

MEDLAB CLINICAL LIMITED

(ABN 51 169 149 071)



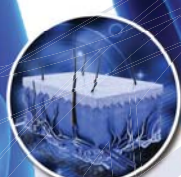
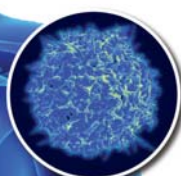
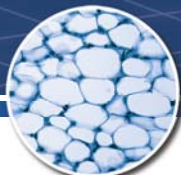
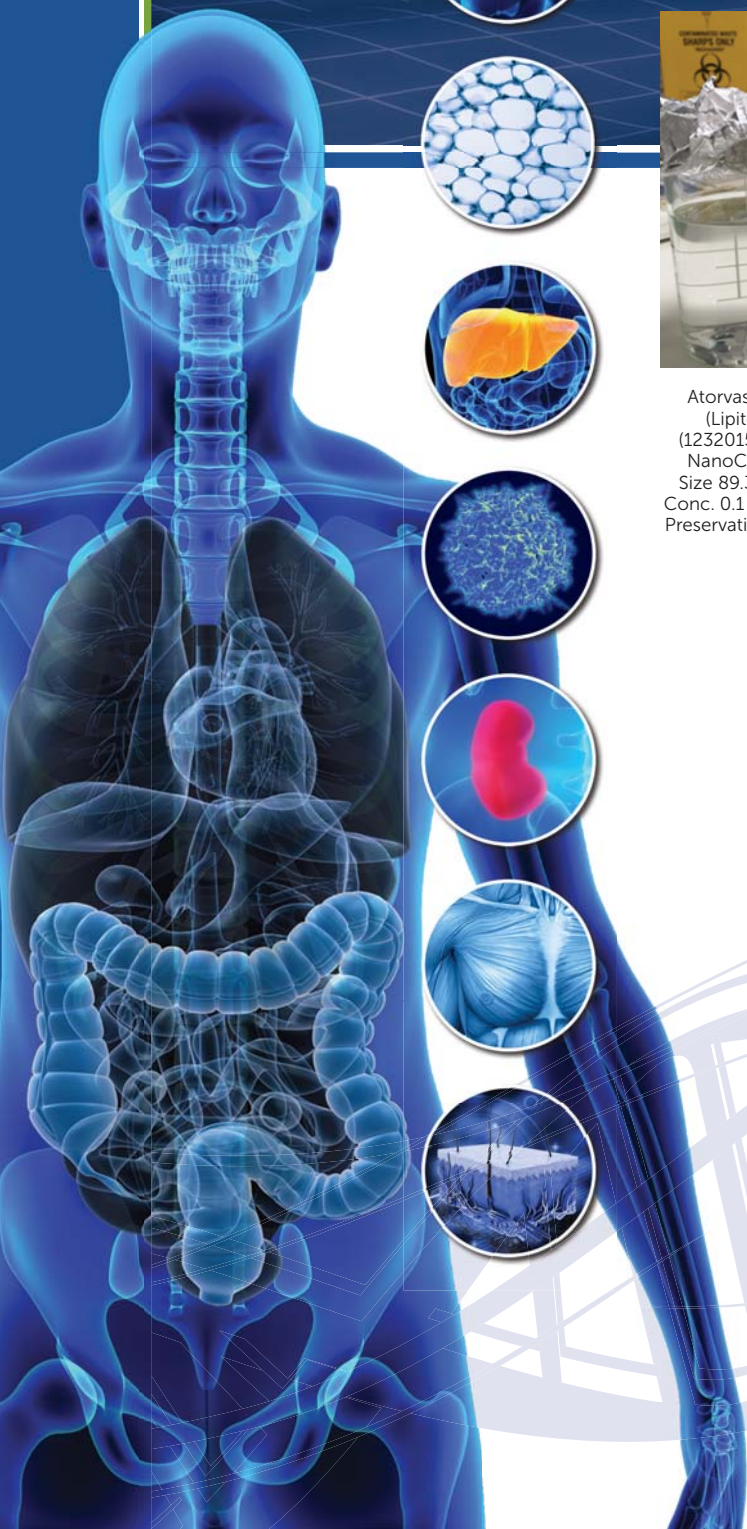
ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016



INNOVATION - QUALITY - LIFE SCIENCES

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NANOCELLE™ APPLICATION FOR MAJOR OFF-PATENT DRUG USE

The preliminary data from Phase 0 human trials on **NanoCelle™ Atorvastatin** spray have been successful. The data shows significant absorption from after 1 minute of spray use. Management is progressing with accelerated human trials.



Atorvastatin
(Lipitor)
(1232015ATO)
NanoCelled
Size 89.31 nm
Conc. 0.1 mg/mL
Preservatives inc.

Atorvastatin
(Lipitor)
(12142015ATO30)
NanoCelled
Size 14.37 nm
Conc. 1.67 mg/mL
Preservatives inc.

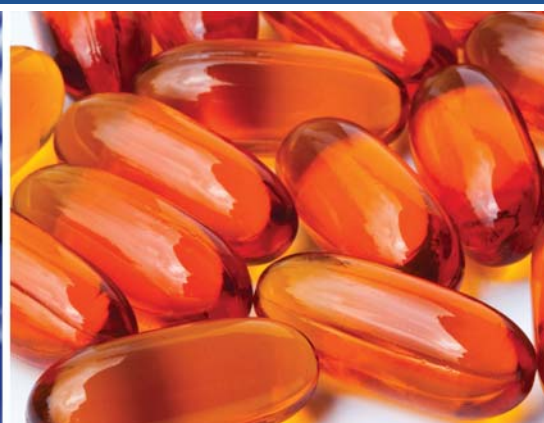
Atorvastatin
(Lipitor)
(12142015ATO25)
NanoCelled
Size 14.62nm
Conc. 10 mg/mL
Preservatives inc.



Atorvastatin
(Lipitor)
Crystal
sedimentation
in water

Atorvastatin
(Lipitor)
(102015ATO)
NanoCelled
Size 11.41nm
Conc. Mg/mL

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CHAIRMAN'S LETTER

On behalf of the Board of Medlab Clinical Limited (Medlab), I am pleased to present our 2016 Annual Report.

It is just over a year since our listing on the ASX and in that time a lot has been achieved. We are very proud with what we have accomplished in such a short period of time. By placing an extra focus on the research programmes, we have been able to successfully advance our research significantly ahead of schedule (in some cases 12 to 18 month (e.g.) cannabis).



In summary, some of our achievements in our research are as follows:

- Our patented NanoCelle™ small particle delivery system has so far delivered encouraging results, especially so in our pain management program with Cannabis
- Our Cannabis and Statin projects are well ahead of schedule and this has enabled us to move to human clinical trials faster than originally scheduled. We have also acquired a blood plasma analyser, which will enable us to analyse samples with greater precision, in a more timely and cost efficient manner.
- Very pleasing results have been achieved in the human clinical trial work and laboratory work on the use of our probiotics in Depression, Chronic Kidney Disease and Obesity. This has encouraged us to progress quicker to the next phase of the studies than previously planned. This particularly applies to Depression where the significant results achieved in the two different Phase 1 human trials is resulting in us immediately crossing over to Phase 2a human clinical studies.

A more detailed research update can be found in the CEO's Report.

To achieve the faster than originally planned success in our R&D, we have concentrated our senior management efforts in the R&D area. However, this decision has impacted on the planned development of our nutraceutical sales. As a result, our successful R&D programme is some 12-18 months ahead of where we expected to be while our nutraceutical sales is lagging some 6-12 months behind our expectations. Nevertheless, in the last two months our domestic and global nutraceutical sales business has at last shown significant improvement and record sales were reported on a monthly basis in June 2016.

