



Memphasys Limited

ABN 33 120 047 556

Financial Year Ended 30 June 2016

Appendix 4E: Performance Commentary

It has been a bitter sweet year for Memphasys. Most legacy issues have been dealt with and there have been many achievements. However, the ongoing difficulty with PrIME Biologics Pte Ltd (“PrIME”), the company that Memphasys spun out in June 2014, and the ensuing litigation against PrIME and its major investor, Palau Manukan Ventures Labuan Ltd (“Manukan”) has put a dampener on the overall result and has placed an extra requirement on Memphasys for ongoing litigation funding.

On the positive side, Memphasys has had a number of achievements over the year.

- Results of an *in-vitro* clinical evaluation by Monash IVF of the performance of a SpermSep research grade device were positive. This study showed that the research grade device worked well and that there is a market need for a clinical grade device;
- The long running and expensive employment contract dispute with the former Managing Director, Mr. Prakash Patel was resolved;
- A legal Collaborative Agreement with the University of Newcastle was executed and the association with the University and with Professor John Aitken was further strengthened;
- Melbourne University’s Chemical and Biomolecular Engineering Department assisted with the development of an entirely new membrane for the SpermSep device. A consulting agreement was executed to develop new membranes and separation technologies for other high value applications beyond the initial new membranes for SpermSep;
- The company continued to refine and develop its strategy for SpermSep. The SpermSep clinical prototype, which the Company is now developing and which is to be evaluated by global key clinical IVF opinion leaders, has a new, cost efficient, biocompatible membrane and a completely re-engineered, simplified and improved design appropriate for clinical use;
- The precast gels business was sold. The sale entails making a quantity of gels for the buyer, transferring intangible assets, packing the plant for relocation to China and subsequently commissioning the plant.

We were delighted to hear that Professor John Aitken won a prestigious, global award on 31 March 2016 in the area of Reproductive Biology. Professor Aitken was only the second researcher outside the USA to ever receive this award.

Memphasys Limited
30-32 Richmond Road
Homebush West NSW 2140

Postal Address
P.O. Box 2202
Homebush West NSW 2140

Contact Details
P +612 8415 7300
F +612 8415 7399

E info@memphasys.com
W memphasys.com
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Another of our earlier collaborators, Emeritus Prof David Solomon, from the University of Melbourne's Chemical and Biomolecular Engineering Department, was also honoured. He received a Companion of the Order of Australia (AC) in the Queen's Birthday honours for his contribution to the field of polymer chemistry and plastics.

With respect to PrIME, the Company is in litigation in the Singapore High Court against PrIME and its key investor, Manukan, which is part of Malaysian Sovereign Fund, Xeraya.

PrIME was spun out of Memphasys in June 2014 for the purpose of using the technology developed by Memphasys in the field of plasma fractionation. PrIME has had substantial external investment since June 2014, principally from Manukan. The investors received Series A preference shares which have voting control. Memphasys is a passive investor and currently holds 95,912 B class shares in PrIME.

In order to obtain the B class shares, Memphasys agreed to take over a third party debt to A-Bio Pharma Pte Ltd ("A-Bio") on the GMP production facility in Singapore that PrIME is using.

Memphasys has not paid the third party debt which was due to be paid to A-Bio at the end of March 2016. Initially A-Bio sought payment from Memphasys but has subsequently sought payment from PrIME. The debt payment is guaranteed by PrIME and the Memphasys' B shares in PrIME are held as security for the payment. There are complex agreements around the debt repayment and this is one area in which Memphasys is in litigation against PrIME and Manukan.

Memphasys has a separate litigation against PrIME in respect of the GF100 machine, a key part of the cGMP accreditation process for PrIME. PrIME is now claiming to own this machine.

Business Activities

Memphasys' main focus is separating high value biological substances from fluids, utilising its proprietary separation membranes and equipment.

Its lead program, SpermSep, efficiently separates the best quality sperm from a semen sample using electrophoresis and specialist membranes, in preparation for IVF. This same principle can also be applied to assisted animal reproduction.

Memphasys is collaborating with the University of Newcastle in both human and animal reproduction. The University's main focus in the animal reproduction field with Memphasys is equine reproduction.

