



ASX Release

Sydney, Monday 30 November 2015

The Manager
Companies Announcement Office
Australian Securities Exchange
Level 4, 20 Bridge St
Sydney NSW 2000

Dear Sir/Madam,

NUSEP HOLDINGS LTD 2015 ANNUAL GENERAL MEETING ADDRESS TO SHAREHOLDERS

NuSep Holdings Ltd (ASX:NSP) will address its shareholders today at its Annual General Meeting to be held at its office at 30 Richmond Road, Homebush, NSW 2140, commencing at 11.00am (Sydney time).

In accordance with Listing Rule 3.13.3, attached is a copy of the Chairman's Address, which will be presented at the meeting.

For further information please contact:

Alison Coutts
Executive Chairman
+61 2 8415 7300
alison.coutts@nusep.com

Chairman's Address to the Shareholders of NuSep Holdings Limited

Review of Operations

I would like to welcome our shareholders and supporters to this meeting. I would also like to express thanks to my three directors, Andrew Goodall, Mark Gell and Michael Graham. Each has made an outstanding contribution and I am grateful for their financial and strategic support and wise counsel.

Last year I said that thematically there are three phases for NuSep: **Stabilise, Build, Grow**

During the year we have continued the stabilise phase.

Last year, when I gave my Chairman's address, I said that I thought that we had dealt with the major difficulties we had inherited. Certainly we had dealt with a great many serious issues and had come through a financially stressful time in which we managed to pay approximately \$2 million in unpaid debts and bills inherited from the prior management team.

We had spun out PRIME, which was a difficult and costly exercise. We had signed an Enforceable Undertaking with ASIC over past behaviours of some former executive Directors. We had also managed and paid a number of bills that we had been left with, including some large and long standing ones to regulatory authorities such as the ATO.

However, I underestimated some of the ongoing difficulties we had to deal with:

- We had the extra burden and expense of the Enforceable Undertaking ("EU") compliance. In total the ASIC enquiry and compliance has so far cost us over \$600,000 in legal expenses. That is \$600,000 dollars of your money – shareholders' money. A small part has been recouped from insurance but our premium has also increased. Post signing the EU, we have had to engage an independent governance expert and also employ an internal resource to oversee the process.

Fortunately, we have now put in place all of the major compliance requirements which means that future compliance effort and expenses should be reduced to a fraction of previous expenditure.

- There were further suppliers who we did not know had not been paid, but we dealt with them.
- We also had to deal with other legacy issues, such as the dispute with our former auditors, Lawler Partners. It was settled by negotiation, cost the company - us - over \$200,000 including legal costs and has now been fully paid. Again these are shareholders' funds which could have been put to much better use.
- In addition, we had a long running, expensive and arduous dispute with the former Managing Director, Prakash Patel, which was also ultimately settled by negotiation for \$200,000 during the court hearing. Each party paid their own costs in addition to this settlement amount. Again these are shareholders' funds which could have been put to much better use.

We put in place a number of strategies to deal with funding issues:

- Post the AGM last year we converted over \$4 million in debts owed to director, Andrew Goodall, a former director, Clifford Eu, and their related parties, into equity to achieve a less debt-laden balance sheet.
- We have continued with cost cutting. I now undertake the role of Chairman and Managing Director, which has saved well over \$300,000. I also directly manage much of the R&D operations, with the assistance of the COO, Dr Mike Richardson, and an external consultant, Ross Harricks, which also provides further savings. In time we would like to bolster our R&D resources. We have also approximately halved our headcount since stopping manufacturing gels. We decided to sell the gels business when our major customer chose to make gels in-house.

We are now down to seven personnel and one part-time consultant. Of these, six have technical backgrounds and undertake much R&D work.

We expect to make an announcement on the sale of the gels business shortly and that will also provide some added cash over the next few months.

- We obtained further funding from our own directors and also to a smaller extent from an SPP, however it was our directors who contributed the most. Directors have provided around \$1.1 million in loans and collectively we have foregone various director fees and salaries, amounting to over \$230,000. In fact, if it weren't for the current Directors and their financial support for the company, their patience and willingness to see NuSep succeed, you would not be sitting here today.
- We have been seeking an external corporate advisory firm that would share our vision about the potential in the business, understand that the hard yards are now largely passed, and assist in providing long term funding and strategic advice. We are in advanced negotiations with one such group.

I will provide a short commentary now on the status of our investment in our spinout, **PrIME Biologics Pte Ltd, Singapore**:

I remind you that our investment is passive as we have no voting rights.

Fortunately, we no longer need to fund PrIME as it has been externally funded since we spun it out in mid 2014.

Last year I reported that PriME's prospects looked positive for hitting its next milestone, cGMP accreditation, and obtaining its next external tranche of funding. PIME has still not passed cGMP accreditation and it has not provided a date for its next attempt. However, it has received a cash injection of SGD\$8.8 million by the Class A shareholders despite not hitting its next funding milestone. PrIME has now received nearly SGD\$20 million in external funding, which NuSep could not have provided, but we

do not have oversight of how that funding is being applied so we are not in a position to share that with you today.

