Memphasys Limited
and its Controlled Entities
ABN 33 120 047 556

Annual Financial Report
for the year ended 30 June 2018

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Directors' Report

The Directors present their report, together with the consolidated financial statements of the Group, being the company and its controlled entities, for the financial year ended 30 June 2018 and the audit report thereon.

Directors

The names of the Directors of Memphasys Limited in office at any time during or since the end of the financial year are:

Ms Alison Coutts	Executive Chairman
Mr Andrew Goodall	Non-Executive Director
Mr John Pereira	Non-Executive Director (Resigned 6 June 2018)
Mr Marjan Mikel	Non-Executive Director (Appointed 6 June 2018)

Company Secretary

The Company Secretary services are managed by Mr Andrew Metcalfe, an experienced independent company secretary and business consultant. Mr Metcalfe was appointed on the 29 November 2016 and is well qualified for the position having been a company secretary and governance advisor to ASX listed companies for over 20 years.

Names, Qualifications, Experiences, Special Responsibilities and Shareholding	**Shares interests & unlisted options at the reporting date**
Ms Alison Coutts B.E (Chem), MBA, Grad Dip Biotech Executive Chairman and member of the Audit and Risk and the Nomination and Remuneration Committees. Ms Alison Coutts has extensive experience across a number of industry sectors and disciplines. This includes international engineering project management, strategy consulting, executive search, investment banking and technology commercialisation. Prior to her role at Memphasys, Ms Coutts co-founded a corporate finance advisory business and subsequently co-founded a clinical development stage drug development company focussing on chronic obstructive pulmonary disease and a medical device company Micro-X Ltd (ASX: MX1) that is developing innovative, lightweight mobile X-Ray machines for medical use. Ms Alison Coutts has a Chemical Engineering degree and a Graduate Diploma in Biotechnology from the University of Melbourne and an MBA from Melbourne Business School.	**Direct** 880,895,648 ordinary shares Nil unlisted options **Indirect** 3,787,600 ordinary shares Nil unlisted options
Andrew Goodall Non-Executive Director and member of the Audit and Risk and Nomination and Remuneration Committees. Mr Goodall, a significant shareholder in Memphasys, is an entrepreneur who now runs a private business involved in Commercial Property in New Zealand.	**Direct** 1,316,529,000 ordinary shares Nil unlisted options **Indirect** 6,922,390 ordinary shares Nil unlisted options

Directors' Report

Names, Qualifications, Experiences, Special Responsibilities and Shareholding	Shares interests & listed options at the reporting date
Mr John Pereira B. Juris LLB **Non-Executive Director** and Chairman of the Nomination and Remuneration Committee and Audit and Risk Committee from September 2016 to 6 June 2018. Mr Pereira, has had an extensive professional career encompassing funds management, banking and law. Mr Pereira was the founder and CEO of India Equities Limited which listed on ASX in 2007. He also created Olympus Funds Management to offer a wide range of investment opportunities in alternative investment markets. Mr Pereira has maintained a close interest in India, his country of birth, and is a former President (Victoria) and Deputy Chairman of the Australia India Business Council. Alongside Mr Pereira's commercial activities, he has been admitted to the Supreme Courts of NSW and Victoria and has held a legal practising certificate for over 20 years.	**Direct** 1,100,000 ordinary shares **Indirect** Nil
Mr Marjan Mikel M Com, BSc (Hons), Dip Ed, MAICD **Non-Executive Director** and Chairman of the Nomination and Remuneration Committee and Audit and Risk Committee from 6 June 2018. Mr Mikel has had extensive experience in the pharmaceutical and medical device industries. He has worked in international sales, business development and at general manager and executive board level for Merck and Co and Searle – Pharmacia. He has also worked internationally, ultimately as an executive Board member for IMS Consulting and Services Japan, AsiaPac and ANZ, developing product and portfolio strategies for pharmaceutical and healthcare client companies. He founded and subsequently sold Healthy Sleep Solutions after developing it into a successful business, with Resmed Ltd as a joint venture/shareholder partner. He is also a non-executive director of a number of small companies predominantly involved in developing medical devices and diagnostics.	**Direct** Nil **Indirect** 15,000,000

Meetings of Directors

The following table sets out the numbers of meetings of the company's Board of Directors and meetings of each Board committee held during the year ended 30 June 2018 and the number of meetings attended by each Director.

	Board Meetings		Audit & Risk Committee Meetings		Nomination and Remuneration Committee Meetings	
Director/Alternate Director	**Attended**	**Held***	**Attended**	**Held***	**Attended**	**Held***
Alison Coutts	5	5	3	3	2	2
Andrew Ernest Goodall	5	5	3	3	2	2
John Pereira	5	5	3	3	2	2
Marjan Mikel	-	-	-	-	-	-

* Represents number of meetings held whilst director was in office during the year

Rounding of amounts

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the directors' report and in the financial report have been rounded to the nearest dollar.

Directors' Report

CORPORATE INFORMATION

Corporate Structure

Memphasys Limited is a company limited by shares, incorporated and domiciled in Australia with its registered office at 30 Richmond Road, Homebush, NSW 2140. It has prepared a consolidated financial report incorporating the entities it controlled during the financial year. Refer to Note 26 of the financial statements for a list of entities it controlled during the financial year.

Dividends

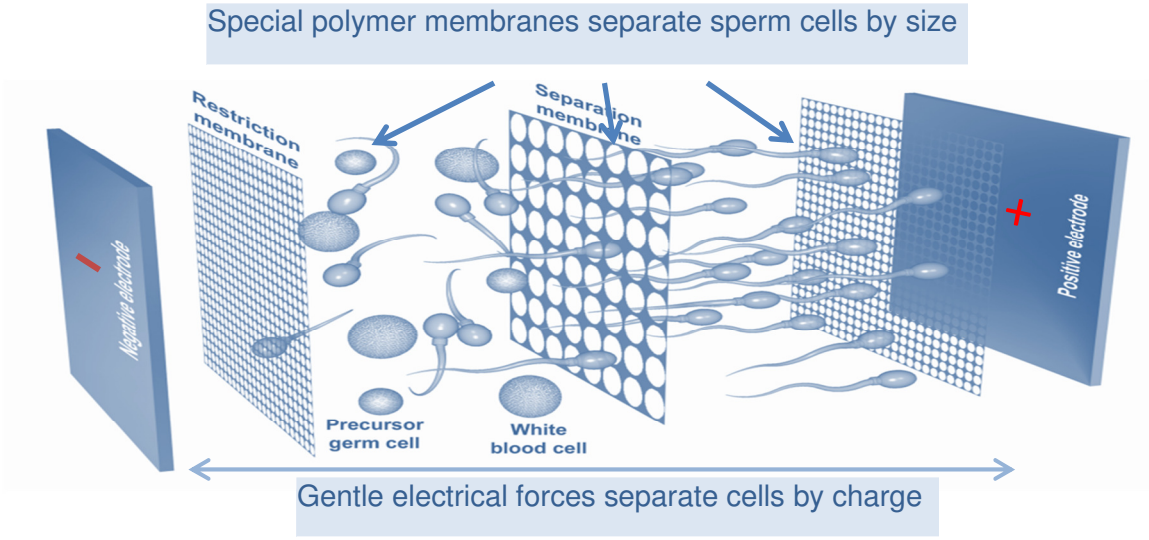
No dividends were paid during the year and no dividend is recommended.

REVIEW OF OPERATIONS

Memphasys' platform technology enables efficient and cost effective separation of valuable cells and proteins from biological fluids utilising its proprietary patented hydrogel membranes and electrophoresis processes.

Its lead program, Felix, efficiently separates the best quality, least DNA damaged sperm from a semen sample in preparation for human IVF technologies. The device can also be used for animal artificial reproduction technology ("ART").

Schematic representation of Memphasys' proprietary sperm separation process



The Felix Device for Human IVF technologies

Memphasys is accelerating the development and commercialisation of the Felix device, a unique product with patented IP to address male factor infertility.

Felix separates the most viable sperm in a semen sample for use in IVF processes and provides unique and critical advantages over current sperm processing methods.

It is a cost-effective process that gently and automatically processes semen samples in preparation for IVF procedures. It takes less than 5 minutes, compared with current 30 - 40 minute current lab-based processes, "Density Gradient Centrifuging" and "Swim Up", which are laborious as they involve multiple steps of washing and centrifuging.

Most notably these current processes also do not reliably select the best sperm.

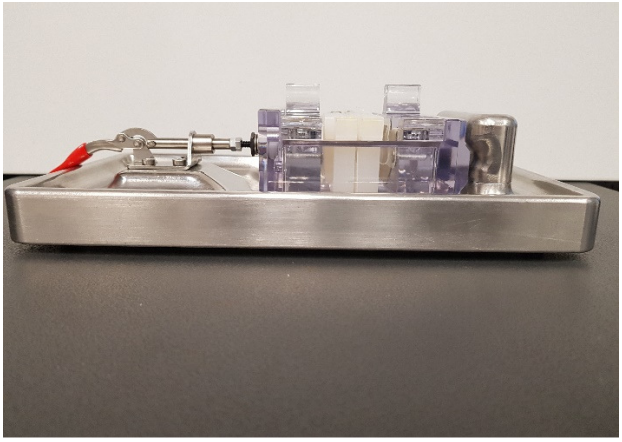
Directors' Report

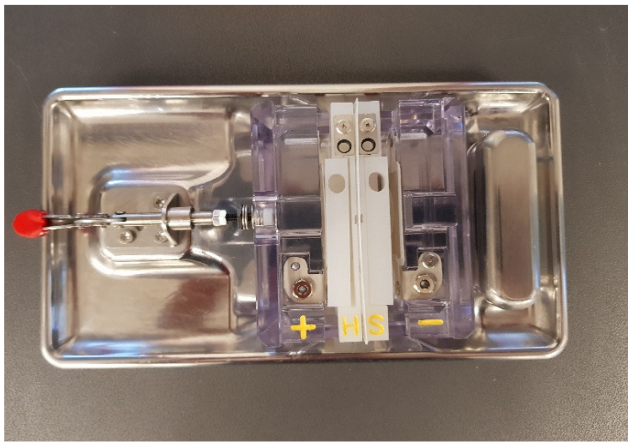
The work on the Felix device was recognised by the NSW Department of Health, which provided a special $400,000 grant for furthering the commercialisation of the device in the human IVF field.

Great progress towards commercialising the Felix device has been made over the past year.

In the first quarter of financial year 2018, Memphasys developed five novel prototype cartridges with re-usable parts to enable optimisation studies to be conducted on the cartridge's design and operation.