Memphasys is also maintaining its collaboration with Minitube GmbH ("Minitube"), the largest global provider of animal Artificial Reproductive Technologies (ART) products. The main research program with Minitube is the preparation of frozen bovine semen, a technically challenging project, to process in the SpermSep device. Whilst this program is technically difficult it has provided remarkable insights about how the SpermSep device could be re-engineered for the human IVF market. Memphasys is now applying these findings in re-engineering an animal ART device.

Memphasys also has a consultancy arrangement with the University of Melbourne Chemical and Biomolecular Engineering Department and is working on the development of new membranes and other separation systems for additional high value biological separations beyond SpemSep.

Financial Performance

The Company undertook a number of capital raisings: An SPP in August 2015, a placement in January 2016 and an underwritten rights issue in February 2016 which also provided for the conversion of director loans into equity.

In the Non-Renounceable Entitlement Offer announced to the market in February 2016 the Directors converted \$1.53 million debt into equity, thereby strengthening the Company's Statement of Financial Position.

The pre-cast polyacrylamide gel business was sold on 1 April 2016 for US\$130,000. This transaction included the transfer of ownership of the US subsidiary, NuSep Inc., to the buyer. The contribution to losses from the gels business in general, and NuSep Inc in particular (which is included within the gels business) were as follows for the financial year ended June 2016 and the previous period:

	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
Pre-cast polyacrylamide gel business	(133,178)	(375,338)
NuSep Inc (included in gel business)	(97,391)	(307,725)

Due to low sales volume, the Company also decided to discontinue the diagnostics business in June 2016. The contribution to profits from this business in the financial year ended June 2016 and the previous period were as follows:

	Year ended 30 June 2016 \$	Year ended 30 June 2015 \$
Diagnostic business	2,375	89,673

The Company had two remaining sources of revenue, as follows:

- A tax refund on R&D activities. An application for \$497,355 was lodged with AusIndustry on 5 August 2016 and was subsequently approved.
- Rental income from the GF100 machine from PrIME. Whilst the rental amount was \$63,960 in the 2016 financial year, it was not received apart from an isolated, unspecified payment of \$6,829.46 in January 2016. For the 2015 financial year, PrIME paid \$80,080 as rental payments on the machine, which covered rental for the months of May 2014 to June 2015.

Memphasys continued investing in high value adding projects which will not be revenue generating for at least two years. The main project, SpermSep, received the largest investment totaling \$722,251. This investment is expected to increase in future years.

Apart from investing in the development of new membranes for the SpermSep project, at an overall cost of \$206,422, Memphasys also invested in researching other new membranes and new methods for high value biological separations, at a cost of \$176,562. Internal development costs were the largest component of these overall costs but there were some payments also to the University of Melbourne. As the latest project is still in the research stage, its costs have been booked as expenses and will not be capitalised as intangible assets until the project enters the development stage.

Memphasys incurred a \$2,378,721 loss from continuing operations (2015: loss of \$2,360,019). General and Administrative expenses of \$1,863,341 (2015: \$1,509,329) was the largest expense category. This amount includes legal fees for \$413,000 related to the legal case with the former Managing Director Mr. Prakash Patel which was settled in November 2015, the legal case with PrIME over the ownership of the GF100 machine and various legal agreements on the potential sale of the class B shares in PrIME which has not eventuated at this stage. When Memphasys finalises its association with PrIME spending on legal fees will be substantially decreased.

Other one-off expenses incurred in the financial year ended June 2016 by Memphasys are the options granted to Alison Coutts in the November 2015 AGM for \$204,000 (this is an accounting expense as the options have a strike price of 5.7 cents and are

well “out of the money”) and fees for board representation by Alison Coutts and Andrew Goodall on the PrIME board amounting to \$30,753. Both Alison Coutts and Andrew Goodall resigned from the PrIME board during the year and Memphasys no longer has a representative on that board. Consulting services with Transocean Securities Pty Ltd and Robert Gilmour amounted to \$158,000.

Other contributors to the loss were:

- Interest charges on finance costs of \$326,015 (2015: \$682,304). The significant reduction from the financial year 2015 was due to both conversions of debt to equity by the Directors post the AGM 19 December 2014 and in the Non-Renounceable Entitlement Offer announced to the market in February 2016. Also, 83% of the interest charges in the financial year 2016 (\$269,000) were due to the accrual of interest payments on the third party debt to A-Bio.
- Foreign exchange losses of \$156,425 (2015: \$518,515). 93% of these charges (\$145,000) were due to the devaluation of the Australian dollar having an impact on the third party A-Bio debt.