The plasma separation machine that PrIME is using for its cGMP accreditation is rented by NuSep to PrIME. The machine is sufficient to provide a “proof of concept” volume of processed plasma but is not big enough to produce a commercial volume of plasma products. The next step for PrIME, after receiving cGMP accreditation, will be to scale up the operation.

NuSep currently has 55.1% of PrIME but there is a dispute about the quantum of the interest on the recent cash injection which will vary this position.

We have concerns about the lack of transparency in the reporting of PrIME’s activities, especially in budgeting and scheduling and in their current commercial dealings with large players in the plasma fractionation business. We have expressed our concerns and have left our options open to take further action if our concerns are not properly dealt with. To date they have not been dealt with in a satisfactory manner.

As a result, NuSep has decided to focus on its own programs and we believe there is large potential value in realising our strategy. We view our PrIME investment as potential upside – we know that the technology is potentially ground breaking for plasma separation - and we are continuing to talk to interested parties who wish to buy our PrIME stake. As a company we need to focus on those areas we can control and to guide our own destiny.

As noted in last year’s AGM, I said that we had entered the **build** phase.

It is difficult to build a business with an ongoing chronic shortage of funds, but despite the funding limitations we were able to do quite an extensive amount of value adding. The two focus areas are SpermSep and Membranes.

For SpermSep, which uses the NuSep proprietary technology to select the most viable sperm for application to both the human and animal reproduction markets:

- We have re-established a relationship with pre-eminent reproductive biology specialist Professor John Aitken and his research team at the University of Newcastle. We are undertaking *in vitro* equine studies with Prof Aitken’s group.

Trials are also well underway, through Professor Aitken, with Monash IVF to assess our device’s ability to separate the most viable sperm from semen samples compared with conventional methods. We expect to receive results of this study soon.

- We have developed a productive working relationship with MiniTube, the largest global provider of animal Artificial Reproductive Technologies. They are working with us on increasing the viability of frozen bovine sperm and then to determine if our process can improve bovine IVF outcomes. Despite the technical challenges, we are making good progress.

For membranes, we are continuing the work that started with the Melbourne University Chemical Engineering Depart many years ago, when they developed polyacrylamide membranes with us. I am an

alumnus of that Department and it is wonderful on a personal level to re-engage with them. The Department has a specialisation in membranes and has equipment and expertise that we highly value. We now have a new membrane research program with the Department, led by the Chairman of the Department, Professor Sandra Kentish. Dr Hani Nur, who has a specialisation in hydrogel polymer membranes, is overseeing the project for NuSep.

Here is an update on the membrane work we are doing.

- We have developed a new hydrogel membrane made of different material that will be used in our SpermSep device as a “restriction” membrane. It restricts the flow of the sperm and contains them in the separation chamber. We needed to do that as the former polyacrylamide membrane would not have been commercially viable.
- We are now working on new “hydrogel” membranes for many different separation applications and are making pleasing progress. We wanted to do this as the former polyacrylamide membranes do have some issues in scale up and biocompatibility.
- We are still working with polyacrylamide membranes for diagnostic applications and have had requests to supply more small machines and membranes to overseas organisations that are working on a number of different bio-separation applications, including the separation of the components of snake venom.

We see a potential growth for this diagnostics business and that in turn may also lead us to the development of new applications and strategic partnerships. It was this type of process that enabled us to form a strategic partnership with Professor John Aitken at the University of Newcastle in the development of SpermSep.

In terms of the **Growth** phase, we are poised to start a few major initiatives when we have sufficient funding available. The initial funding that we require for the development of new commercial SpermSep machines is around \$3 million, including corporate overheads. This work will begin once the SpermSep clinical trials are completed. We remain confident that the SpermSep product will work based on our internal trials.

A number of overseas organisations have approached us wanting to trial our machines with the view to using them in their IVF centres

In summary, I have explained that we have just come through another year of cleaning up and stabilising, but that we are building our core business and are positioned to grow. However, for meaningful growth we need substantial funding – in excess of \$3 million.

Despite NuSep’s great technology, a small but highly credentialed and motivated team of staff and consultants, the high value alliances and strategic partnerships that have been developed over the past year or two under the new board and management, the Company has found it difficult to raise its profile and attract outside interest from the financial community. It is well known that it has been beset with difficulties, it has had a long history of unfulfilled promises and under achievement since starting out as Gradipore in the late 90s and its reputation over the years has been severely tarnished. NuSep has tax losses of over \$30 million but so far has not brought any major product or process to market. We plan to

change this and hope to have our SpermSep device available in the market within two years, subject to sufficient funding being available to develop the next generation device. Not surprisingly it has been hard to engage with an appropriate group to provide the backing and market support that is so sorely needed.

We are now in advanced discussions with one financial advisory group that has the ability to provide what we have been looking for, but there will be some onerous terms due to past issues and the current positioning of the Company in the market. We hope to make an announcement to shareholders about their appointment shortly and hope that you will share our vision of what we are attempting to achieve.

We are on a journey and are turning this company around. It is nearly done. With the turnaround we want a new name and have chosen “Memphasys” – an emphasis on membrane systems – and we hope that the vote to change the name is carried. The new name signifies a break from the past and is part of the relaunch of the Company.

In time, we are confident that we can reposition to build market standing and value in this Company. We firmly believe that those who support the new direction will be rewarded.

Thank you for your support. We welcome any questions you may have.

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