One of the re-usable Felix cartridges developed to optimise operating parameters of the final device



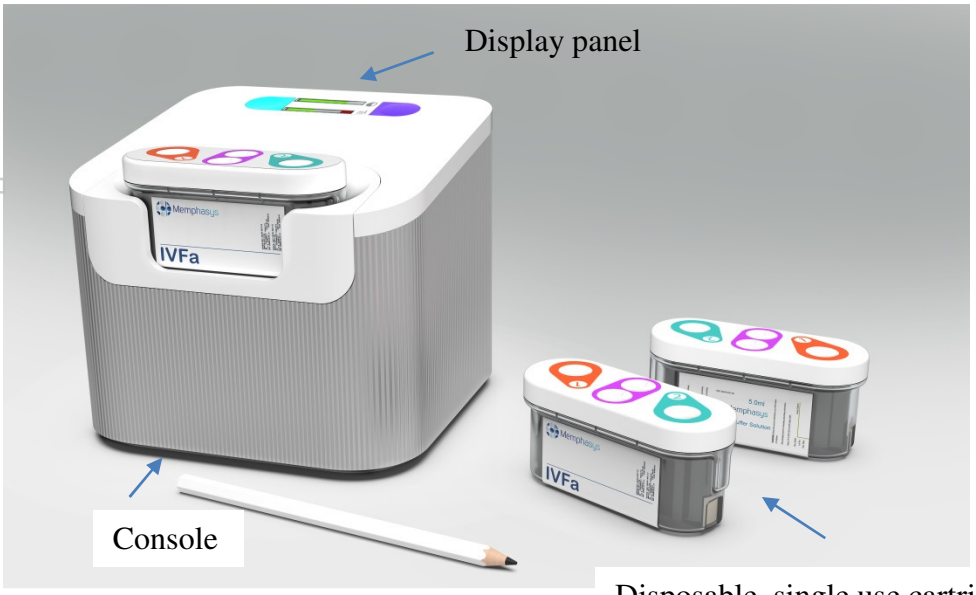


In collaboration with the University of Newcastle, under the guidance of world renowned fertility expert, Prof. John Aitken, and with a leading IVF Australian company, Memphasys has now completed testing and optimising operating parameters of these test cartridges.

These re-usable cartridges have now been tested with a wide range of fresh human semen samples, including clinical samples from a commercial IVF clinic.

The design of the final device which will be taken to market has now commenced.

Depiction of final Felix console and single use, disposable cartridge



Assisted Reproduction Applications for Animals

During the financial year, The University of Newcastle researchers successfully demonstrated that the re-usable cartridge was able to successfully and efficiently process fresh equine semen to provide a harvest of the most viable equine sperm.

Memphasys plans to develop a new, purpose-designed and built device for equine ART processes, including IVF technologies and artificial insemination. The equine device will need to process a much larger semen volume (10 to 100 fold greater) than the human IVF device.

Artificial reproductive technologies are not legally allowed to be applied to thoroughbred horses but can be applied to any other horse types. Target horse types for Memphasys' technology include standard bred horses (trotters), Arabs, eventing and show jumping horses and polo ponies.

Memphasys has also maintained its collaboration with Minitube GmbH ("Minitube"), the largest provider of animal ART products globally, with Minitube being the likely global distributor of commercial animal ART products that Memphasys develops.

Membrane Technology Development

Memphasys is preparing for scaling up its internal membrane production in anticipation of supplying large numbers of cartridges containing membranes for *in-vitro* testing of the next generation Felix device by 10 - 15 world-leading IVF clinics. It plans to transfer its manufacturing technology to a specialist Australian contractor with appropriate accreditation to produce the membranes reliably, cost effectively and at the requisite scale.

Memphasys is also undertaking a formal review process to critically analyse potential market opportunities of other bio-separations against its technical capabilities. Memphasys has maintained its strong links with the Chemical and Biomolecular Engineering Department of Melbourne University and will continue to collaborate on new selected bio-separations.

Corporate Achievements

Over the past year Memphasys resolved all former litigation issues.

- On 27 July 2017 it announced that it had successfully concluded mediation with Prime Biologics Pte Ltd and Pulau Manukan Ventures Labuan Ltd and that it had reached full settlement on all outstanding disputes with these parties. Full settlement occurred on 27 September 2017 and the $250,000 debt plus interest owed to Crescendas was also announced as settled.
- On 8 September 2017 it announced that the litigation against Transocean Securities Pty Ltd was resolved through mediation.
- On 19 March 2018, Memphasys announced the settlement of the legal action with former financiers, Platinum Road Pty Ltd and its related entity, Bridge Road Capital Pty Ltd.

Financial Performance

Operations in the first half of the financial year were funded with various loans. $251,330 in loans was provided by directors, Andrew Goodall and Alison Coutts, $310,000 in loans was provided against the R&D tax refund and $300,000 in loans was provided in the form of convertible notes issued to Corporate Advisors, Patersons Securities ("Patersons"). All these loans have now been repaid or converted to equity.

In December 2017 Patersons provided funding through the management of a convertible note issue and of a non-renounceable rights issue and placement. This fund-raising provided approximately $1,500,000 of fresh funds after brokerage fees and the conversion of $2,055,500 in director and other debts. This fund raising and debt conversion strengthened the Company's Statement of Financial Position and enabled the Company to focus on the development of its first commercial product, the Felix device for human IVF processes.

In May 2018 Patersons arranged further subsequent funding through a private placement to Peters Investments Pty Ltd, an investment company headed by prominent Australian horse owner-breeder Bob Peters who invested A$1 million into the Company to advance its work in fertility outcomes for both humans and horses. The investment was via a placement organised in 2 tranches: $650,000 under its then existing placement capacity in May 2018 and the balance of $350,000 after shareholder approval was received at the General Meeting of shareholders on 6 August 2018.

Memphasys finalised the financial year with an excess in working capital of $37,879 (2017: deficiency of $2,356,669) and with net assets of $3,351,580 (2017: net assets deficiency $402,240).

Memphasys incurred a $401,159 loss from continuing operations (2017: loss of $1,898,898). There were two main contributors to this improvement over the prior year:

- Legal fees decreased significantly from $953,809 in the year ended June 2017 to $95,111 in the current financial year, after the Company resolved legal disputes with PrIME Biologics Private Limited ("PrIME") and Pulau Manukan Ventures Labuan Ltd in July 2017; with former corporate advisor and fund raiser, Transocean Securities Pty Ltd in September 2017; and with former financiers, Bridge Road Capital Pty Ltd in March 2018.
- A net abnormal gain reached on settlement of debt of $896,232 as a result of the derecognition of the third party debt of SGD4.8m no longer held by Memphasys and the B class shares in PrIME no longer owned by Memphasys after having resolved the legal dispute with PrIME, as reported on 27 July 2017.

Other notable points in the Statement of Profit and Loss are:

- The capital raising in December 2017 contributed to a substantial reduction of finance costs, from $217,237 in the first half of the financial year to $58,133 in the second half of the financial year.
- Uniquely in the Company's history, the total amount spent on R&D was 1.5 times larger than the G&A expenses. This number is computed by adding expensed R&D costs of $181,109 to the capitalised R&D costs of $1,306,441.
- In the financial year 2018 there was a foreign exchange gain of $81,946 (2017: gain of $229,556) due to revaluation of the Australian dollar against the Singaporean dollar in the month of July 2017 when Memphasys still had the SGD4.8m debt. With the settlement of the debt, the Company has had no further exposure to foreign exchange.

The tax refund on R&D activities granted by the Federal Government ("Tax Incentive") is the Company's sole source of regular revenue. A R&D tax refund of $592,734 has been received for R&D expenditure incurred in the current financial year. Further to the Tax Incentive, Memphasys received a special grant of $400,000 in December 2017 from the NSW Medical Device Fund to advance the development of the Felix device. Due to accounting standards, these grants are not entirely recognised as revenue but as deferred income, netted off from Intangible Assets.

Memphasys continued investing in high value-adding bio-separation projects which will not be revenue generating for the next few years, although it may be possible to obtain substantial grant funding in the future for some of this work.

Capitalised expenditure on the two projects in the development stage, as allowed by accounting standards, was as follows:

- Felix, which received an investment of $1,080,943 (2017: $633,437); and
- New membranes for the Felix device, which received an investment of $225,498 (2017: $206,893).

In December 2017 Memphasys engaged Dr Tim Oldham as a consultant to assist the company map its strategic and operational direction in pursuing new bio-separations beyond the separation of sperm cells from semen. The aim of this work is to build upon Memphasys' core competency in sperm cell separations and develop other cell and cell-like separation technologies that are within Memphasys' technical and financial capability to develop, distinctive, competitive and of high commercial value

Due to this project being in the research stage, its expenditure has been expensed together with the project on other new membranes, which was redirected to new cell separations in January 2018.

Board and management

Memphasys appointed Marjan Mikel to the Board as a non-executive director on 6 June 2018 replacing John Pereira who resigned on the same date.

Outlook for 2019

Development of the human IVF device, Felix

Initially a small quantity of hand-made re-usable cartridges, which will fit into the console, will be made and tested before the next batch of cartridges are made. These will be single-use, fully disposable and hand-made. After these cartridges pass very high scrutiny testing, the final cartridges will be made by injection moulding processes. These final, single-use consumable cartridges will be used by IVF clinics and are projected to build strong recurring revenue for Memphasys.

Memphasys, with its engineering partner, Hydrix, has recently received invaluable feedback from IVF clinicians on the device design and operation which will help it to position Felix to meet regulatory requirements and to be well accepted by IVF clinicians. Ease of use in a busy IVF clinic and streamlining IVF lab work flow were prime considerations in device design. With Hydrix, Memphasys has also completed a regulatory plan for achieving TGA, CE Mark and FDA registration.

When completed, the device will be placed into selected leading key opinion IVF clinics globally and, through *in-vitro* studies to be conducted in these clinics, its performance in preparing sperm for IVF will be assessed and compared with the current lab-based methods.

At the ESHRE meeting in July 2018, Memphasys personnel met with various IVF Key Opinion Leaders ("KOLs") who expressed great interest in participating in *in-vitro* testing of the Felix device. The Felix clinical device will be placed into selected leading KOL IVF clinics globally to enable *in-vitro* studies to be conducted to assess and confirm its performance in selecting and preparing the most viable sperm for IVF treatments. The Company expects to execute Memorandums of Understanding with KOLs in the September 2018 Quarter, with *in-vitro* studies to commence in the first quarter of calendar year 2019.

Over the next few months, Memphasys will be designing and then commencing to build the next generation Felix device for the KOL *in-vitro* assessment. The final device design and build is expected to take about 6-9 months to complete, in readiness for *in-vitro* testing with these globally recognised centres. The plan is to then run the *in-vitro* testing which should take around 6 months and to obtain endorsement and early adoption by the KOLs in these centres. These KOLs are expected to write publications. Reports of the testing by the KOLs are expected to favourably coincide with the market launch of the Felix product which is anticipated to occur at around the end of calendar year 2019 in Europe.

Animal ART device development

We expect to continue to develop the animal assisted reproduction product, with initial focus on equine ART processes, initially IVF technologies as these require less viable sperm than artificial insemination.

Bio-separations

The company will continue with the development of new bio-separations and will report on its activities in greater detail in the next reporting period.