During the year, the Board put into action its earlier decision to focus on value adding R&D activities and streamline operations. It decided to sell the gels business which had insufficient global scale and to cease the diagnostics business, which had become too small to maintain. The FY2016 financial performance does not yet reflect the reduction in operating expenditure from streamlining operations as the large legal expenses have increased overall corporate expenditures.

The largest current liability, shown as \$4.8 million, is the third party debt to A-Bio. A-Bio developed the Singapore cGMP facility, converting a large floor space of an office building to cGMP manufacturing capability. PrIME took over the space with cGMP fit out after A-Bio decided to vacate. Memphasys’ agreement to take responsibility for payment of this debt was part of the agreement for spinning out PrIME. Through that spin out process, Memphasys obtained B class non-voting shares in PrIME.

The value of the B class shares held in PrIME has been maintained at the same cost value as the prior year. Given that the range of reasonable fair value estimates on these shares is significant and the probabilities of the various estimates cannot be reasonably assessed at this stage, Memphasys is precluded from measuring the investment at fair value.

Memphasys is currently seeking to sell its investment in PrIME. This was announced in April and May 2015 and is still the case. Negotiations are continuing, despite the litigation, but have not concluded.

Board and Management

During the financial year Memphasys appointed Dr Robert Gilmour to the Board as a non-executive director. Dr Gilmour is also a consultant to the Company. Michael Graham resigned in January 2016 and Mark Gell resigned in April 2016 as non-executive directors. The Board was grateful for their respective contributions as announced to the market at the time of their resignations.

2017 Outlook

The development of the next generation SpermSep device and new membranes are expected to be value drivers for the company in the foreseeable future, subject to sufficient funding being available and subject to conclusion of the litigation against PrIME and Manukan.

Whilst the directors are hopeful of negotiating a successful resolution of this dispute, no agreement has been reached at this stage.

Memphasys Limited

Appendix 4E

Preliminary final report

Name of entity

Memphasys Limited (formerly NuSep Holdings Ltd)

ABN or equivalent company
reference

33 120 047 556

Financial year ended ('current period')

30 JUNE 2016

(Comparisons to 30 June 2015)

For announcement to the market

\$A'000

					\$1,500
Revenue from continuing ordinary activities	Decreased	20%	to	64	
Total income from continuing ordinary activities	Decreased	73%	to	146	
Loss from continuing operations	Increased	1%	to	(2,378)	
Loss from ordinary activities after tax attributable to members	Decreased	5%	to	(2,510)	
Net Loss for the period attributable to members	Decreased	5%	to	(2,510)	
Dividends (distributions)	Amount per security		Franked amount per security		
Final dividend	Nil		Nil		
Previous corresponding year	Nil		Nil		
Record date for determining entitlements to the dividend,	<div>N/A</div>				
For a brief explanation of any of the figures reported above see notes below and also refer to the attached market announcement.					

1. Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 30 June 2016 \$	For the year ended 30 June 2015 \$
Continuing operations		Restated
1.1 Revenue		
Revenue from sales or services	63,960	79,900
Gross profit	63,960	79,900
Grant income	79,453	376,584
Finance income	2,220	5,075
Gain on disposal of investments	-	77,945
General & administration	(1,863,341)	(1,509,329)
Research & development	(178,573)	(207,706)
Finance cost expense	(326,015)	(682,304)
Impairment reversal	-	18,331
Foreign exchange	(156,425)	(518,515)
1.2 Loss before income tax	(2,378,721)	(2,360,019)
1.3 Income tax	-	-
1.4 Loss after tax from continuing operations	(2,378,721)	(2,360,019)
1.5 Discontinued operations		
Loss from discontinued operations net of tax	(130,803)	(285,665)
1.6 Net loss for the year	(2,509,524)	(2,645,684)
1.7 Net loss attributable to members of parent	(2,509,524)	(2,645,684)
1.8 Other comprehensive income / (expense) <i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange translation difference	(73,559)	4,596
Total other comprehensive income / (expense) for the year	(73,559)	4,596
1.9 Total comprehensive expense for the year	(2,583,083)	(2,641,088)

Consolidated accumulated losses

	30 June 2016 \$	30 June 2015 \$
1.10 Accumulated losses at the beginning of the financial year	(33,052,770)	(30,407,086)
1.11 Net loss attributable to members (<i>item 1.7</i>)	(2,509,524)	(2,645,684)
1.12 Accumulated losses at end of the financial year	(35,562,294)	(33,052,770)