As well as building our Australian business we have been developing the following overseas operations:

- Exports to China and Hong Kong
- Sales in New Zealand
- Sales in USA
- Sales in UK

These markets are in their infant stage and are growing.

With our successful capital raising we will add resources to these endeavors. Its good to remember in building this nutraceutical business we are creating an asset as well as sales revenue.

Medlab is a unique company as it has three distinct sources of revenue:

- Sale of nutraceutical products developed from our research into chronic illnesses.
- Development of pharmaceuticals or technology that could be sold or licensed to large multi-national companies
- Provision of R&D clinical services.

In conclusion, I would like to thank you for your ongoing support and confidence in the company and we will continue to keep you updated on our R&D progress as we achieve each stage of our progress.

Yours sincerely,



Michael Hall
Chairman

CEO REPORT

Dear Shareholder,

It's hard to believe the year has passed so quickly. Over this period Medlab has undergone significant growth, and to this end, I personally wish to thank you for your support and belief. At the time of writing this report, a number of milestones have also been achieved since year-end.



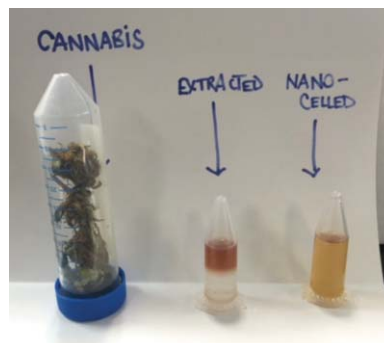
HIGHLIGHTS

- NanoCelle™ Cannabis (CBD:THC) oral spray readied for Human Trials at a leading Sydney based Oncology research Hospital. Awaiting final Ethics approval and Gov't approvals.
- Preliminary data for the NanoCelle™ Atorvastatin (also known as Lipitor) Safety Human Trials showed rapid absorption at 1 minute of intake. Preparing Ethics agreement for bioequivalence human trials.
- Ethics approval for Human Safety Trials for NanoCelle Insulin has been granted.
- NanoCelle™ has been extended to 19 other generic pharmaceutical compounds, including, Testosterone, Antibiotics, and Angiotensives.
- Preliminary data from Phase 1a/b (Human) depression study employing Medlab bacteria and compounds titled "NRGBiotic" shows substantially improved depression outcomes in patients diagnosed with SSRI (antidepressant) treatment resistant depression. This study will merge into a Phase 2a clinical study ahead of schedule.
- Preliminary data from laboratory studies in our Chronic Kidney Disease project shows that Medlab compounds and bacteria rescue kidney cells from chemotherapy drug (cisplatin) induced toxicity.
- Laboratory studies with Medlab bacteria demonstrate significant reduction (86%) in the accumulation of fat by fat tissue cells (adipocytes), in liver tissue.
- Preliminary data from Phase 2a (Human) Obesity/pre-diabetes study employing Medlab bacteria, shows significant improvement in reducing lipid (fat) accumulation in liver tissue, and restored "vigour" to patient.
- Nutraceutical sales business grown to 20 products of which 9 are under patent protection.
- NanoCelle™ Patent filed with United States Patent and Trade Marks Office (USPTO).
- Nutraceutical business shows revenue growth, revenue expected to accelerate.
- Medlab and Aphria sign supply agreement for sustainable supply of Cannabis exacted to specification required by Medlab to fulfil human trial requirements and move towards an Australian market entry.

A majority of these highlights have eventuated well ahead of schedule, specifically the Cannabis, Depression and Obesity projects.



0 Weeks



6 Weeks



15 Weeks

The pictures above demonstrate that whilst the Cannabis active compounds (CBD and THC) are "NanoCelled" in Medlab's proprietary small particle delivery platform, the product is protected against aging and loss of viability; in short the NanoCelle™ Cannabis product offers greater shelf-life as opposed to either the plant or a simple extracted product.

CEO REPORT (cont.)

GLOBAL RESEARCH OPPORTUNITIES/UPDATE

Medlab is uniquely placed to introduce several much needed medicines for people suffering from Chronic Diseases. To specifically understand this market potential, the Australian Institute of Health and Welfare (<http://www.aihw.gov.au/chronic-diseases/>) offer:

- 1 in 5 (18+ yrs) reported Cardiovascular disease (2011-2012)
- Males prior 85th birthday, 1 in 2 risk of a cancer (2009)
- Females prior 85th birthday, 1 in 3 risk of cancer (2009)
- 1 in 10 (18+ yrs) signs/symptoms of Chronic kidney disease (2011-2012)
- Approx 1% population reported diabetes
- 1 in 7 (4-17 yrs) assessed with mental health issues (2013-2014)
- 1 in 5 (16 - 85 yrs) reported a mental disorder
- 1 in 4 reported arthritis or other musculoskeletal conditions (2001-2012)
- 1 in 42 reported COPD (2011-2012)

These numbers have direct relationship with a number of research projects undertaken by Medlab.

Conversations are underway with several multi-national pharmaceutical companies to determine what secondary research is required and to develop an understanding of how and when a Medlab offering could be placed into their respective pipelines.

Notwithstanding, our most recent announcement with Aphria shows a strong commitment to a pharmaceutical grade cannabis product aimed at Cancer patients, an affirmed leadership position, and an understanding and desire to meet Australian patient needs.

As demonstration of growing international awareness of Medlab's work, Medlab won a category of the 2016 Biotechnology Awards from UK based *Global Health & Pharma* for Best Early-Phase Chronic Disease Drug Discovery Company.

The graph below shows the progression of our various clinical trials

Drug Candidate Program	Patent Lodgement	Preclinical	Phase 0 Safety	Phase I	Phase II A	Phase II B	Potential Partnering
CARDIOMETABOLICS							
Chronic Kidney Disease - CKDP.100							
Obesity (Diabetes) - OBEP.100							
CENTRAL NERVOUS SYSTEM							
Depression - DEPP.100							
METABOLIC AGEING							
Ageing/Mitochondrial - AAP.100							
PLATFORM							
Statin (Atorvastatin)							NOW
Statin (Rosuvastatin Calcium)							NOW
Insulin							NOW
Testosterone							
Antibiotic							
Proton Pump Inhibitor							
ACE Inhibitor							
Steroids							
SSRI							
PLATFORM / NEUROPATHY							
Cannabis Intractable (1:1)							NOW
Cannabis CINV (2:1)							NOW

Completed / Mature Stages

Planning / Underway

CEO REPORT (cont.)

GLOBAL NUTRACEUTICAL OPPORTUNITIES

Several markets inclusive of Australia and China, now offer the Medlab branded products, and these markets show good growth. In other markets such as the USA and UK, we offer specific products under our secondary label, InMed Technologies, and while marketing is still at an early stage, there is a demonstration of both growth potential and buyer interest.

Medlab is also engaged in talks with companies wanting to licence specific Medlab products for sales under their own distribution.

Our consumer social reach has grown from some 5,000 people since this time last year to approximately 12,000 people globally.

FINANCIAL RESULTS

The global nutraceutical business continues to expand, with 20 products globally, and part of the funds raised through the successful Rights Issue are designated for marketing probiotic/nutraceutical and Nanocelle™ nutraceutical products here as well as overseas. Medlab recorded the best revenue month on record in June 2016.