Directors' Report

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

- In early July 2018, Memphasys senior executives attended the European Society for Human Reproduction & Embryology Conference in Barcelona, Spain. At the conference, executives met and progressed discussions with a range of European and Middle East-based Key Opinion Leaders.
- On 3 July 2018 Memphasys announced that it had resolved, subject to shareholder approval, to undertake a consolidation of the Company's issued capital on a 15:1 basis. The purpose of Consolidation was to decrease the number of shares on issue to a more manageable quantity and to enable smoother, less volatile share trading. A resolution to this effect was passed by shareholders at an extraordinary general meeting on 6 August 2018 and finally the issued capital was consolidated on 17 August 2018.
- On 16 July 2018 Memphasys published on ASIC's enforceable undertakings register the final summary of the expert report in relation to the 3 year Enforceable Undertaking that it had entered into in December 2014. With this publication there are no residual action items for either Memphasys or ASIC to complete. The Enforceable Undertaking related to potential contraventions of the Corporations Act 2001 between 2009 and 2012 by former directors who are no longer with the Company.
- On 30 July 2018 the Company lodged the R&D tax claim for an amount of $592,734 which was received from the ATO on 15 August 2018.
- On 9 August 2018 Memphasys received from Peters Investments Pty Ltd the second tranche of the placement of shares for the amount of $350,000 as part of a $1M strategic investment.

SHARE OPTIONS

There were 229,971,876 unlisted options on issue to shareholders at 30 June 2018.

Directors' Report

Set out in the table below are summaries of options issued, exercised and lapsed during the year.

Grant date	Expiry date	Vesting commencement date	Exercise price	Balance at start of year	Issued during the year	Exercised during the year	Lapsed / cancelled during the year	Balance at end of the year
Consolidated and parent entity – 2018:								
22 December 2014	1 November 2017	-	$0.112	1,500,000	-	-	1,500,000	-
22 December 2014	5 December 2017	-	$0.1015	1,200,000	-	-	1,200,000	-
30 November 2016	25 November 2019	-	$0.020	4,000,000	-	-	-	4,000,000
4 April 2017	31 December 2018	-	$0.0060	5,000,000	-	-	-	5,000,000
29 December 2017	28 December 2019	-	$0.0020	-	220,971,876	-	-	220,971,876
Total		-		11,700,000	220,971,876	-	2,700,000	229,971,876

The number of options over ordinary shares in Memphasys issued, exercised and lapsed to related parties during the year are as follows:

2018	Balance at start of year	Granted	Exercised during the year	Lapsed / cancelled during the year	Balance at end of the year	Exercisable	Non Exercisable
Andrew Goodall	1,500,000	-	-	1,500,000	-	-	-
Alison Coutts	1,200,000	-	-	1,200,000	-	-	-
Total	2,700,000	-	-	2,700,000	-	-	-

No options have been issued or exercised post balance date.

The option holders have no rights under the option agreement to participate in any share issue.

Directors' Report

ENVIRONMENTAL ISSUES

The Group has assessed whether there are any particular or significant environmental regulations that apply. It has determined that the risk of non-compliance is low and has not identified any compliance breaches during the year.

INDEMNIFYING OFFICERS

During the financial year, the company paid an insurance premium of $35,000 to insure all directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the company, other than conduct involving a wilful breach of duty in relation to the company.

The company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer of the company or any related body corporate against a liability incurred by such an officer.

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.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2018 has been received and can be found on page 18 as part of this Directors Report.

NON-AUDIT SERVICES

No fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2018.

Directors' Report

REMUNERATION REPORT – AUDITED

Outlined below are the guiding principles used by Memphasys Limited to set the remuneration of the organisation.

Principles used to determine the nature and amount of remuneration
The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for Memphasys' size and type of business. The Nomination and Remuneration Committee evaluates the executive directors and the CEO/Executive Chairman reviews the senior executive team. In general, the Board and specifically the Nomination and Remuneration Committee ensure that executive reward satisfies the following key criteria for good employee and non-executive director reward governance practices:

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

The individual performance element of the remuneration policy for senior executives and professional staff is based on performance against KPIs set for the year under review. An individual's KPIs will be agreed at the commencement of employment and reviewed and updated annually thereafter to ensure alignment with the current goals and objectives of the company.

A percentage component of the total remuneration package is based on the company's performance and the market position of Memphasys Limited. The remuneration packages are flexible to allow adjustment depending on company and market circumstances as determined by the Nomination and Remuneration Committee and approved by the Board.

New employment contracts of all personnel commenced on 1 July 2016 following a review which included the re-drafting of all job descriptions and key performance indicators which were developed to reward key staff for delivering on the reformulated strategic needs of the business, especially on development and commercialisation of core intellectual property.

A revised ESOP program for all key employees was approved at the AGM in December 2015.

Employment contracts
The contract of the Executive Chairman, Alison Coutts has no duration and stipulates that either party may terminate the employment by providing the other with six months' written notice. The Company may terminate the employment without any period of notice or payment in lieu of notice if the executive engages in serious misconduct.

Non-Executive Directors
The Board has set its remuneration of Non-Executive Directors in line with market-based remuneration in small listed biotechnology companies. The Chairman's fees are determined independently to the fees of Non-Executive Directors based on responsibility of the role and are also in line with the remuneration of Chairmen of small listed biotechnology companies. The Chairman is not present at any discussions relating to determination of remuneration. Subject to shareholder approval, Non-Executive Directors may opt each year to receive a percentage of their remuneration in Memphasys Limited shares and/or options.

Directors' Fee Pool
The current maximum non-executive Directors fee pool limit is $450,000 per year.

Executive Remuneration
Executive remuneration includes:

- Base remuneration;
- Bonus remuneration for outstanding performance; and
- Other remuneration such as superannuation.

As the entity is in development stage, there is no relationship between performance and KMP remuneration at this point in time.

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

Base Remuneration
Structured as a total employment cost package that may be delivered as a mix of cash and prescribed non-financial benefits at the executives' discretion.

Details of Remuneration
Details of the nature and amount of each element of the emoluments of each Director of Memphasys Limited and specified executives of the Company and the consolidated entity with the highest authority levels for the year ended 30 June 2018 are set out in the following tables which break out directors and executive remuneration separately.

Directors of Memphasys Limited

2018	Cash salary and fees	STI cash bonus	Proportion of remuneration performance related	Non-monetary benefits and allowances	Movement in leave provisions	Superannuation @	Value of options	Value of options as proportion of remuneration	Total
	$	$	%	$	$	$	$	%	$
Alison Coutts	277,500	-	-	-	(9,217)	20,049	-	-	288,332
Andrew Goodall	50,000	-	-	-	-	-	-	-	50,000
John Pereira #	46,667	-	-	-	-	-	-	-	46,667
Marjan Mikel *	3,288	-	-	-	-	-	-	-	3,288
Total	**377,455**	**-**	-	**-**	**(9,217)**	**20,049**	**-**	**-**	**388,287**

Resigned during the year.
* Appointed during the year.
@ There has been no post-employment retirement benefits, except for superannuation, paid to any Director in the 30 June 2018 financial year.

2017	Cash salary and fees	STI cash bonus	Proportion of remuneration performance related	Non-monetary benefits and allowances	Movement in leave provisions	Superannuation @	Value of options	Value of options as proportion of remuneration	Total
	$	$	%	$	$	$	$	%	$
Alison Coutts	277,500	-	-	-	21,215	19,613	-	-	318,328
Andrew Goodall	50,000	-	-	-	-	-	-	-	50,000
Robert Gilmour #	12,083	-	-	-	-	-	-	-	12,083
John Pereira *	41,667	-	-	-	-	-	-	-	41,667
Total	**381,250**	**-**	-	**-**	**21,215**	**19,613**	**-**	**-**	**422,078**

Resigned during the year.
* Appointed during the year.
@ There has been no post-employment retirement benefits, except for superannuation, paid to any Director in the 30 June 2017 financial year.

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

Senior Executive Employment Agreements

The present contracts for senior executives include employment terms, remuneration and termination payments. Under the general terms of the current executive contracts:

- Have no duration.
- The executive may resign from their position and thus terminate the contract by giving, depending on the executive, between three and four months' written notice. On resignation any options are forfeited.
- The agreement automatically terminates unless the agreement is renewed by the parties, in writing, prior to the expiration of the initial term. Employee's employment automatically continues on an at-will basis on the terms stipulated in the contract.

Executives of Memphasys Limited and Subsidiaries

	Cash salary and fees	Termination payments	STI cash bonus	Non-monetary benefits and allowances	Movement in leave provisions	Post-employment Superannuation @	Value of options	proportion of remuneration	Total
2018	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**%**	**$**
Pablo Neyertz	121,000	-	-	-	2,799	12,801	-	-	136,600
Total	**121,000**	**-**	**-**	**-**	**2,799**	**12,801**	**-**	**-**	**136,600**

@ There have been no post-employment retirement benefits, except for superannuation, paid to any Executive in the 30 June 2018 financial year.

	Cash salary and fees	Termination payments	STI cash bonus	Non-monetary benefits and allowances	Movement in leave provisions	Post-employment Superannuation @	Value of options	proportion of remuneration	Total
2017	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**%**	**$**
Mike Richardson *	43,974	41,565	-	-	-	6,790	-	-	92,329
Pablo Neyertz	121,000	-	-	-	4,474	12,801	-	-	138,275
Total	**164,974**	**41,565**	**-**	**-**	**4,474**	**19,591**	**-**	**-**	**230,604**

* Retired in December 2016.
@ There have been no post-employment retirement benefits, except for superannuation, paid to any Executive in the 30 June 2017 financial year.

Share options granted to Directors

There were no share options issued to directors during the financial year ended 30 June 2018.

Share options granted to Executives

There were no share options issued to executives during the financial year ended 30 June 2018.

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

Directors & their shareholding

Directors & their shareholding	Balance as at 1 July 2017	Net movement	Director resigned	Balance as at 30 June 2018
Alison Coutts (a)	3,788,208	880,895,040	-	884,683,248
Andrew Goodall (b)	240,102,598	1,083,348,792	-	1,323,451,390
John Pereira #	1,100,000	-	(1,100,000)	-
Marjan Mikel * (c)	-	15,000,000	-	15,000,000
Total	**244,990,806**	**1,979,243,832**	**(1,100,000)**	**2,223,134,638**

* Directors appointed during the year. # Directors resigned during the year.

(a) Alison Coutts' shareholding comprises 880,895,648 shares held directly and 3,787,600 held indirectly.
(b) Andrew Goodall's shareholding comprises 1,316,529,000 shares held directly and 6,922,390 shares held indirectly.
(c) Marjan Mikel's shareholding comprises 15,000,000 shares held indirectly.

Directors & their shareholding	Balance as at 1 July 2016	Net movement	Director resigned	Balance as at 30 June 2017
Alison Coutts (a)	20,719,208	(16,931,000)	-	3,788,208
Andrew Goodall (b)	170,408,439	69,694,159	-	240,102,598
Dr Robert Gilmour #	9,500,000	-	(9,500,000)	-
John Pereira *	-	1,100,000	-	1,100,000
Total	**200,627,647**	**53,863,159**	**(9,500,000)**	**244,990,806**

* Directors appointed during the year. # Directors resigned during the year.