2. Consolidated Statement of Financial Position

	As at 30 June 2016 \$	As at 30 June 2015 \$
Current assets		
2.1 Cash and cash equivalents	19,003	174,785
2.2 Trade and other receivables	277,266	18,872
2.3 Inventories	-	12,376
2.4 Other current assets	528,230	280,196
2.5 Assets held for sale	-	495,142
2.6 Total current assets	824,499	981,371
Non-current assets		
2.7 Property, plant and equipment	61,977	67,642
2.8 Intangible assets	2,483,114	1,970,567
2.9 Financial assets	3,824,888	3,824,888
2.10 Total non-current assets	6,369,979	5,863,097
2.11 Total assets	7,194,478	6,844,468
Current liabilities		
2.12 Trade & other payables	753,536	420,437
2.13 Interest bearing liabilities	4,813,959	2,410,323
2.14 Non-interest bearing liabilities	26,334	175,435
2.15 Lease liabilities	3,162	-
2.16 Tax liabilities	(20,898)	(1,436)
2.17 Short term provisions	71,788	138,728
2.18 Liabilities associated with assets held for sale	-	116,664
2.19 Total current liabilities	5,647,881	3,260,151
Non-current liabilities		
2.20 Lease liabilities	13,652	-
2.21 Interest bearing liabilities	29,357	2,785,461
2.22 Long term provisions	25,937	52,265
2.23 Total non-current liabilities	68,946	2,837,726
2.24 Total liabilities	5,716,827	6,097,877
2.25 Net assets	1,477,651	746,591
Equity		
2.26 Issued capital	35,909,885	33,582,742
2.27 Reserves	1,130,060	216,619
2.28 Accumulated losses	(35,562,294)	(33,052,770)
2.29 Total equity	1,477,651	746,591

3. Consolidated Statement of Cash Flow

	For the year ended 30 June 2016 \$	For the year ended 30 June 2015 \$
Cash flows from operating activities		Restated
3.1 Payments to suppliers and employees	(1,553,125)	(2,412,959)
3.2 Government grants	297,291	52,564
3.3 Finance costs	(14,746)	(61,783)
3.4 Net cash flows used in operating activities	(1,270,580)	(2,422,178)
Cash flows from investing activities		
3.5 Interest receipts	2,223	5,077
3.6 Proceeds from sale of investment	-	377,945
3.7 Proceeds from sale of business	48,036	-
3.8 Payment for purchases of property, plant and equipment	(5,081)	(18,330)
3.9 Payment for purchases of other non-current assets	(615,488)	(553,445)
3.10 Receipts (payments) relating to discontinued operations	(170,249)	891,185
3.11 Net cash flows from (used in) investing activities	(740,559)	702,432
Cash flows from financing activities		
3.12 Proceeds from issues of securities	1,538,775	-
3.13 Share issue costs	(82,771)	(50,534)
3.14 Proceeds from third party loans	-	228,261
3.15 Repayment of third party loans	(250,073)	-
3.16 Proceeds from related party borrowings	664,926	1,882,683
3.17 Repayment of related party borrowings	(15,500)	(212,331)
3.18 Net cash flows from financing activities	1,855,357	1,848,079
3.19 Net (decrease)/increase in cash held	(155,782)	128,332
3.20 Cash at beginning of year	174,785	46,453
3.21 Cash and cash equivalents at end of year (see reconciliation of cash)	19,003	174,785

<u>Discontinued activities</u>	30 June 2016 \$	30 June 2015 \$
Operating activities	(170,249)	727,381
Investing activities	-	163,804
Financing activities	-	-
Total cash flows relating to discontinued activities	(170,249)	891,185

4. Consolidated Statement of Changes in Equity

	Issued capital \$	Foreign currency translation reserve \$	Share options reserve \$	Accumulated losses \$	Total equity \$
Balance at 30 June 2015	33,582,742	73,559	143,060	(33,052,770)	746,591
Movement					
Loss for the year	-	-	-	(2,509,524)	(2,509,524)
Currency translation	-	(73,559)	-	-	(73,559)
Total comprehensive income for the year	-	(73,559)	-	(2,509,524)	(2,583,083)
Issue of share capital	2,915,406	-	-	-	2,915,406
Transaction costs on share issue	(588,263)	-	-	-	(588,263)
Share options issued	-	-	987,000	-	987,000
Balance at 30 June 2016	35,909,885	-	1,130,060	(35,562,294)	1,477,651