Total revenue for the year ending 30 June 2016 rose 107% to \$2,620,118, up from \$1,266,160 for the period 17 April 2014 to 30 June 2015.

This upward trend is expected to continue in both domestic and global markets.

STRATEGY

Our strategic vision remains unchanged. We are specifically focused on commercialisation.

Today we still provide for the "now" whilst addressing the company's prosperity. Medlab is proud of its achievements, both with the introduction of nutraceuticals as a compelling practitioner endorsed model and at the acceleration and efficiency of the varying research programmes undertaken.

We thank you for your support and feel that together, through Medlab's progress, we are meeting objectives of healing the sick and providing for the future.

Sincerely,



Sean Hall

FINANCIAL REPORT

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DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Medlab Clinical Limited and its controlled entities at the end of, or during, the year ended 30 June 2016.

Directors

The following persons were directors of the company during the year and up to the date of this report, unless otherwise stated:

S.M. Hall
M.J. Hall
D.A. Townsend

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal Activities

The principal activities of the consolidated group are:

- Sale of nutraceutical products
- Pharmaceutical research

No significant changes in the nature of these activities occurred during the period.

Review of Operations

The loss of the consolidated group after providing for income tax and non-controlling interest amounted to \$3,493,083 (2015: \$3,552,842).

At period end, the economic entity had total assets of \$3,265,971 and total liabilities of \$1,374,307.

A more detailed operations review can be found in the CEO report.

Significant Changes in the State of Affairs.

No significant changes in the consolidated group's state of affairs occurred during the period.

After Balance Date Events

No matters or circumstances have arisen since 30 June 2016 which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years other than:

On 16 August 2016, the Company successfully completed a fully underwritten pro rata renounceable rights issue with the issue of a total of 14,656,490 new shares. Proceeds totalled \$4,396,947 before costs. The remaining shares under the Shortfall being taken up the Underwriter in accordance with the underwriting agreement being 3,214,010 shares. Total funds raised from the rights issue is \$5,361,150 before costs.

Information Relating to Directors and Company Secretary

Name: Michael Hall
 Title: Non-Executive Chairman
 Qualifications: B.Com, CPA
 Experience: Michael has a long history in the management and building of successful nutrition companies. Michael's early career was in accounting, retailing and private banking.
 Other current directorships: None
 Former directorships (last 3 years): None
 Special responsibilities: Member of:
 • Risk Management and Audit Committee
 • Nomination and Remuneration Committee
 Interest in shares: 12,534,445 ordinary shares
 Interest in options: 3,500,000 unquoted options
 Contractual right to shares: None

Name: Sean Hall
 Title: Managing Director and Chief Executive Officer
 Qualifications: B.A(Psych), MBA
 Experience: Sean has over 20 years experience in the Australian Healthcare and food industries and early phase drug discovery in Australia and Asia. Sean is best known for building Australia's leading practitioner brand, BioCeuticals. Sean is an active member of Medicines Australia, American Federation for Medical Research, American Academy of Anti-Ageing Medicine, Ausbiotech, a member of the Scientific Advisory Board for BITs Life Science China and a Board Member of the International Probiotics Association. Sean has completed Executive Education at Harvard Graduate School of Business and more recently continuing Medical Education through Harvard Medical School.
 Other current directorships: None
 Former directorships (last 3 years): None
 Special responsibilities: Member of:
 • Nomination and Remuneration Committee
 Interest in shares: 56,255,555 ordinary shares
 Interest in options: 5,000,000 unquoted options
 Contractual right to shares: None

Name: Drew Townsend
 Title: Non-Executive Director
 Qualifications: B.Com, CA, MAICD
 Experience: Drew is a senior partner in the chartered accounting firm of Hall Chadwick and has been a partner in this firm for over 25 years. He is an experienced chartered accountant and corporate advisor to numerous SMEs.
 Other current directorships: Non-Executive Chairman of Qantum Energy Limited
 Former directorships (last 3 years): None
 Special responsibilities: Chairman of:
 • Risk Management and Audit Committee
 • Nomination and Remuneration Committee
 Interest in shares: 16,055,553 ordinary shares
 Interest in options: None
 Contractual right to shares: None

Name: Alan Dworkin
 Title: Company Secretary
 Qualifications: B.Bus, CA, ACSA, GAICD
 Experience: Alan is a Chartered Accountant with over 18 years experience in tax, resources and nutraceutical sectors, including the last six years as CFO and Company Secretary of FIT-BioCeuticals Limited.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2016, and the number of meetings attended by each director were:

Name	Full Board		Nomination and Remuneration Committee		Risk Management and Audit Committee	
	Attended	Held	Attended	Held	Attended	Held
Michael Hall	7	7	1	1	1	2
Drew Townsend	7	7	1	1	2	2
Sean Hall	7	7	1	1	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Future Developments

Likely developments in the operations of the consolidated group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the consolidated group.

Environmental Issues

The consolidated group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a State or Territory.

Shares under Option

At the date of this report, the unissued ordinary shares of Medlab Clinical Limited under option are as follows:

Grant date	Date of expiry	Exercise price	Number under option
17 April 2014	30 June 2019	\$0.30	10,000,000
10 July 2015	30 June 2020	\$0.30	1,541,725
2 November 2015	30 June 2019	\$0.30	1,000,000

Option holders do not have rights to participate in any issues of shares or other interests in the company or any or any other entity.

REMUNERATION REPORT

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

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

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity.

Alignment to shareholders' interests:

- Has economic profit as a core component of plan design
- Focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- Attracts and retains high calibre executives

Alignment to program participants' interests:

- Rewards capability and experience
- Reflects competitive reward for contribution to growth in shareholder wealth
- Provides a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive directors and executive remunerations is separate.

Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 26 October 2015, where the shareholders approved a maximum annual aggregate remuneration of \$300,000.

Executive remuneration

The consolidated entity aims to reward executives with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components.

The executive remuneration and reward framework has three components:

- Base pay and non-monetary benefits
- Share-based payments
- Other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee, based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives under the shareholder approved Employee Share Option Plan (ESOP) based on long-term incentive measures. These include increase in shareholders value relative to the entire market and the increase compared to the consolidated entity's direct competitors. The Nomination and Remuneration Committee reviewed the long-term equity-linked performance incentives specifically for executives during the year ended 30 June 2016. As at 30 June 2016, no options were issued under the ESOP.

Voting and comments made at the company's 2015 Annual General Meeting (AGM)

At the 2015 AGM, 99.87% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2015. The Company did not receive any specific feedback at the AGM regarding its remuneration package.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors of Medlab Clinical Limited:

- Michael Hall – Non-Executive Chairman
- Drew Townsend – Non-Executive Director
- Sean Hall – Managing Director and Chief Executive Officer

And the following persons:

- Alan Dworkin – Chief Financial Officer and Company Secretary
- Dr Luis Vitetta – Director of Medical Research
- Dr David Rutolo – Director of Science

2016	Short-term benefits			Post-employment benefits	Share-based benefits	Total \$
	Cash salary and fees \$	Cash bonus \$	Non-monetary \$	Super-annuation \$	Equity settled \$	
<i>Directors:</i>						
Michael Hall	124,863	-	-	4,737	-	129,600
Drew Townsend	61,383	-	-	-	-	61,383
Sean Hall	299,178	-	-	28,422	-	327,600
<i>Other Key Management Personnel:</i>						
Alan Dworkin	170,533	-	-	16,150	-	186,683
Luis Vitetta	250,239	-	-	23,773	-	274,012
David Rutolo	161,195	-	-	13,260	-	174,455
	1,067,391	-	-	86,342	-	1,153,733