(d) Alison Coutts' shareholding comprises 608 shares held directly and 3,787,600 held indirectly.
(e) Andrew Goodall's shareholding comprises 206,319,342 shares held directly and 33,783,256 shares held indirectly.

Convertible Notes - Number of Convertible Notes held by Directors and Key Management Personnel

2018 ***Director / Key Management Personnel***	Balance 1 July 2017	Additions	Conversions to equity	Balance 30 June 2018
Alison Coutts	427,000	-	427,000	-
Andrew Goodall	450,000	-	450,000	-
Total Convertible notes	877,000	-	877,000	-

2017 ***Director / Key Management Personnel***	Balance 1 July 2016	Received as Remuneration	Additions	Balance 30 June 2017
Alison Coutts	-	-	427,000	427,000
Andrew Goodall	-	-	450,000	450,000
Total Convertible notes	-	-	877,000	877,000

REMUNERATION REPORT – AUDITED (continued)

The number of options over ordinary shares in Memphasys issued, exercised and lapsed to related parties during the year are as follows:

2018	Balance at start of year	Granted	Exercised during the year	Lapsed / cancelled during the year	Balance at end of the year	Exercisable	Non Exercisable
Andrew Goodall	1,500,000	-	-	1,500,000	-	-	-
Alison Coutts	1,200,000	-	-	1,200,000	-	-	-
Total	2,700,000	-	-	2,700,000	-	-	-

2017	Balance at start of year	Granted	Exercised during the year	Cancelled during the year	Balance at end of the year	Exercisable	Non Exercisable
Andrew Goodall	121,786,047	-	-	120,286,047	1,500,000	1,500,000	-
Alison Coutts	2,400,000	-	-	1,200,000	1,200,000	1,200,000	-
Syrah Trustee Limited *	6,750,000	-	-	6,750,000	-	-	-
Total	130,936,047	-	-	128,236,047	2,700,000	2,700,000	-

* Related to Dr Robert Gilmour (resigned 29 September 2016)

REMUNERATION REPORT – AUDITED (continued)

Transactions with related parties

i) At 30 June 2018, payables to related parties were as follows:

	2018	2017
	$	$
Andrew Goodall director fees	**4,167**	37,500
Andrew Goodall reimburse of expenses	**712**	8,635
Alison Coutts salaries	**-**	81,474
Alison Coutts superannuation	**5,012**	-
Alison Coutts reimburse of expenses	**-**	1,549
Pablo Neyertz salaries	**-**	44,240
Pablo Neyertz reimburse of expenses	**1,054**	401
Merjan Mikel director fees	**3,288**	-
Mike Richardson salaries	**-**	18,975
	14,233	192,774

ii) Loans payable to related parties - principal:

		Current balances:		**Non-current balances:**	
		2018	2017	**2018**	2017
		$	$	**$**	$
Andrew Goodall		**-**	133,333	**-**	450,000
Ms Chang Seow Ying Alison	(a)	**26,334**	26,334	**-**	-
Goodall Family Super Fund		**-**	21,500	**-**	-
Alison Coutts	(b)	**405,982**	545,665	**-**	427,000
Alison Coutts Super Fund		**-**	16,500	**-**	23,000
Total		**432,316**	743,332	**-**	900,000

Loan ref	**Currency**	**Interest rate**	**Maturity**	**Security**
a)	AUD	0%	At call	Unsecured
b)	AUD	10%	*	Secured

* Remaining principal component of the debt after capital raising in December 2017, which is repayable in three instalments over a period of 18 months following the General Meeting subject to Memphasys having sufficient funds to make the repayment.

iii) Loans payable to related parties - interest:

	Current balances:		**Non-current balances:**	
	2018	2017	**2018**	2017
	$	$	**$**	$
Andrew Goodall	**-**	2,087	**-**	34,250
Goodall Family Super Fund	**-**	19	**-**	-
Alison Coutts	**65,754**	24,415	**-**	32,500
Alison Coutts Super Fund	**-**	36	**-**	1,750
Total	**65,754**	26,557	**-**	68,500

REMUNERATION REPORT – AUDITED (continued)

iv) Interest paid and accrued on financial liabilities with related parties:

	2018	2017
	$	$
Andrew Goodall – interests	**28,645**	36,578
Ti Rakau Developments Ltd	**-**	487
Alison Coutts	**77,202**	53,371
Alison Coutts Super Fund	**1,898**	2,067
Goodall Family Super Fund	**1,643**	17
	109,388	95,520

v) Loans converted into shares:

	Number of shares		**Converted loan balance**	
	2018	2017	**2018**	2017
			$	$
Andrew Goodall and related parties	676,065,000	-	676,065	-
Alison Coutts and related parties	764,338,000	-	764,338	-
Total	**1,440,403,000**	-	**1,440,403**	-

g) Other transactions with companies and related parties in the group

Transactions between Memphasys Limited and other entities in the wholly-owned group during the year ended 30 June 2018 consisted of consulting fees paid to Andrew Goodall for $45,000 and loans advanced by Memphasys Limited to its controlled entity Feronia Fertility Pty Ltd.

This concludes the Remuneration Report, which has been audited.

CORPORATE GOVERNANCE

The company's corporate governance statement is published in Memphasys' website www.memphasys.com.

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

Alison Coutts
Executive Chairman

Sydney
21 August 2018

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF MEMPHASYS LIMITED
ABN 33 120 047 556

In relation to the independent audit for the year ended 30 June 2018, the best of my knowledge and belief there have been:

(i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and

(ii) No contraventions of any applicable code of professional conduct.

This declaration is in respect of Memphasys Limited and the entities it controlled during the year.

Mark Godlewski

M A GODLEWSKI

Partner

PITCHER PARTNERS

Sydney

21 August 2018

Memphasys Limited and its Controlled Entities
ABN 33 120 047 556

Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

	Notes	2018 $	2017 $
Continuing operations:			
Revenue		**-**	-
Gross profit		**-**	-
Other income	5	**65,541**	80,503
Net gain on settlement of debt	5	**896,232**	-
General and administration expenses		**(986,781)**	(1,971,689)
Research and development expenses		**(181,109)**	(137,594)
Finance cost expenses	6	**(276,988)**	(129,674)
Exchange gain / (loss)	6	**81,946**	259,556
Loss before income tax		**(401,159)**	(1,898,898)
Income tax expense	7	**-**	-
Loss after tax from continuing operations		**(401,159)**	(1,898,898)
Discontinued operations:			
Loss from discontinued operations, net of tax	8	**-**	(100,993)
Net loss for the year attributable to members of parent		**(401,159)**	(1,999,891)
Other comprehensive (expense)/income:			
Items that are or may be reclassified subsequently to profit or loss:			
Exchange translation differences		**-**	-
Total other comprehensive result for the year		**-**	-
Total comprehensive expense for the year		**(401,159)**	(1,999,891)
Total comprehensive expense attributable to:			
Owners of the Company		**-**	(1,999,891)
Non-controlling interest			-
Total comprehensive expense for the year		**(401,159)**	(1,999,891)
Earnings per share (EPS)	9	**Dollar/share**	Dollar/share
– basic loss per share		**(0.0001)**	(0.0034)
– diluted loss per share		**(0.0001)**	(0.0034)
Earnings per share - continuing operations	9	**Dollar/share**	Dollar/share
– basic loss per share		**(0.0001)**	(0.0032)
– diluted loss per share		**(0.0001)**	(0.0032)

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

Memphasys Limited and its Controlled Entities
ABN 33 120 047 556

Consolidated statement of financial position
As at 30 June 2018

	Notes	**30 June 2018** $	30 June 2017 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10	**201,807**	2,349
Trade and other receivables	11	**-**	52,769
Other current assets	12	**659,454**	424,108
Financial assets	13	**-**	3,824,888
TOTAL CURRENT ASSETS		**861,261**	4,304,114
NON-CURRENT ASSETS			
Property, plant and equipment	14	**22,732**	41,281
Intangible assets	15	**3,333,180**	2,956,295
TOTAL NON-CURRENT ASSETS		**3,355,912**	2,997,576
TOTAL ASSETS		**4,217,173**	7,301,690
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	16	**222,428**	822,000
Interest bearing liabilities	17	**471,736**	5,714,322
Non-interest bearing liabilities	18	**26,334**	26,334
Lease liabilities	28	**3,552**	4,260
Tax liabilities	19	**10,146**	(2,780)
Short-term provisions	20	**89,186**	96,647
TOTAL CURRENT LIABILITIES		**823,382**	6,660,783
NON-CURRENT LIABILITIES			
Lease liabilities	28	**6,746**	9,391
Interest bearing liabilities	17	**-**	1,011,544
Long-term provisions	20	**35,465**	22,212
TOTAL NON-CURRENT LIABILITIES		**42,211**	1,043,147
TOTAL LIABILITIES		**865,593**	7,703,930
NET ASSETS / (LIABILITIES)		**3,351,580**	(402,240)
EQUITY			
Issued capital	21	**40,095,314**	36,019,885
Reserves	23	**1,015,610**	936,060
Accumulated losses		**(37,759,344)**	(37,358,185)
TOTAL EQUITY / (DEFICIENCY)		**3,351,580**	(402,240)

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

Memphasys Limited and its Controlled Entities
ABN 33 120 047 556

Consolidated statement of changes in equity
For the year ended 30 June 2018

	Notes	Issued Capital $	Share Options Reserve $	Accumulated Losses $	Total Equity $
Balance 1 July 2016		**35,909,885**	**926,060**	**(35,358,294)**	**1,477,651**
Movement					
Loss for the period		-	-	(1,999,891)	(1,999,891)
Total comprehensive income for the period		**-**	**-**	**(1,999,891)**	**(1,999,891)**
Issue of share capital	21	110,000	-	-	110,000
Share options issued	23	-	10,000	-	10,000
Balance 30 June 2017		**36,019,885**	**936,060**	**(37,358,185)**	**(402,240)**
Balance 1 July 2017		**36,019,885**	**936,060**	**(37,358,185)**	**(402,240)**
Movement					
Loss for the period		-	-	(401,159)	(401,159)
Total comprehensive income for the period		**-**	**-**	(401,159)	(401,159)
Issue of share capital	21	4,435,434	-	-	4,435,434
Transaction costs on share issue		(360,005)	-	-	(360,005)
Share options issued	23	-	79,550	-	79,550
Balance 30 June 2018		40,095,314	1,015,610	(37,759,344)	3,351,580