	Issued capital \$	Foreign currency translation reserve \$	Share options reserve \$	Accumulated losses \$	Total equity \$
Balance at 30 June 2014	29,345,275	68,963	-	(30,407,086)	(992,848)
Movement					
Loss for the year	-	-	-	(2,645,684)	(2,645,684)
Currency translation	-	4,596	-	-	4,596
Total comprehensive income for the year	-	4,596	-	(2,645,684)	(2,641,088)
Issue of share capital	4,288,001	-	-	-	4,288,001
Transaction costs on share issue	(50,534)	-	-	-	(50,534)
Share options issued	-	-	143,060	-	143,060
Balance at 30 June 2015	33,582,742	73,559	143,060	(33,052,770)	746,591

5. Reconciliation of cash

Reconciliation of cash at the end of the year (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	30 June 2016 \$	30 June 2015 \$
5.1 Cash on hand and at bank	19,003	174,785
5.2 Total cash at end of year (item 3.21)	19,003	174,785

6. Earnings per security (EPS)

	30 June 2016	30 June 2015
6.1 Basic losses per share	(0.75 cents)	(1.28 cents)
6.2 Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	336,547,516	205,961,274
6.3 Diluted losses per share	(0.75 cents)	(1.28 cents)

7. NTA backing

	30 June 2016	30 June 2015
7.1 NTA backing per ordinary security	\$(0.002)	\$(0.005)

8. Segment Reporting

Year ended 30 June 2016	Consumable products \$	Separations \$	Corporate \$	Group result \$
Revenue from sales or services	-	63,960	-	63,960
Income from outside operating activities:				
Grant income	-	79,453	-	79,453
Interest income	-	-	2,220	2,220
Discontinued operation result	517,542	-	-	517,542
Total segment income	517,542	143,413	2,220	663,175
Total segment losses from continuing operations	-	(35,159)	(2,343,562)	(2,378,721)
Total segment loss from discontinued operations	(130,803)	-	-	(130,803)
Total segment loss from continuing & discontinued operations	(130,803)	(35,159)	(2,343,562)	(2,509,524)

Year ended 30 June 2015 - Restated	Consumable products \$	Separations \$	Corporate \$	Group result \$
Revenue from sales or services	-	79,900	-	79,900
Income from outside operating activities:				
Grant income	-	376,584	-	376,584
Interest income	-	-	5,075	5,075
Other income	-	-	77,945	77,945
Discontinued operation result	948,094	-	-	948,094
Total segment income	948,094	456,484	83,020	1,487,598
Total segment profit/(loss) from continuing operations	-	248,778	(2,608,797)	(2,360,019)
Total segment (loss)/profit from discontinued operations	(285,665)	-	-	(285,665)
Total segment profit/(loss) from continuing & discontinued operations	(285,665)	248,778	(2,608,797)	(2,645,684)

Segment assets	Consumable products \$	Separations \$	Corporate \$	Total assets \$
Opening balance 1 July 2015	672,335	2,347,245	3,824,888	6,844,468
Additions/disposals/others	(477,802)	745,079	82,732	350,010
Closing balance 30 June 2016	194,533	3,092,324	3,907,620	7,194,478

Matters subsequent to the end of the financial year

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

- On 1 July 2016 NuSep Holdings Ltd changed its name to Memphasys Limited.
- On 5 August 2016 the Company lodged the R&D tax claim for an amount of \$497,355 which was approved by AusIndustry on 12 August 2016.

Annual General Meeting

The annual general meeting will be held as follows:

Place	30 Richmond Road, Homebush West, NSW 2140
Date	TBC
Time	TBC
Approximate date the annual report will be available	Monday 10 th October 2016

Compliance statement

- 1 The report has been prepared in accordance with the Corporations Act 2001, the recognition and measurement criteria of Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards, include Australian equivalents to International Financial Reporting Standards "AIFRS". Compliance with AIFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards "IFRS".
- 2 This report, and the accounts upon which the report is based, use the same accounting policies.
- 3 This report does give a true and fair view of the matters disclosed.
- 4 This report is based on accounts that are in the process of being audited. Details of any qualifications will follow immediately they are available.
- 6 The entity has a formally constituted Audit Committee.

Signed: 

Name: Alison Coutts
Chairman

Date: 30 August 2016