2015	Short-term benefits			Post-employment benefits	Share-based benefits	Total \$
	Cash salary and fees \$	Cash bonus \$	Non-monetary \$	Super-annuation \$	Equity settled \$	
<i>Directors:</i>						
Michael Hall	112,860	-	-	4,190	-	117,050
Drew Townsend	53,276	-	-	-	-	53,276
Sean Hall (1)	264,658	-	-	25,142	-	289,800
<i>Other Key Management Personnel:</i>						
Alan Dworkin (3)	66,245	-	-	6,293	-	72,538
Luis Vitetta (2)	307,090	-	-	27,366	-	334,456
David Rutolo	149,309	-	-	12,109	-	161,418
	953,438	-	-	75,100	-	1,028,538

Notes:

1. Sean Hall commenced earning a salary from 11 August 2014
2. Luis Vitetta was earning a salary during the entire period of 17 April 2014 to 30 June 2015.
3. Alan Dworkin commenced employment on 9 February 2015

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2016	2015	2016	2015	2016	2015
<i>Directors:</i>						
Michael Hall	100%	100%	-%	-%	-%	-%
Drew Townsend	100%	100%	-%	-%	-%	-%
Sean Hall	100%	100%	-%	-%	-%	-%
<i>Other Key Management Personnel:</i>						
Alan Dworkin	100%	100%	-%	-%	-%	-%
Luis Vitetta	100%	100%	-%	-%	-%	-%
David Rutolo	100%	100%	-%	-%	-%	-%

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements or employment contracts. Details of these agreements are as follows:

Name: Sean Hall
 Title: Managing Director and Chief Executive Officer
 Agreement commenced: 1 July 2012
 Term of agreement: No Fixed Term
 Details: Base salary for the year ending 30 June 2016 of \$300,000 plus superannuation, to be reviewed annually by the Nomination and Remuneration Committee. 12 month termination notice by either party, non-solicitation and non-compete clauses.

Name: Alan Dworkin
 Title: Chief Financial Officer and Company Secretary
 Agreement commenced: 9 February 2015
 Term of agreement: No Fixed Term
 Details: Base salary for the year ending 30 June 2016 of \$170,000 plus superannuation, to be reviewed annually by the Nomination and Remuneration Committee. 4 weeks termination notice by either party, eligible to be part of the consolidated entity's ESOP.

Name: Luis Vitetta
 Title: Director of Medical Research
 Agreement commenced: 4 March 2013
 Term of agreement: No Fixed Term
 Details: Base salary for the year ending 30 June 2016 of \$250,250 plus superannuation, to be reviewed annually by the Nomination and Remuneration Committee. 2 weeks termination notice by either party, eligible to be part of the consolidated entity's ESOP.

Name: David Rutolo
 Title: Director of Science
 Agreement commenced: 22 January 2015
 Term of agreement: No Fixed Term
 Details: Base salary for the year ending 30 June 2016 of US\$120,000 plus employment benefits, to be reviewed annually by the Nomination and Remuneration Committee. 30 days termination notice by either party.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date \$	Expiry date	Exercise price
2 November 2015	30 June 2017	30 June 2019	\$0.30

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2016 are set out below:

Name	Number of options granted during the year 2016	Number of options vested during the year 2016	Number of options granted during the year 2015	Number of options vested during the year 2015
Michael Hall	-	-	3,500,000	-
Sean Hall	-	-	5,000,000	-
Luis Vitetta	-	-	1,500,000	-
Alan Dworkin	1,000,000	-	-	-

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2016 are set out below:

- None

This concludes the remuneration report, which has been audited.

Indemnification of Officers

No indemnities have been given or insurance premiums paid, during the financial year, for any person who is or has been an officer or auditor of the controlled group.

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.

The company was not a party to any such proceedings during the year.

Non-Audit Services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 21 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 21 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

ASX Listing Rule 11.1.3

In accordance with ASX Listing Rule 11.1.3, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission (14 July 2015) to the year ending 30 June 2016 in a way consistent with its business objectives.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2016 has been received and can be found on page 18 of the financial report.

Signed in accordance with a resolution of the Board of Directors.



S Hall
Director



D Townsend
Director

Dated this 31st day of August 2016



Auditor's Independence Declaration Under Section 307C of the Corporations Act 2001

As auditor for the audit of Medlab Clinical Limited and its Controlled Entities for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Dated at Sydney the 30th day of August 2016.

A handwritten signature in black ink, appearing to read 'Tim Valtwies'.

ESV Accounting and Business Advisors

A handwritten signature in black ink, appearing to read 'Tim Valtwies'.

Tim Valtwies
Partner

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 \$	For the period 17 April 2014 to 30 June 2015 \$
Revenue	3	2,620,118	1,266,160
Raw materials and consumables used		(862,955)	(100,662)
Employee benefits expense		(2,568,944)	(2,156,689)
Depreciation and amortisation expense		(125,905)	(133,236)
Professional and consulting fees		(778,030)	(879,439)
Operating lease costs		(279,459)	(348,787)
Finance costs		(16,295)	(10,127)
Selling & marketing expenses		(242,465)	(296,508)
Other expenses	4	(1,467,031)	(1,248,947)
Loss before income tax		(3,720,966)	(3,908,235)
Income tax expense	5	-	-
Net loss for the period		(3,720,966)	(3,908,235)
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(3,177)	32,965
Other comprehensive loss for the year, net of tax		(3,177)	32,965
Total comprehensive loss for the year		(3,724,143)	(3,875,270)
Net loss attributable to:			
Members of the parent entity		(3,493,083)	(3,552,842)
Non-controlling interest		(227,883)	(355,393)
		(3,720,966)	(3,908,235)
Total comprehensive loss attributable to:			
Members of the parent entity		(3,494,990)	(3,488,892)
Non-controlling interest		(229,153)	(386,378)
		(3,724,143)	(3,875,270)
Earnings per share		Cents	Cents
Basic earnings per share	28	(2.19)	(3.12)
Diluted earnings per share	28	(2.13)	(3.12)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Notes	2016 \$	2015 \$
ASSETS			
Current Assets			
Cash and cash equivalents	6	801,368	115,815
Trade and other receivables	7	1,141,211	841,434
Inventories	8	690,557	386,308
Other assets	9	136,933	387,873
Total Current Assets		2,770,069	1,731,430
Non-Current Assets			
Property, plant and equipment	10	495,902	540,643
Total Non-Current Assets		495,902	540,643
TOTAL ASSETS		3,265,971	2,272,073
LIABILITIES			
Current Liabilities			
Trade and other payables	11	906,383	891,932
Employee benefits	12	147,366	80,658
Borrowings	13	19,528	755,265
Total Current Liabilities		1,073,277	1,727,855
Non-Current Liabilities			
Provisions	14	37,500	27,500
Other liabilities	15	10,482	14,341
Borrowings	13	253,048	245,606
Total Non-Current Liabilities		301,030	287,447
TOTAL LIABILITIES		1,374,307	2,015,302
NET ASSETS		1,891,664	256,771
EQUITY			
Issued capital	16	10,611,410	5,252,374
Reserves	17	62,043	63,950
Accumulated losses		(8,125,262)	(4,632,179)
Equity attributable to the owners of Medlab Clinical Limited		2,548,191	684,145
Outside equity interest		(656,527)	(427,374)
TOTAL EQUITY		1,891,664	256,771

