with some excellent opportunities, especially in SpermSep, in front of us.

As always we thank investors for their support and welcome questions.

For further information please contact:

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