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

Memphasys Limited and its Controlled Entities
ABN 33 120 047 556

Consolidated statement of cash flows
For the year ended 30 June 2018

	Notes	2018 $	2017 $
Cash flows from operating activities			
Receipts from customers		**52,769**	-
Payments to suppliers and employees		**(1,548,506)**	(1,721,336)
Government grant receipts		**831,529**	497,355
Finance costs		**(74,211)**	(4,614)
Net cash flows used in operating activities	10 (a)	**(738,419)**	(1,228,595)
Cash flows from investing activities			
Interest received		**2,613**	1,211
Payment for increase of security term deposit		**(4,800)**	-
Payment for purchase of property, plant and equipment		**(2,405)**	-
Receipts from sales of property, plant and equipment		**-**	13,965
Receipts from sales of business		**-**	118,503
Payments for internal development		**(1,229,505)**	(664,733)
Cash flows relating to discontinued operations	8	**-**	(90,379)
Net cash flows provided by / (used in) investing activities		**(1,234,097)**	(621,433)
Cash flows from financing activities			
Proceeds from issue of shares		**2,344,349**	110,000
Share issue costs		**(350,169)**	(107,002)
Receipts from third party loans		**660,000**	350,000
Repayment of third party loans		**(545,156)**	(110,000)
Receipts from related party loans		**286,330**	1,671,376
Repayment of related party loans		**(223,380)**	(81,000)
Net cash flows provided by financing activities		**2,171,974**	1,833,374
Net increase / (decrease) in cash and cash equivalents		**199,458**	(16,654)
Cash and cash equivalents at beginning of year		**2,349**	19,003
Cash and cash equivalents at end of year	10	**201,807**	2,349

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

1. Reporting entity

Memphasys Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 30 Richmond Road, Homebush, NSW 2140, Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities'). The Group is a for-profit entity and is primarily involved in the development and manufacture of cell and protein separation devices, and associated consumables, for use in Healthcare, Veterinary and Biotechnology market sectors.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 21 August 2018.

b) Basis of measurement

The consolidated financial statements have been prepared on an accruals basis and are based on historical cost.

c) Functional and presentation currency

The financial information of each of the Group's foreign entities is measured using the currency of the primary economic environment in which it operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the Group's primary functional currency.

d) Use of estimates and judgements

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Going concern – refer to Note 3(a);
- Other receivables impairment – refer to Note 11; and
- Intangible assets impairment review – refer to Note 15(d).

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a) Going concern

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

In the coming financial year, Memphasys' commercial development strategy will continue to be focused on developing the Felix human IVF device, positioning it ready for market launch. It will also focus on the development of a new, larger device for equine ART applications and the progression of the new bio-separations programs. Memphasys will require extra funding for all of these activities.

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

- The Group made a net loss for the year ended 30 June 2018 of $401,159 (2017: $1,999,891).
- For the year ended 30 June 2018 the Group had net cash outflows from operating activities of $738,419 (2017: $1,228,595) and net cash outflows from investing activities of $1,234,097 (2017: $621,433).
- At 30 June 2018 the Group had an excess in working capital of $37,879 (2017: deficiency of $2,356,669).
- At 30 June 2018 the Group had net assets of $3,351,580 (2017: net assets deficiency $402,240).

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

- On 8 August 2018 the Company received the second tranche of the placement made by Peters Investments Pty Ltd for the amount of $327,250 net of brokerage fees.
- AusIndustry has approved the R&D tax claim for an amount of $592,734 which was received on 15 August 2018.
- The extension of the line of credit by Alison Coutts by a further $200,000 announced in July 2017 is still current. At the date of submission of this report, Memphasys has $77,800 remaining for potential drawdown.
- Memphasys and Patersons are currently working on another substantial capital raising in the next 2 to 3 months.
- All legal disputes have been resolved in the current financial year. Legal expenditures, which consumed substantial cash from the business for the last two and a half years up to April 2018 have ceased. This represents a yearly legal expenditure decrease of over $858,000 compared with the prior financial year.
- The Group has the ability to access funds through further issues of securities by the parent entity and is also in a strong position to receive further grant funding to support various programs.

Based on the above, Memphasys will continue to access adequate funding to advance the development of the Felix human and animal ART devices to commercialisation and also continue its research-based bio-separation activities to bring these closer to a commercial outcome. There is uncertainty as to whether adequate funding will be available. This may cast doubt on the Group's ability to continue as a going concern and therefore, that it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

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

3. Significant accounting policies (continued)

b) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved when the company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the company controls an investee if and only if the company has all the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. A list of controlled entities is contained in Note 26 to the financial statements. All controlled entities have a June financial year-end.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered or left the consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the parent entity.

c) Segment reporting

As a result of discontinued operations in the financial year 2016, there is only one segment.

d) Foreign currency transactions and balances

Foreign currency transactions
Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Exchange differences arising on the translation of monetary items are recognised through profit or loss.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised through profit or loss.

e) Income tax

The income tax expense for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities / assets are therefore measured at the amounts expected to be paid to / recovered from the relevant taxation authority.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

3. Significant accounting policies (continued)

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax is recognised for the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

f) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to sell.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier.
When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.
The Consolidated Statement of Profit or Loss, the Consolidated Statement of Cash Flows and some notes have been restated due to the reclassification of their items related to discontinued operations.

g) Financial instruments

i) Initial recognition and measurement
Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset.

ii) Classification and subsequent measurement
Finance instruments are subsequently measured at either fair value or amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted. Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost.

Amortised cost is calculated as:

- The amount at which the financial asset or financial liability is measured at initial recognition;
- Less principal repayments;
- Plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- Less any reduction for impairment.

3. Significant accounting policies (continued)

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows necessitate an adjustment to the carrying value with a consequential recognition of income or expense in profit or loss.

Loans and receivables
Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Financial Liabilities
Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

h) Property, plant and equipment

Each class of property, plant and equipment is carried at historic cost less, where applicable, any accumulated depreciation and impairment losses.

i) Plant and equipment
Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. Cost includes expenditures that are directly attributable to the acquisition of the asset. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

ii) Depreciation
The depreciable amount of fixed assets is depreciated on a straight-line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

	2018	2017
Plant and equipment	10% - 33%	10% - 33%
Leasehold improvements	14% - 20%	14% - 20%

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in the statement of profit or loss and other comprehensive income.

i) Intangible assets

i) Research and development costs
Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs capitalised comprises all directly attributable costs, including cost of materials, services, direct labour and an appropriate proportion of overheads. Development costs have a finite life and are amortised from the point at which the asset is ready for use on a systematic basis matched to the future economic benefits over the useful life of the project.

3. Significant accounting policies (continued)

ii) Patents and trademarks
Costs associated with patents and trademarks are expensed in the year in which they are incurred, unless the expenditure will generate future economic benefits. Patents and trademarks capitalised are included in internal development costs and have a finite useful life and are carried at cost less any accumulated amortisation and impairment losses.

iii) Amortisation
Amortisation is based on the cost of the asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

iv) Impairment
Impairment testing is performed annually for intangible assets with indefinite lives or assets under development.

j) Impairment of assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed through profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

k) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the reporting date. Employee benefits that are expected to be settled wholly within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be paid for those benefits. Those cash flows are discounted using market yields on corporate bonds with terms to maturity that match the expected timing of cash flows.

i) Equity-settled Compensation
The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

ii) Retirement benefit obligations
All employees of the group are entitled to benefits from the group's superannuation plan on retirement. Contributions to the defined contribution fund are recognised as an expense as they become payable.

l) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

3. Significant accounting policies (continued)

m) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are classified within short-term borrowings in current liabilities in the statement of financial position.

n) Trade and other payables

Trade and other payables represent liabilities outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within short-term credit terms.

o) Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities. A sale is recorded when goods or services have been despatched to a customer pursuant to a sales order and the associated risks and rewards of ownership have passed to the customer. Where cash is received for goods not yet despatched revenue is deferred until risk and rewards of ownership are transferred to the customer.

p) Government grants

A government grant is considered as assistance by a state authority in the form of transfers of resources to the group in return for past or future compliance with certain conditions relating to the operation of the group. The R&D Tax Incentive Scheme for small companies is considered a government grant. Although it is administered by the government through the ATO, it is not linked to the level or availability of taxable profits.

In accordance with AASB120 *Accounting for Government Grants and Disclosure of Government Assistance*, grant income is recognised as receivable at fair value where there is reasonable assurance that the grant will be received and all grant conditions have been satisfied.

The portion of the government grant relating to development assets is credited to capitalised development costs of the intangible assets they relate to. Government grants relating to costs incurred in the profit or loss statement are recognised as grant income in the same period.

q) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as an expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

r) Contributed equity

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.

s) Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

3. Significant accounting policies (continued)

t) Earnings per Share

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

Diluted earnings per share
Diluted earnings per share adjusts 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 cost associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

u) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Corporations (Rounding in Financial / Director's Reports) Instrument 2016/191. Accordingly, amounts in the financial statements and directors' report have been rounded off where appropriate to the nearest $1, unless otherwise specified.

v) New accounting standards issued but not yet effective

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the group. The group has decided not to early adopt any of these new and amended pronouncements. The group's assessment of the new and amended pronouncements that are relevant to the group but applicable in future reporting periods is set out below.

AASB 9: Financial Instruments (applicable for annual reporting periods commencing on or after 1 January 2018).

- The Standard will replace AASB 139: Financial Instruments: Recognition and Measurement. The key changes that may affect the group on initial application of AASB 9 and associated amending Standards include: simplifying the general classifications of financial assets into those carried at amortised cost and those carried at fair value;
- permitting entities to irrevocably elect on initial recognition to present gains and losses on an equity instrument that is not held for trading in other comprehensive income (OCI);
- simplifying the requirements for embedded derivatives, including removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in OCI, except when it would create an 'accounting mismatch';
- introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and
- requiring impairment of financial assets carried at amortised cost to be based on an expected loss approach.

Based on current operations the directors do not believe there would be any material impact on the financial statements in future periods.

3. Significant accounting policies (continued)

v) New accounting standards and interpretations for application in future periods (continued)

AASB 15: Revenue from Contracts with Customers (applicable to for profit entities for annual reporting periods commencing on or after 1 January 2018).

AASB 15 will provide (except in relation to some specific exceptions, such as lease contracts and insurance contracts) a single source of accounting requirements for all contracts with customers, thereby replacing all current accounting pronouncements on revenue.

The Standard provides a revised principle for recognising and measuring revenue. Under AASB 15, revenue is recognised in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the provider of the goods or services expects to be entitled.

AASB 15 also provides additional guidance to assist entities in applying the revised principle to licences of intellectual property, warranties, rights of return, principal/agent considerations and options for additional goods and services.

Based on current operations the directors do not believe there would be any material impact on the financial statements in future periods.

AASB 16: Leases (applicable for annual reporting periods commencing on or after 1 January 2019).

AASB 16 will replace AASB 117: Leases and introduces a single lessee accounting model that will require a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

- right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for in accordance with a cost model unless the underlying asset is accounted for on a revaluation basis, in which case if the underlying asset is:
    - investment property, the lessee applies the fair value model in AASB 140: Investment Property to the right-of-use asset; or
    - property, plant or equipment, the lessee can elect to apply the revaluation model in AASB 116: Property, Plant and Equipment to all of the right-of-use assets that relate to that class of property, plant and equipment; and
- lease liabilities are accounted for on a similar basis as other financial liabilities, whereby interest expense is recognised in respect of the liability and the carrying amount of the liability is reduced to reflect lease payments made.

Based on current operations the directors do not believe there would be any material impact on the financial statements in future periods.