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

Consolidated Group	Issued Capital \$	Accumulated Losses Attributable to members of the parent company \$	Reserves \$	Attributable to owners of the parent \$	Non- Controlling Interests \$	Total \$
Balance at 17 April 2014	2,252,374	(1,079,337)	-	1,173,037	(40,996)	1,132,041
Loss after income tax for the period		(3,552,842)		(3,552,842)	(355,393)	(3,908,235)
Other comprehensive income for the period, net of tax			63,950	63,950	(30,985)	32,965
Total comprehensive income for the period	-	(3,552,842)	63,950	(3,488,892)	(386,378)	(3,875,270)
Transactions with owners in their capacity as owners: Contributions of equity, net of transaction costs (Note 16)	3,000,000			3,000,000		3,000,000
Balance at 30 June 2015	5,252,374	(4,632,179)	63,950	684,145	(427,374)	256,771

Consolidated Group	Issued Capital \$	Accumulated Losses Attributable to members of the parent company \$	Reserves \$	Attributable to owners of the parent \$	Non- Controlling Interests \$	Total \$
Balance at 1 July 2015	5,252,374	(4,632,179)	63,950	684,145	(427,374)	256,771
Loss after income tax for the period		(3,493,083)		(3,493,083)	(227,883)	(3,720,966)
Other comprehensive income for the period, net of tax			(1,907)	(1,907)	(1,270)	(3,177)
Total comprehensive income for the period	-	(3,493,083)	(1,907)	(3,494,990)	(229,153)	(3,724,143)
Transactions with owners in their capacity as owners: Contributions of equity, net of transaction costs (Note 16)	5,359,036			5,359,036		5,359,036
Balance at 30 June 2016	10,611,410	(8,125,262)	62,043	2,548,191	(656,527)	1,891,664

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 \$	For the period 17 April 2014 to 30 June 2015 \$
Cash Flows from Operating Activities			
Receipts from customers		1,579,382	316,453
Receipts from R&D Tax refund		839,192	536,187
Payments to suppliers and employees		(6,357,789)	(4,835,027)
Finance costs		(8,853)	(1,756)
Interest received		51,235	18,539
Net (used) from operating activities	6	(3,896,833)	(3,965,604)
Cash flows from Investing Activities			
Purchase of plant and equipment		(79,623)	(192,460)
Net cash (used in) investing activities		(79,623)	(192,460)
Cash flows from Financing Activities			
Loans from directors		-	948,525
Repayment of borrowings		(755,005)	-
Proceeds from issue of shares		6,166,900	3,000,000
Share issue transaction costs		(731,039)	-
Net cash from financing activities		4,680,856	3,948,525
Net decrease in cash held		704,400	(209,539)
Cash and cash equivalents at beginning of financial year		115,815	322,731
Exchange rate adjustments		(18,847)	2,623
Cash and cash equivalents at end of the financial year	6	801,368	115,815

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

The consolidated financial statements and notes represent those of Medlab Clinical Limited and controlled entities (Company, Group or consolidated entity).

The place of business of the Parent Company is:

Medlab Clinical Limited
66 McCauley Street
Alexandria NSW 2015

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 2.

The Financial Statements were authorised for issue by the Directors on 31 August 2016.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The financial statements have been prepared under the historical cost convention.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1.

1.2 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Medlab Clinical Limited ('company' or 'parent entity') as at 30 June 2016 and the results of all subsidiaries for the period then ended. Medlab Clinical Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1.4 INVENTORIES

Raw materials (capsules, bottles and labels), work in progress and finished goods are stated at the lower of cost and net realisable value on a weighted average basis. Cost comprises direct materials and delivery costs, import duties and other taxes. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Culture libraries

Costs associated with the acquisition of culture libraries are expensed in the period in which they are incurred.

1.5 PROPERTY, PLANT AND EQUIPMENT

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line or diminishing value basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

- Leasehold improvements 3-15 years
- Plant and equipment 3-13 years
- Office furniture and equipment 3-10 years

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

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the company. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

1.7 LEASING

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight line basis over the term of the lease.

1.8 PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.9 EMPLOYEE BENEFITS

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

1.10 REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sale of nutraceuticals

Sale of goods revenue is recognised at the point of sale, which is at the time when the customer's orders are despatched. Amounts disclosed as revenue are net of sales returns and trade discounts.

R&D refundable tax offset

Tax refundable tax offset is recognised when there is a reasonable assurance that the incentive will be received and all attached conditions will be complied with.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

R&D contract revenue

R&D contract revenue is recognised by reference to the stage of the contracts. Stage of completion is measured by reference to milestones achieved as per the contract. Where the milestones are not clarified as per the contract, revenue is recognised based on other indications as per the contract.

1.11 FOREIGN CURRENCIES

1.11.1 Individual Controlled Entities

The individual Financial Statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated Financial Statements, the financial results and financial position of each Group entity are expressed in Australian Dollars ('\$'), which is the functional currency of Medlab Clinical Limited, and the presentation currency for the consolidated Financial Statements.

1.11.2 Foreign Currency Transactions

In preparing the Financial Statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

1.11.3 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 where the average rate approximates the rate at the date of the transaction; and
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of profit or loss and other comprehensive income in the period.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.12 GOODS AND SERVICE TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

1.13 TAXATION

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Company and its wholly owned Australian resident entities are part of a tax consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax consolidated group is Medlab Clinical Limited.

1.14 ISSUED CAPITAL

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.

1.15 EXPENSES

Research and development

Research and development costs are expensed in the period in which they are incurred.

Patents and trademarks

Costs associated with patents and trademarks are expensed in the period in which they are incurred.

Website development costs

Costs associated with website development are expensed in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.16 TRADE AND OTHER RECEIVABLES

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor and default payments are considered objective evidence of impairment. Bad debts are written off when identified as uncollectable.

1.17 TRADE AND OTHER PAYABLES

Liabilities for trade creditors are carried at cost which is the fair value of the consideration to be paid in the future for goods or services received, whether or not billed to the Group at balance date. The amounts are unsecured and are usually paid within 30 days of recognition.

1.18 BORROWINGS

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs.

1.19 EARNINGS PER SHARE

Basic earnings per share

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

Diluted earnings per share

Diluted figures adjust 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 costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

NEW, REVISED OR AMENDING ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The consolidated entity has not elected to adopt any accounting standards or amendments to standards or interpretations issued prior to the date of this report where application is not mandatory for the year ended 30 June 2016.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. AASB 15 introduces a five step process for revenue recognition with the core principle of the new Standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. Accounting policy changes will arise in timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element. AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. AASB 16 will cause the majority of leases of an entity to be brought onto the statement of financial position. There are limited exceptions relating to short-term leases and low value assets which may remain off-balance sheet. The calculation of the lease liability will take into account appropriate discount rates, assumptions about lease term and increases in lease payments. A corresponding right to use asset will be recognised which will be amortised over the term of the lease. Rent expense will no longer be shown, the profit and loss impact of the leases will be through amortisation and interest charges. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the accounting policies, which are described in note 1, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 2 – PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

	2016 \$	2015 \$
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	865,925	373,565
Non-current assets		
- Investments in subsidiaries	2,252,374	2,252,374
- Loans to subsidiaries	7,914,544	3,095,000
TOTAL ASSETS	11,032,843	5,720,939
LIABILITIES		
Current liabilities	91,449	557,598
TOTAL LIABILITIES	91,449	557,598
EQUITY		
Issued capital	10,611,410	5,252,374
Retained earnings	329,984	(89,033)
TOTAL EQUITY	10,941,394	5,163,341

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2016.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 3 – REVENUE

	2016 \$	2015 \$
Sales revenue:		
- Sale of goods	1,502,003	197,184
- Rendering of R&D services & consultation	219,137	165,573
	1,721,140	362,757
Other revenue:		
- Interest received	51,811	18,539
- R&D tax incentive	839,192	884,864
- Other income	7,975	-
	898,978	903,403
Total revenue	2,620,118	1,266,160

NOTE 4 – OTHER EXPENSES

	2016 \$	2015 \$
Other expenses includes the following specific expenses:		
Lab Consumables	100,425	106,759
Telephone and internet	94,556	130,013
Travel	225,727	167,173

NOTE 5 – INCOME TAX EXPENSE

	2016 \$	2015 \$
The prima facie tax on the (loss) from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on (loss) from ordinary activities before income tax at 30%	(1,116,290)	(1,172,471)
Add tax effect of:		
- non-deductible R&D expense	504,000	504,000
- entertainment	11,926	12,062
- other non-deductible expenses	4,980	36,960
Less: tax effect of:		
- Tax effect of different company tax rate in USA (35%)	(12,324)	(22,067)
- R&D incentive receivable	(226,800)	(226,800)
Future income tax benefit not recognised	834,508	868,316
	-	-

The economic entity has separate tax entities within Australia and the United States. All tax jurisdictions have tax losses, which are not recognised in their books at 30 June 2016. The unused tax losses held in the Australian group companies as at 30 June 2016 are \$3,861,208 and a further \$1,151,229 (USD) was held in the US companies. The tax losses are available for offset against future taxable profits of the companies in which losses arose within each tax jurisdiction subject to certain conditions being met.

The Directors have not brought to account a deferred tax asset to recognise the potential tax benefit of these tax losses as any benefit will only be obtained if:

- The economic entity meets the conditions for deductibility imposed by tax legislation in relation to the same business test and continuity of ownership laws;
- The economic entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from deductions for the losses to be realised; and
- No changes in tax legislation occur in future years that would adversely affect the economic entity in realising the benefit from the deductions for the losses (in the event they qualify to be utilised by the economic entity).

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 6 – CASH AND CASH EQUIVALENTS

	2016 \$	2015 \$
Cash at bank and on hand	801,368	115,815
Reconciliation of cash flow from operations with loss from ordinary activities after income tax		
Loss after income tax	(3,720,966)	(3,908,235)
Non-cash flows in profit		
Foreign exchange gains and losses	14,127	14,440
Depreciation and amortisation	125,905	133,236
Changes in assets and liabilities		
- (Increase)/decrease in receivables	(149,769)	(395,159)
- (Increase)/decrease in prepayments	(51,348)	(29,052)
- (Increase)/decrease in inventories	(317,249)	(386,308)
- Increase/(decrease) payables	202,467	605,474
Cash flows from operations	(3,896,833)	(3,965,604)

NOTE 7 – TRADE AND OTHER RECEIVABLES

	2016 \$	2015 \$
Current		
Trade receivables	377,708	84,395
Less: Provision for impairment of receivables	-	-
	377,708	84,395
Other receivables	763,503	757,039
Total current receivables	1,141,211	841,434

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$55,592.

The consolidated entity did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based recent collection practices.

The ageing of the past due but not impaired receivables are as follows

	2016 \$	2015 \$
0 to 3 months overdue	44,144	6,742
3 to 6 months overdue	11,448	-
Over 6 months overdue	-	-
	55,592	6,742

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 8 – INVENTORIES

	2016 \$	2015 \$
Current		
Raw materials	103,909	51,926
Finished goods	599,648	334,382
	703,557	386,308
Less: Provision for obsolescence	(13,000)	-
Total inventories	690,557	386,308

NOTE 9 – OTHER ASSETS

	2016 \$	2015 \$
Current		
Prepayments	80,400	29,052
ASX Listing costs	-	356,298
Rental bond	56,533	2,523
Total current other assets	136,933	387,873

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT

	2016 \$	2015 \$
Plant and equipment – cost	464,960	433,445
Less accumulated depreciation	(142,018)	(92,517)
	322,942	340,928
Leasehold improvements - cost	123,942	99,579
Less accumulated amortisation	(45,671)	(26,382)
	78,271	73,197
Office furniture & equipment – cost	251,956	226,484
Less accumulated depreciation	(157,267)	(99,966)
	94,689	126,518
Total property, plant and equipment	495,902	540,643

(a) Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Plant & Equipment \$	Office Furniture & Equipment \$	Leasehold Improvements \$	Total \$
Consolidated Group:				
Balance at 16 April 2014	376,072	47,490	57,857	481,419
Additions	19,106	139,182	34,172	192,460
Disposals	-	-	-	-
Depreciation expense	(54,250)	(61,079)	-	(115,329)
Amortisation expense	-	-	(18,832)	(18,832)
Foreign currency translation	-	925	-	925
Carrying amount at 30 June 2015	340,928	126,518	73,197	540,643

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	Plant & Equipment \$	Office Furniture & Equipment \$	Leasehold Improvements \$	Total \$
Consolidated Group:				
Balance at 1 July 2015	340,928	126,518	73,197	540,643
Additions	31,518	23,745	24,363	79,626
Disposals	-	-	-	-
Depreciation expense	(49,504)	(57,112)	-	(106,616)
Amortisation expense	-	-	(19,289)	(19,289)
Foreign currency translation	-	1,538	-	1,538
Carrying amount at 30 June 2016	322,942	94,689	78,271	495,902

NOTE 11 – TRADE AND OTHER PAYABLES

	2016 \$	2015 \$
Current		
Unsecured liabilities:		
Trade payables	546,133	357,152
Sundry payables and accrued expenses	360,250	534,780
	906,383	891,932

NOTE 12 – EMPLOYEE BENEFITS

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the company does not have an unconditional right to defer settlement.

	2016 \$	2015 \$
Current		
Employee benefits	147,366	80,658
	147,366	80,658

NOTE 13 – BORROWINGS

	2016 \$	2015 \$
Current		
Loans from directors (a)	-	755,005
Loan from other parties	19,528	260
Total current borrowings	19,528	755,265
Non Current		
Loan from director (b)	253,048	245,606
Total non-current borrowings	253,048	245,606

- (a) Mr Sean Hall and Mr Michael Hall advanced funds to the Company to cover for any shortfall as the Company completed the ASX Listing. The loans were to be repaid within 10 business days after the Listing and incurred interest at 5.8%pa.
(b) Mr Sean Hall has advanced funds to the Company. The loan is to be repaid by 31 December 2017 and will incur interest at 3%pa.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 14 – PROVISIONS

	2016 \$	2015 \$
Non-Current		
Provision for lease make-good	37,500	27,500
Total non-current provisions	37,500	27,500

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	Lease Make Good \$
Carrying amount at the start of the year	27,500
Additional provisions recognised	10,000
Carrying amount at the end of the year	37,500

NOTE 15 – OTHER LIABILITIES

	2016 \$	2015 \$
Non-Current		
Deferred lease liability	10,482	14,341
	10,482	14,341

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 16 – ISSUED CAPITAL

	2016 Number	2015 Number	2016 \$	2015 \$
Ordinary shares – fully paid	160,834,500	130,000,000	10,611,410	5,252,374
	160,834,500	130,000,000	10,611,410	5,252,374