4. Parent entity disclosures

The following information has been extracted from the books and records of Memphasys Limited and has been prepared in accordance with the basis of preparation disclosed in Note 2.

	2018 **$**	2017 $
Statement of financial position		
Assets:		
Current assets	**2,265,986**	4,950,655
Total assets	**2,265,986**	4,950,655
Liabilities:		
Current liabilities	**705,285**	6,346,050
Total liabilities	**740,750**	7,379,806
Equity:		
Issued capital	**40,095,314**	36,019,885
Accumulated losses	**(39,585,687)**	(39,385,096)
Options reserve	**1,015,610**	936,060
Total deficiency in equity	**1,525,237**	(2,429,151)
Statement of profit or loss and other comprehensive income		
Total loss for the year	**(200,591)**	(1,633,759)
Total comprehensive expense for the year	**(200,591)**	(1,633,759)

Guarantees

Memphasys Limited has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

Contingent liabilities

At 30 June 2018, Memphasys Limited had no contingent liabilities (2017: Memphasys was a party to legal dispute with Pulau Manukan Ventures Labuan Ltd ("Manukan") and PrIME Biologics Private Limited ("PrIME") that settled in July 2017).

Contractual commitments

At 30 June 2018 Memphasys Limited:

- Is committed to pay in August 2018 the second tranche of USD 28,850 to Soladoc LLC (trading as Greenlight Guru) for the subscription of a quality management platform.
- Engaged Hydrix Pty Ltd for the design and product development of the clinical Felix system. The total amount of the contract is $2,371,990 and its expected termination is August 2019. At 30 June 2018 there had been work done for $237,000.
- Engaged Dr Tim Oldham to conduct experiments to determine and validate whether Memphasys' technology can deliver separation performance that are likely to be distinctive and competitive relative to existing technology available in the market. The initial term of the agreement is three months, started on 1 July 2018 and accruing a monthly fee of $10,000. Thereafter, the agreement may be terminated by any party with three month's notice.

5. Revenue / other income- Continuing operations

	Note	2018 $	2017 $
Other income			
Grant income	15	**63,178**	64,378
Finance income		**2,363**	2,160
Gain on sale of assets		**-**	13,965
Net gain on settlement of debt *		**896,232**	-
Total other income		**961,773**	**80,503**

* Memphasys successfully resolved the dispute on the third party debt with PrIME Biologics Pte Limited ("PrIME"), as reported on 27 July 2017. As a result, a net gain on settlement of debt was recognised as a result of derecognising the debt no longer held by Memphasys (refer to Note 17) and the B class shares in PrIME no longer owned by Memphasys (refer to Note 13).

6. Loss for the year- Continuing operations

Loss for the year is arrived at after charging / (crediting) the following amounts:

	Note	2018 $	2017 $
Expenses			
Depreciation:			
Plant and equipment	14	**7,318**	7,061
Leasehold improvements	14	**13,636**	13,636
Total depreciation expense		**20,954**	20,697

Depreciation include amounts which have been capitalised under research and development expenditure.

Finance costs:			
Interest expense on financial liabilities with related parties	26(f)	**109,389**	92,521
Other interest expense		**167,599**	37,153
		276,988	129,674
Staff costs:			
Salaries		**707,449**	675,485
Superannuation		**60,772**	55,765

Salaries include amounts which have been capitalised under research and development expenditure.

Rental expense relating to operating leases		**151,173**	146,770
Legal fees		**95,111**	953,809
Write-off other receivables		**-**	66,233
Exchange losses / (gains)		**(81,946)**	(259,556)

7. Income tax expense

a) Income tax expense

	2018 **$**	2017 $
Income tax reported in the statement of profit or loss and other comprehensive income	**-**	-

b) Reconciliation of effective tax rate

	2018 **$**	2017 $
Accounting loss before tax from continuing operations	**(401,159)**	**(1,898,898)**
Prima facie tax benefit on loss from ordinary activities before income tax at 27.5% (2017: 27.5%)	**(110,318)**	(522,197)
Less:		
Tax effect of:		
Non-deductible expenditure	**50,032**	50,183
Research and development tax incentive (non-assessable)	**(17,374)**	(17,704)
Other deductible expenditure	**(18,214)**	-
Capital losses recouped	**(246,464)**	-
Current year tax losses carried forward	**342,338**	489,718
Income tax expense recorded in statement of profit or loss and other comprehensive income	**-**	-

c) Deferred income tax

Deferred tax assets have not been recognised in respect of tax losses and deductible temporary differences.

Deferred tax assets are recognised for deductible temporary differences only if the group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Due to the value of tax losses and the group performance for the year, it is not considered probable that temporary differences will be utilised in the foreseeable future.

d) Tax losses

The Group has separate tax entities within Australia and the United States.

The Australian tax jurisdiction has tax losses which are not recognised in its book at 30 June 2017. The unused tax losses held in the Australian group of companies as at 30 June 2018 is $31,501,900. The amount of the benefit which may be realised in the future is based on the assumption that no adverse change will occur in the income tax legislation, the group will derive sufficient assessable income to recoup the losses and the group will comply with the conditions of deductibility imposed by the law.

8. Loss from disposal of assets held for sale and discontinued operations

The pre-cast polyacrylamide gel manufacturing business was sold in April 2016 for US$130,000.

The Company discontinued the distribution of biological products in June 2016 and transferred the equipment to the buyer in March 2017.

Although no discontinued operations have taken place in the current financial year, comparatives figures are presented in the consolidated statement of profit or loss and other comprehensive income to show discontinued operations separately from continuing operations.

	2018	2017
	$	$
Gels business	**-**	**(100,993)**
Distribution of biological products	**-**	**-**
	-	**(100,993)**

Cash flows relating to the gels and diagnostics business are as follows:

Cash flows relating to discontinued activities in the current financial year:	**2018**	2017
	$	$
Net cash flow used in operating activities	**-**	(90,379)
Net cash flow used in investing activities	**-**	-
Net cash flow from financing activities	**-**	-
Net cash flows relating to discontinued activities in the current financial year	**-**	(90,379)

Loss per share relating to discontinued activities is in respect of the discontinued businesses.

Loss per share on results relating to discontinued activities:	**2018**	2017
	$	$
	Dollar/share	Dollar/share
Basic loss per share	**(0.0000)**	(0.0002)
Diluted loss per share	**(0.0000)**	(0.0002)

9. Earnings per share

The income and share data used in the basic and diluted earnings per share computation is:

	2018	2017
	$	$
Loss after tax from continuing operations	**(401,159)**	(1,898,898)
Loss from discontinued operations	**-**	(100,993)
Net loss for the year	**(401,159)**	(1,999,891)
Weighted average number of shares used as the denominator	**Shares**	Shares
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**2,741,024,073**	584,514,286
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**2,741,024,073**	584,514,286

10. Cash and cash equivalents

	2018	2017
	$	$
Cash at bank	**201,807**	2,349

a) Reconciliation of operating loss to net cash outflow from operating activities

	2018	2017
	$	$
Loss from ordinary activities after income tax expense:	**(401,159)**	(1,999,891)
Depreciation	**20,954**	20,697
Net finance cost	**200,164**	123,849
Shares issued in lieu of director fees and expenses	**202,179**	-
Shares issued in lieu of consulting fees	**75,552**	-
Gain on sale of assets	**-**	(13,965)
Gain on net settlement of debt	**(896,232)**	-
Loss arising on discontinued operations	**-**	100,993
Share option reserve	**79,550**	-
Foreign exchange translation	**(81,946)**	(259,556)
	(800,938)	(2,027,873)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other debtors	**(182,577)**	328,619
Decrease in trade payables	**(599,572)**	(22,960)
Increase in tax liabilities	**12,926**	18,118
Decrease in lease liabilities	**(3,353)**	(3,163)
(Decrease)/increase in provisions	**5,792**	21,134
Increase in deferred income	**829,303**	367,151
Cash flow related to discontinued operation (Note 8)	**-**	90,379
Net cash outflows from operating activities	**(738,419)**	(1,228,595)

Non-cash transactions

During the year the Company issued ordinary shares of $2,091,112 on conversion of loans of $1,813,381, in lieu of director fees of $84,819, salaries of $117,360 and consulting fees of $75,552

11. Trade and other receivables

Trade and other receivables - current	**2018** **$**	2017 $
Trade receivables	**-**	52,769
	-	52,769

Trade and other receivables – non-current	**2018** **$**	2017 $
Related party receivable – Thee Woon Goh	**947,311**	947,311
Impairment of related party receivables	**(947,311)**	(947,311)
	-	-

On 25 November 2011, Mr Thee Woon Goh, a non-executive director at the time of the Singapore subsidiary, Prime Biologics Pte Ltd, exercised 12,622,691 short dated share options. The consideration for these shares was not paid when due in November 2011 and the Company entered into a debt agreement with Mr Thee Woon Goh. Under the terms of the agreement, certain rights and entitlements of the shares were suspended and the Company retained a lien over the securities. The loan has not been repaid during the reporting date and it is envisaged that the parties will re-negotiate terms after the reporting period.

12. Current assets – other assets

	Note	2018 $	2017 $
Term deposit – bank guarantee rent Homebush		**42,750**	37,950
Security deposits		**5,172**	4,788
Prepaid expenses		**18,798**	39,421
Amount receivable under R&D Tax Incentive Scheme	15(c)	**592,734**	431,529
Tax liability ATO (PAYG) *	19	**-**	(89,580)
		659,454	424,108

The term deposit relates to a rental bond which is deposited in an escrow account.

* In the current financial year the PAYG liability owing to Australian Taxation Office is classified in Note 19 Tax Liabilities as it was individually settled subsequently to year end. In prior financial years it was classified as Other Asset because it was settled offsetting the research and development incentive grant receivable.

13. Financial assets - available-for-sale

	2018 $	2017 $
Current		
Shares in unlisted entities - at cost	**-**	3,824,888

Available-for-sale financial assets comprised an investment in Series B preference shares in a former subsidiary, PrIME. On 24 July 2017, Memphasys, PrIME and its major investor Pulau Manukan Ventures Labuan Ltd successfully concluded all disputes through mediation.