Movements in ordinary share capital

Details	Date	No. of Shares	Issue Price \$	Total \$
Balance	17 April 2014	70,000,000	0.05	2,252,374
Issue of shares	18 July 2014	33,000,000	0.05	1,650,000
Issue of shares	4 August 2014	2,000,000	0.05	100,000
Issue of shares	19 August 2014	6,600,000	0.05	330,000
Issue of shares	21 August 2014	1,000,000	0.05	50,000
Issue of shares	25 August 2014	1,000,000	0.05	50,000
Issue of shares	27 August 2014	1,000,000	0.05	50,000
Issue of shares	9 September 2014	4,000,000	0.05	200,000
Issue of shares	15 September 2014	1,000,000	0.05	50,000
Issue of shares	19 September 2014	2,000,000	0.05	100,000
Issue of shares	6 October 2014	1,000,000	0.05	50,000
Issue of shares	15 October 2014	1,000,000	0.05	50,000
Issue of shares	31 October 2014	6,400,000	0.05	320,000
Balance	30 June 2015	130,000,000		5,252,374
Issue of shares - IPO	14 July 2015	30,834,500	0.20	6,166,900
Share issue costs, net of tax				(807,864)
Balance	30 June 2016	160,834,500		10,611,410

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies. The consolidated entity would also look to raise capital if there is a need for additional funds for strategic (whether nutraceutical or R&D) or working capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 17 – RESERVES

Foreign Currency Translation Reserve: The foreign currency translation reserve records exchange differences arising on translation of overseas controlled subsidiaries (United States).

	2016 \$	2015 \$
Reserves		
Foreign currency translation reserve	62,043	63,950
	62,043	63,950

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

	Foreign Currency
Consolidated	
Balance at 16 April 2014	-
Foreign currency translation	63,950
Balance at 30 June 2015	63,950
Foreign currency translation	(1,907)
Balance at 30 June 2016	62,043

NOTE 18 – SHARE-BASED PAYMENTS

1,000,000 share options were granted to Key Management Personnel on 2 November 2015 at an exercise price of \$0.30 per share as identified in the directors' report. The share options have been established by the consolidated entity and approved by the shareholders at the 2015 General Meeting. The options are issued for nil consideration. Set out below is the summary of the options granted:

2016 Grant Date	Expiry Date	Grant Price	Exercise Price	Balance at start of year	Granted	Exercised	Forfeited/ Expired/ Other	Balance at end of year
17/04/2014	30/06/2019	Nil	\$0.30	-	10,000,000	-	-	10,000,000
2/11/2015	30/06/2019	Nil	\$0.30	10,000,000	1,000,000	-	-	11,000,000

2015 Grant Date	Expiry Date	Grant Price	Exercise Price	Balance at start of year	Granted	Exercised	Forfeited/ Expired/ Other	Balance at end of year
17/04/2014	30/06/2019	Nil	\$0.30	-	10,000,000	-	-	10,000,000

An employee share option plan has been established by the consolidated entity and approved by shareholders at a general meeting, whereby the consolidated entity may, at the discretion of the board of Directors, grant options over ordinary shares in the company to certain staff of the consolidated entity. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee. No options have been issued under this employee share option plan as of the date of this financial report.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 19 – EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since 30 June 2016 which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years other than:

On 16 August 2016, the Company successfully completed a fully underwritten pro rata renounceable rights issue with the issue of a total of 14,656,490 new shares. Proceeds totalled \$4,396,947 before costs. The remaining shares under the Shortfall being taken up the Underwriter in accordance with the underwriting agreement being 3,214,010 shares. Total funds raised from the rights issue is \$5,361,150 before costs.

NOTE 20 – COMMITMENTS

Operating Lease Commitments	2016 \$	2015 \$
Payable:		
- not later than 12 months	299,244	227,614
- between 12 months and five years	251,361	188,095
Total operating lease commitments	550,605	415,709

Operating lease commitments includes contracted amounts for business premises and equipment leases under non-cancellable operating leases expiring within one to 5 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

NOTE 21 – AUDITORS REMUNERATION

During the financial year the following fees were paid or payable for services provided by ESV Accounting and Business Advisors, the auditor of the company, its network firms and unrelated firms:

	2016 \$	2015 \$
- auditing or reviewing the financial report	39,824	54,697
- due diligence services	-	19,600
- other services	-	-

NOTE 22 – CONTINGENT LIABILITIES

The Company has given bank guarantees as at 30 June 2016 of \$52,503 towards the rental bond.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 23 – INTERESTS IN SUBSIDIARIES

Name	Principal Place of Business/Country of Incorporation	Ownership Interest 2016	Ownership Interest 2015
Medlab Pty Ltd	Australia	100%	100%
Medlab Clinical US Inc	United States of America	60%	60%
Medlab IP Pty Ltd	Australia	100%	100%
Medlab Research Pty Ltd	Australia	100%	100%
Medlab Nutraceuticals Inc	United States of America	50%	50%
Medlab Research Ltd	United Kingdom	100%	-

NOTE 24 – FINANCIAL INSTRUMENTS

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions, net assets of subsidiaries and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

In order to protect against exchange rate movement, the consolidated entity has entered into forward foreign exchange contracts. These contracts are hedging highly probable forecasted cash flows for the ensuing financial year. Management has a risk policy to hedge around 50% of anticipated foreign currency transactions for the subsequent 6 to 12 months.

The maturity, settlement amounts and the average contractual exchange rates of the consolidated entity's outstanding forward foreign exchange contracts at the reporting date were as follows:

	Sell Australian dollars 2016	Average exchange rates 2016
Buy US dollars Maturity:		
3-6 months	152,396	0.7593

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 24 – FINANCIAL INSTRUMENTS (CONTINUED)

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets 2016 \$	Liabilities 2016 \$	Assets 2015 \$	Liabilities 2015 \$
US dollars	57,551	4,217	157,010	3,761
	57,551	4,217	157,010	3,761

The consolidated entity had net assets denominated in foreign currencies of \$53,334 (assets of \$57,551 less liabilities of \$4,217) as at 30 June 2016. Based on this exposure, had the Australian dollar weakened by 10%/strengthened by 5% against these foreign currencies with all other variables held constant, the consolidated entity's profit before tax for the year would have been \$65,000 lower/\$25,000 higher and equity would have been \$8,000 lower/\$4,000 higher. The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 30 June 2016 was \$14,127.

Price risk

The consolidated entity is not exposed to any significant price risk.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 24 – FINANCIAL INSTRUMENTS (CONTINUED)

Consolidated - 2016	Weighted average interest rate %	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-%	546,133	-	-	-	546,133
Other payables	-%	360,250	-	-	-	360,250
<i>Interest-bearing - fixed rate</i>						
Director Loans	3.00%		253,048	-	-	253,048
Total non-derivatives		906,383	253,048	-	-	1,159,431

Consolidated - 2015	Weighted average interest rate %	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-%	357,152	-	-	-	357,152
Other payables	-%	534,780	-	-	-	534,780
<i>Interest-bearing - fixed rate</i>						
Director Loans	5.80%	755,005	-	-	-	755,005
Director Loans	3.00%		-	245,606	-	245,606
Total non-derivatives		1,646,937	-	245,606	-	1,892,543

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 25 – ACCUMULATED LOSSES

	2016 \$	2015 \$
Accumulated losses at the beginning of the year	5,028,568	1,120,333
Loss for the year	3,720,966	3,908,235
Accumulated losses at the end of the year	8,749,534	5,028,568

NOTE 26 – KEY MANAGEMENT PERSONNEL DISCLOSURES

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	2016 \$	2015 \$
Short-term employee benefits	1,067,391	953,438
Post-employment benefits	86,342	75,100
	1,153,733	1,028,538

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 27 – RELATED PARTY TRANSACTIONS

Parent entity

Medlab Clinical Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 23.

Key management personnel

Disclosures relating to key management personnel are set out in note 26 and the remuneration report in the directors' report.

	2016 \$	2015 \$
Payment for goods and services:		
Payment for taxation services from Hall Chadwick (director-related entity of Drew Townsend)	13,000	700
<i>Receivable from and payable to related parties</i>		
The following balances are outstanding at the reporting date in relation to transactions with related parties:		
Trade payable to Hall Chadwick (director-related entity of Drew Townsend)	-	770
<i>Loans to/from related parties:</i>		
Loans from Sean Hall	253,048	597,751
Loans from Michael Hall	-	402,860

NOTE 28 – EARNINGS PER SHARE

	2016 \$	2015 \$
Loss for the year	3,720,966	3,908,235
Non-controlling interest	(227,883)	(355,393)
Loss attributable to the owners of Medlab Clinical Limited	3,493,083	3,552,842
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	159,736,285	113,792,255
Adjustments for calculation of diluted earnings per share:		
- Options over ordinary shares	4,362,339	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	164,098,624	113,792,255
	Cents	Cents
Basic earnings per share	(2.19)	(3.12)
Diluted earnings per share	(2.13)	(3.12)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 29 – SEGMENT REPORTING

Identification of reportable operating segments

The consolidated entity is organised into two operating segments based on pharmaceutical research and nutraceutical sales. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Operating segment information

Consolidated Group	Nutraceutical \$	Pharmaceutical Research \$	Total \$
Revenue			
Sales to external customers	1,502,003	219,137	1,721,140
Intersegment sales	-	-	-
Total sales revenue	1,502,003	219,137	1,721,140
Other revenue	7,975	839,192	847,167
Total segment revenue	1,509,978	1,058,329	2,568,307
Intersegment eliminations			-
<i>Unallocated revenue:</i>			
Interest revenue			51,811
Total revenue			2,620,118
EBITDA	(2,467,280)	(1,163,297)	(3,630,577)
Depreciation and amortisation			(125,905)
Interest revenue			51,811
Finance costs			(16,295)
Loss before income tax expense			(3,720,966)
Income tax expense			-
Loss after income tax expense			(3,720,966)
Assets			
Segment assets	1,279,498	1,185,105	2,464,603
Intersegment eliminations			-
<i>Unallocated assets:</i>			
Cash and cash equivalents			801,368
Total assets			3,265,971
Liabilities			
Segment liabilities	801,239	320,020	1,121,259
Intersegment eliminations			
<i>Unallocated liabilities:</i>			
Loans			253,048
Total liabilities			1,374,307

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 19 to 45;
 - a. Comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
 - b. Comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements; and
 - c. Give a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1 to the financial statements.
2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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



S Hall
Director



D Townsend
Director

Dated this 31st day of August 2016



Independent Audit Report to the Members of Medlab Clinical Limited and Controlled Entities

Report on the Financial Report

We have audited the accompanying financial report of Medlab Clinical Limited and Controlled Entities ("the Group"), which comprises the statement of financial position as at 30 June 2016, the statement of profit and loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity.

Directors' Responsibility for the Financial Report

The directors of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with the 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 Note 1.1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements, and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the financial report that gives a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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



Independent Audit Report to the Members of Medlab Clinical Limited and Controlled Entities

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Medlab Clinical Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:
 - giving a true and fair view of the financial position of the Group for the year ended 30 June 2016 and of its performance for the year ended on that date; and
 - complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 16 of the directors' report for the year ended 30 June 2016. The directors of the Group 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.

Opinion

In our opinion, the Remuneration Report of Medlab Clinical Limited and Controlled Entities for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

Dated at Sydney the 31st day of August 2016

ESV Accounting and Business Advisors

Tim Valtwies
Partner

SHAREHOLDER INFORMATION

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 23 August 2016.

Distribution of equitable securities

Analysis of number of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	17
1,001 to 5,000	189
5,001 to 10,000	154
10,001 to 100,000	362
100,001 and over	79
	801

Equity security holders

Top 20 quoted equity security holders

The holders of the Top 20 security holders of equity securities are listed below:

	Ordinary Shares	
	Number Held	% of total shares issued
Sean Michael Hall	55,755,555	31.77%
Farjoy Pty Ltd	16,666,666	9.50%
FIT Investments Pty Ltd <Hallab Investment A/C>	12,334,445	7.03%
Realm Group Pty Ltd	10,500,000	5.98%
HSBC Custody Nominees (Australia) Limited	8,645,345	4.93%
Morgan Stanley Australia Securities (Nominee) Pty Ltd <No 1 Account>	6,777,408	3.86%
DJ Fairfull Pty Ltd	5,000,000	2.85%
Rolay Pty Ltd	5,000,000	2.85%
Liyah Pty Ltd	5,000,000	2.85%
Acron Holdings Pty Ltd <Acron Super Fund>	3,932,705	2.24%
United Trolley Collections Pty Ltd	3,740,220	2.13%
Washington H Soul Pattison Pty Ltd	2,756,138	1.57%
Curtinsmith Investments Pty Ltd <Curtinsmith Family Account>	2,000,000	1.14%
David Kenney	1,764,855	1.01%
Stephen John Spencer	1,333,333	0.76%
Sean Kerridge	1,222,222	0.70%
Legend Developments Pty Ltd <A&D Dworkin Family A/C>	1,111,111	0.63%
L&S Investments (Aust) Pty Ltd <L&S Superannuation Fund A/C>	1,000,000	0.57%
Danveer Pty Ltd <Kennedy Super Account>	998,385	0.57%
Citicorp Nominees Pty Ltd	847,737	0.48%
	146,386,125	83.42%

Unquoted equity securities

	Number Held	Number of holders
Options over ordinary shares issued:	11,541,725	3

Substantial Shareholders

	Ordinary Shares	
	Number Held	% of total shares issued
Sean Michael Hall	55,755,555	31.77%
Farjoy Pty Ltd	16,666,666	9.50%
FIT Investments Pty Ltd <Hallab Investment A/C>	12,334,445	7.03%
Realm Group Pty Ltd	10,500,000	5.98%

CORPORATE DIRECTORY

Directors:	Michael Hall Sean Hall Drew Townsend
Company Secretary:	Alan Dworkin
Notice of Annual General Meeting:	The details of the annual general meeting of Medlab Clinical Limited are: Hall Chadwick 40/2 Park Street Sydney NSW 2000 10:00 am on Friday 4 November 2016
Registered Office:	66 McCauley Street Alexandria NSW 2015
Principal Place of Business:	66 McCauley Street Alexandria NSW 2015
Share Registry:	Advanced Share Registry 110 Stirling Highway Nedlands WA 6009
Auditors:	ESV Accounting and Business Advisors Level 18 City Centre 55 Market Street Sydney NSW 2000
Solicitors:	Sparke Helmore Lawyers Level 29 MLC Centre 19 Martin Place Sydney NSW 2000
Patent Attorneys:	Davies Collison Cave 255 Elizabeth Street Sydney NSW 2000
Bank:	Commonwealth Bank Australia Limited
Securities Exchange Listing:	Medlab Clinical Limited shares are listed on the Australian Securities Exchange (ASX: MDC)
Website:	www.medlab.co
Corporate Governance Statement:	http://www.medlab.co/investor/corporate-governance



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