14. Property, plant and equipment

	Note	Plant & Equipment $	Leasehold Improvements $	Total $
Cost:				
Balance at 1 July 2016		670,701	592,357	1,263,058
Additions		-	-	-
Disposals		-	-	-
Balance at 30 June 2017		670,701	592,357	1,263,058
Balance at 1 July 2017		670,701	592,357	1,263,058
Additions		2,405	-	2,405
Disposals		-	-	-
Balance at 30 June 2018		673,106	592,357	1,265,463
Accumulated depreciation:				
Balance at 1 July 2016		635,995	565,086	1,201,081
Depreciation for the year	6	7,061	13,635	20,696
Balance at 30 June 2017		643,056	578,721	1,221,777
Balance at 1 July 2017		643,056	578,721	1,221,777
Depreciation for the year	6	7,318	13,636	20,954
Balance at 30 June 2018		650,374	592,357	1,242,731
Net book value at 30 June 2017		**27,645**	**13,636**	**41,281**
Net book value at 30 June 2018		**22,732**	**-**	**22,732**

15. Intangible assets

a) Reconciliation of movements in intangible assets

	Note	Internal Development $	Total $
Cost:			
Balance at 1 July 2016		**3,305,209**	3,305,209
Additions		**840,332**	840,332
Balance at 30 June 2017		**4,145,541**	**4,145,541**
Balance at 1 July 2017		**4,145,541**	4,145,541
Additions		**1,306,441**	1,306,441
Balance at 30 June 2018		**5,451,982**	**5,451,982**
Accumulated grant income:			
Balance at 1 July 2016		**822,095**	822,095
Grant income for the year	15(c)	**367,151**	367,151
Balance at 30 June 2017		**1,189,246**	**1,189,246**
Balance at 1 July 2017		**1,189,246**	1,189,246
Deferred R&D Tax Incentive grant income for the year	15(c)	**529,556**	529,556
NSW medical device grant income for the year *		**400,000**	400,000
Balance at 30 June 2018		**2,118,802**	2,118,802
Net carrying value at 30 June 2017		**2,956,295**	**2,956,295**
Net carrying value at 30 June 2018		**3,333,180**	**3,333,180**

* Special grant received from the NSW Medical Device Fund ("NSWMDF") to advance the development of the Felix device, as announced to the market on 22 December 2017. This grant was subject to a number of terms and conditions which were met by Memphasys by March 2018. According to accounting standards, the Company was in conditions to recognise the grant as income. However, because the underlying expenses founded with the grant had been capitalised as intangible assets, the amount of $400,000 has been recognised as deferred income, netted off from Intangible Assets, and will be amortised once the Felix device is ready to be commercialised.

The Group capitalises development costs based on time spent by employees, the type of project, related development tasks and other related factors. The intangible assets will be amortised when they are available for use.

b) Reconciliation of intangible assets carrying value by project

	2018 $	2017 $
SpermSep separations – humans	**2,453,081**	2,300,005
SpermSep separations – animals	**515,202**	418,923
Membranes – SpermSep	**364,897**	237,367
	3,333,180	2,956,295

c) Reconciliation of grant income receivable at 30 June

	Note	2018 $	2017 $
Analysis of grant income receivable:			
Component relating to projects under development	15(a)	**529,556**	367,151
Recognised as grant income in the current period		**63,178**	64,378
Total government grants receivable	12	**592,734**	431,529

d) Impairment review of intangible assets under development

In assessing whether there are any indicators of impairment relating to the Felix business the following factors have been taken into account:

- Memphasys has contracted Hydrix, its engineering development partner, to design and build the next generation "Felix" device to enable this device to be launched into the human IVF market. The Felix device comprises a sterile single-use disposable cartridge and a console. The Felix system will separate the best sperm out of a semen sample for use in human IVF processes.
- By 30 June most of the Felix system design parameters had been optimised through extensive experimentation at Memphasys, University of Newcastle and Monash IVF and final design of the device to be taken to market had begun. The first production systems are anticipated to be completed in early 2019.
- The prototype re-usable Felix cartridge has further use for optimising operating conditions in animal assisted reproduction, for example in equine IVF where further experimentation at University of Newcastle has validated the efficacy of the reusable cartridge for separating out the best equine sperm for ART procedures.
- In-house testing and initial testing by researchers at the University of Newcastle of healthy male human semen samples have shown that the proposed Felix device separates viable sperm without imparting DNA damage.
- Memphasys' consultancy arrangement with the University of Melbourne Chemical and Biomolecular Engineering Department enabled the development of a new biocompatible membrane to replace the polyacrylamide membranes, which would not have been clinically acceptable. The new membrane is now a key part the Felix system. Memphasys has an ongoing relationship with this Department and is continuing to work on other potential high value cell bio-separations.
- The Group has assessed that future economic benefits from the intangible assets will be greater than the sum of development costs at the reporting date plus future development costs to commercialise the assets.
- The Group has assessed that there are no new specific risks in relation to the development and commercialisation of the projects. The key risk remains the generation of adequate funding to complete commercialisation.
- Memphasys is confident it will be able to generate sufficient funding in the coming year to advance the commercialisation of the Felix device.

16. Trade and other payables

	Note	2018 $	2017 $
Trade payables		**130,086**	334,732
Payable to related parties	25(f)(*i*)	**14,233**	192,774
Other creditors and accruals		**78,109**	294,494
		222,428	822,000

The Group's exposure to liquidity risk related to trade and other payables is disclosed in Note 27.

17. Interest bearing liabilities

	Note	2018 $	2017 $
Current:			
Loans from related parties – secured	25(f)(*ii*)	**471,736**	570,080
Loans from related parties – unsecured		**-**	183,475
Third party debt – secured		**-**	4,960,767
		471,736	5,714,322

2018 Analysis of debt	**Currency**	**Interest rate**	**Year of maturity**	**Face value**	**Carrying value**
Related party loan secured	AUD	10%	2019	471,736	471,736
Total current debt at 30 June 2018				**471,736**	**471,736**

2017 Analysis of debt	**Currency**	**Interest rate**	**Year of maturity**	**Face value**	**Carrying value**
Related party loan secured	AUD	10%	2018	570,080	570,080
Related party loan unsecured	AUD	10%	2018	173,475	173,475
Related party loan unsecured	AUD	0%	At call	10,000	10,000
Third party loan – Crescendas Projects Pte Ltd	SGD	9%	2017	251,849	251,849
Third party loan – Bridge Road Capital Pty Ltd	AUD	10%	2018	159,359	159,359
Third party debt – secured Manukan Debt	SGD	-	2016	4,549,559	4,549,559
Total current debt at 30 June 2017				**5,714,322**	**5,714,322**

	Note	2018 $	2017 $
Non-current:			
Loans from related parties – secured	25(f)(*ii*)	**-**	968,500
Third party debt – secured		**-**	43,044
		-	1,011,544

2017 Analysis of debt	**Currency**	**Interest rate**	**Year of maturity**	**Face value**	**Carrying value**
Related party loans - secured	AUD	10%	2018	968,500	968,500
Third party debt – secured	AUD	10%	2018	43,044	43,044
Total non-current debt at 30 June 2017				**1,011,544**	**1,011,544**

The related party loans - secured are collateralised over the assets of Memphasys Limited.

Refer to Note 25(f)(*ii*) for additional information on related party loans.

18. Non-interest bearing liabilities

The balance of $26,334 relates to a remaining balance originated from a convertible note signed with Ms Chang Seow Ying Alison with a face value of $387,765, converted into equity after resolutions approved in AGM held on 19 December 2014. The face value represented the original loan plus interests and the effect of foreign currency exchange translations accrued at 30 September 2014. The remainder of this loan relates to interest accrued from 1 October 2014 to the actual date of conversion 22 December 2014.

19. Tax liabilities

	Note	**2018** **$**	2017 $
Office of State Revenue NSW – payroll tax		**6,450**	7,490
Australian Taxation Office – GST		**(14,681)**	(10,270)
Australian Taxation Office – PAYG *	12	**18,377**	-
		10,146	(2,780)

Refer to Note 12 for explanation of the reason why the PAYG tax liability was classified as Other Assets in the prior year.

20. Provisions

	2018 **$**	2017 $
Current:		
Provision for employee benefits - current	**89,186**	96,647
Non-current:		
Provision for employee benefits – non-current	**35,465**	22,212
Provision for employee benefits:		
Balance at beginning of year	**118,859**	97,725
Provision utilised	**(65,640)**	(34,533)
Recognised through profit or loss	**71,432**	72,232
Paid as a redundancy payment	**-**	(16,565)
Balance at end of year	**124,651**	118,859

21. Share capital

a) Share capital

	2018 Shares	2017 Shares	**2018 $**	2017 $
Ordinary Shares – fully paid	**5,108,829,192**	**666,880,183**	**40,095,314**	**36,019,885**

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

	Note	**2018 Shares**	2017 Shares	**2018 $**	2017 $
Balance at beginning of year		**666,880,183**	569,234,004	**36,019,885**	35,909,885
Share issue under share placement		**1,884,603,180**	-	**1,884,603**	-
Share issue in lieu of consulting fees		**77,126,282**	-	**75,552**	-
Shares issue under non-renounceable entitlement offer		**459,718,760**	-	**459,719**	-
Share issue in lieu of director fees and expenses	25(f)(*v*)	**84,818,980**	-	**84,819**	-
Share issue in lieu of salaries	25(f)(*v*)	**117,360,000**	-	**117,360**	-
Share issue in lieu of corporate advisory fees		**-**	25,000,000	**-**	-
Share issue on conversion of loans	25(f)(*iv*)	**1,818,321,807**	72,646,179	**1,813,381**	110,000
		5,108,829,192	666,880,183	**40,455,319**	36,019,885
Less issue costs			-	**360,005**	-
Balance at end of year		**5,108,829,192**	666,880,183	**40,095,314**	36,019,885

i) Ordinary Shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares attending the meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares do not have a par value.

ii) Listed Options
No listed share options were issued during the 2018 financial year (2017: nil).

21. Share capital (continued)

c) Unlisted Options

Set out in the table below are summaries of options issued, exercised and lapsed during the year.

Grant date	Expiry date	Vesting commencement date	Exercise price	Balance at start of year	Issued during the year	Exercised during the year	Lapsed / cancelled during the year	Balance at end of the year
Consolidated and parent entity – 2018:								
22 December 2014	1 November 2017	-	$0.112	1,500,000	-	-	1,500,000	-
22 December 2014	5 December 2017	-	$0.1015	1,200,000	-	-	1,200,000	-
30 November 2016	25 November 2019	-	$0.020	4,000,000	-	-	-	4,000,000
4 April 2017	31 December 2018	-	$0.0060	5,000,000	-	-	-	5,000,000
29 December 2017	28 December 2019	-	$0.0020	-	220,971,876	-	-	220,971,876
Total		-		11,700,000	220,971,876	-	2,700,000	229,971,876

The number of options over ordinary shares in Memphasys issued, exercised and lapsed to related parties during the year are as follows:

2018	Balance at start of year	Granted	Exercised during the year	Lapsed / cancelled during the year	Balance at end of the year	Exercisable	Non Exercisable
Andrew Goodall	1,500,000	-	-	1,500,000	-	-	-
Alison Coutts	1,200,000	-	-	1,200,000	-	-	-
Total	2,700,000	-	-	2,700,000	-	-	-

2017	Balance at start of year	Granted	Exercised during the year	Lapsed / cancelled during the year	Balance at end of the year	Exercisable	Non Exercisable
Andrew Goodall	121,786,047	-	-	120,286,047	1,500,000	1,500,000	-
Alison Coutts	2,400,000	-	-	1,200,000	1,200,000	1,200,000	-
Syrah Trustee Limited	6,750,000	-	-	6,750,000	-	-	-
Total	130,936,047	-	-	128,236,047	2,700,000	2,700,000	-

22. Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels and share issues. There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

Refer to Note 3(a) of the financial statements for further details of the company's strategy for capital management.

23. Reserves

Share options reserve

The share option reserve is used to recognise the fair value of the following options:

Number of options	Granted to	Granted on	Shareholder's Approval	Reserve amount $
6,625,000	Andrew Goodall	AGM Dec '14	Approved by shareholder's AGM Dec '14	120,500
1,000,000	Chang Seow Ying Alison	AGM Dec '14	Approved by shareholder's AGM Dec '14	22,560
Total value of options granted at 30 June 2015				143,060
37,123,956	Transocean Securities Pty Ltd	Private Placement Jan '16	Approved by shareholder's AGM Nov '16	74,000
50,000,000	Transocean Securities Pty Ltd	Rights Issue Apr '16		100,000
20,000,000	Robert Gilmour	Rights Issue Apr '16	4,000,000 approved by shareholder's AGM Nov '16	40,000
284,617,002	Shareholders	Rights Issue Apr '16	Approved by shareholder's AGM Nov '16	569,000
Total value of options granted in the financial year ended 30 June 2016				783,000
5,000,000	Bridge Road Capital Pty Ltd	Apr '17	Approved by shareholder's AGM Dec '17	10,000
Total value of options granted in the financial year ended 30 June 2017				10,000
220,971,876	Paterson Securities Limited	Underwriting Agreement Dec '17		79,550
Total value of options granted in the financial year ended 30 June 2018				79,550
Total value of options granted at 30 June 2018				1,015,610

In accordance with *Accounting Standard AASB2 'Share Based payments'*, the options were valued using the Black-Scholes valuation methodology. The fair value of each option is estimated on grant date with the following assumptions used:

- For the options granted to Paterson Securities Limited in December 2017:

Dividend yield	0%
Risk-free interest rate	1.58%
Expected volatility	100%

24. Auditors' remuneration

Pitcher Partners	**2018 $**	2017 $
Audit & Assurance services		
Review of interim report	**20,000**	22,500
Audit of financial report – year end	**35,000**	41,200
Total remuneration for services	**55,000**	63,700

25. Related parties

a) Parent and ultimate controlling party

Memphasys Limited (incorporated in Australia) is the ultimate parent entity.

b) Detail of key management personnel

i. Directors

Ms Alison Coutts	Executive Chairman
Mr Andrew Goodall	Non-Executive Director
Mr John Pereira	Non-Executive Director (Resigned 6 June 2018)
Mr Marjan Mikel	Non-Executive Director (Appointed 6 June 2018)

ii. Executives

Pablo Neyertz	Director of Finance

c) Key management personnel compensation

The key management personnel compensation included:

	2018 $	2017 $
Short-term employee benefits	**492,037**	613,478
Post-employment benefits	**32,850**	39,204
	524,887	652,682

d) Share based compensation - Options

Options remuneration has been calculated in accordance with the fair value measurements provisions of AASB 2 "Share Based Payments".

The amount of options remuneration is determined on a pro rata basis, by expensing the fair value estimate of each option over the vesting period and the individual option grant. The fair value of each option is estimated on grant date using Black-Scholes option pricing model. However, as there was no value vested for these options during the financial year, there was no share based expense recognised in the Consolidated Statement of Profit and Loss.

25. Related parties (continued)

e) Shareholding of directors

The numbers of shares in the company held during the financial year by each current Director, and executives of Memphasys Limited and its subsidiaries are set out below. There were no shares granted during the reporting period as director compensation.

Directors & their shareholding	Balance as at 1 July 2017	Net movement	Director resigned	Balance as at 30 June 2018
Alison Coutts (a)	3,788,208	880,895,040	-	884,683,248
Andrew Goodall (b)	240,102,598	1,083,348,792	-	1,323,451,390
John Pereira #	1,100,000	-	(1,100,000)	-
Marjan Mikel * (c)	-	15,000,000	-	15,000,000
Total	**244,990,806**	**1,979,243,832**	**(1,100,000)**	**2,223,134,638**

* Directors appointed during the year. # Directors resigned during the year.

(a) Alison Coutts' shareholding comprises 880,895,648 shares held directly and 3,787,600 held indirectly.
(b) Andrew Goodall's shareholding comprises 1,316,529,000 shares held directly and 6,922,390 shares held indirectly.
(c) Marjan Mikel's shareholding comprises 15,000,000 shares held indirectly.

Directors & their shareholding	Balance as at 1 July 2016	Net movement	Director resigned	Balance as at 30 June 2017
Alison Coutts (a)	20,719,208	(16,931,000)	-	3,788,208
Andrew Goodall (b)	170,408,439	69,694,159	-	240,102,598
Dr Robert Gilmour #	9,500,000	-	(9,500,000)	-
John Pereira *	-	1,100,000	-	1,100,000
Total	**200,627,647**	**53,863,159**	**(9,500,000)**	**244,990,806**

* Director appointed during the year. # Director resigned during the year.

(a) Alison Coutts' shareholding comprises 608 shares held directly and 3,787,600 held indirectly.
(b) Andrew Goodall's shareholding comprises 206,319,342 shares held directly and 33,783,256 shares held indirectly.

f) Other transactions with key management personnel and related parties

i) At 30 June 2018, payables to related parties were as follows:

	2018 $	2017 $
Andrew Goodall director fees	**4,167**	37,500
Andrew Goodall reimburse of expenses	**712**	8,635
Alison Coutts salaries	**-**	81,474
Alison Coutts superannuation	**5,012**	-
Alison Coutts reimburse of expenses	**-**	1,549
Pablo Neyertz salaries	**-**	44,240
Pablo Neyertz reimburse of expenses	**1,054**	401
Merjan Mikel director fees	**3,288**	-
Mike Richardson salaries	**-**	18,975
	14,233	192,774

25. Related parties (continued)

f) Other transactions with key management personnel

ii) Loans (principal and interest) payable to related parties:

		Current balances:		Non-current balances:	
		2018	2017	**2018**	2017
		$	$	**$**	$
Andrew Goodall		-	135,420	-	484,250
Ms Chang Seow Ying Alison	(a)	26,334	26,334	-	-
Goodall Family Super Fund		-	21,519	-	-
Alison Coutts	(b)	471,736	570,080	-	459,500
Alison Coutts Super Fund		-	16,536	-	24,750
Pablo Neyertz		-	10,000	**-**	-
Total		498,070	779,889	-	968,500

Loan ref	Currency	Interest rate	Maturity	Security
a)	AUD	0%	At call	Unsecured
b)	AUD	10%	*	Secured

* Remaining debt after capital raising in December 2017, which is repayable in three instalments over a period of 18 months following the General Meeting subject to Memphasys having sufficient funds to make the repayment.

iii) Interest paid on financial liabilities with related parties:

	2018	2017
	$	$
Andrew Goodall	**28,645**	36,578
Ti Rakau Developments Ltd	**-**	487
Alison Coutts	**77,202**	53,371
Alison Coutts Super Fund	**1,898**	2,067
Goodall Family Super Fund	**1,643**	17
	109,388	95,520

iv) Loans converted into shares:

	Number of shares		Converted loan balance	
	2018	2017	**2018**	2017
			$	$
Andrew Goodall and related parties	676,065,000	-	676,065	-
Alison Coutts and related parties	764,338,000	-	764,338	-
Total	**1,440,403,000**	-	**1,440,403**	-

25. Related parties (continued)

v) Salaries, director fees, director fees expenses and consulting fees converted into shares:

	Number of shares		Converted amount	
	2018	2017	**2018**	2017
			$	$
Alison Coutts – salaries	109,022,000	-	109,022	-
Alison Coutts – travel expenses	7,535,000	-	7,535	-
Andrew Goodall – director fees	61,250,000	-	61,250	-
Andrew Goodall – travel expenses	16,034,000	-	16,034	-
Pablo Neyertz – incentive payment	8,338,000	-	8,338	-
Total	**202,179,000**	**-**	**202,179**	**-**

g) Other transactions with companies and related parties in the group

Transactions between Memphasys Limited and other entities in the wholly-owned group during the year ended 30 June 2018 consisted of consulting fees paid to Andrew Goodall for $45,000 and loans advanced by Memphasys Limited to its controlled entity Feronia Fertility Pty Ltd.

26. Controlled entities

Name of entity	Country of Incorporation	Class of share	Equity Holding 2018 %	Equity Holding 2017 %	
Feronia Fertility Pty Ltd (formerly SpermSep Pty Ltd)	Australia	Ordinary	100	100	
KaoSep Inc.	United States	Ordinary	100	100	Dormant
MemSep Pty Ltd	Australia	Ordinary	100	100	Dormant
InqSep Inc.	United States	Ordinary	100	100	Dormant
Kaogen Pty Ltd	Australia	Ordinary	100	100	Dormant

27. Financial risk management policies

The Group's financial instruments consist mainly of deposits with banks, short-term investments, accounts payable and loans to its subsidiary.

a) Credit risk exposures

The carrying amounts of financial assets included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to these assets. In the current financial year the Group has been focused on its R&D program and has not operated with clients having no trade and other receivable balances at the end of the year. Therefore, there is no exposure to credit risk.

b) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing regular rolling cash flow forecasts in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- monitoring the maturity profile of financial liabilities with the realisation profile of financial assets.

27. Financial risk management policies (continued)

The table below reflects an undiscounted contractual maturity analysis for financial liabilities. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that finance facilities will be rolled forward.

	Within one year		One to five years		Total	
	2018	2017	**2018**	2017	**2018**	2017
	$	$	**$**	$	**$**	$
Financial liabilities:						
Trade & other payables	222,428	822,000	-	-	222,428	822,000
Interest bearing liabilities	471,736	5,714,322	-	1,011,544	471,736	6,725,866
Non-interest bearing liabilities	26,334	26,334	-	-	26,334	26,334
Lease liabilities	3,552	4,260	6,746	9,391	10,298	13,651
Tax liabilities	10,146	(2,780)	-	-	10,146	(2,780)
Expected outflows	**734,196**	6,564,136	**6,746**	1,020,935	**740,942**	7,585,071
Financial assets:						
Cash & cash equivalents	201,807	2,349	-	-	201,807	2,349
Trade receivables	-	52,769	-	-	-	52,769
Other assets	23,970	44,209	42,750	37,950	66,720	82,159
Tax receivables	632,734	341,949	-	-	632,734	341,949
Investments	-	3,824,888	-	-	-	3,824,888
Expected inflows	**858,511**	4,266,164	**42,750**	37,950	**901,261**	4,304,114
Net expected cash flow	**124,315**	(2,297,972)	**36,004**	(982,985)	**160,319**	(3,280,957)

c) Market risk

i) Interest rate risk
Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. As at 30 June 2018 all of the Company's interest bearing liabilities are at fixed rate, therefore the Group is not exposed to interest rate risk.

ii) Foreign exchange risk
Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group. In the current financial year the Group has not operated internationally and has no assets and liabilities in foreign currencies at the end of the period. Therefore, there is no exposure to foreign exchange risk.

28. Capital and leasing commitments

a) Capital commitments

There are no commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities.

b) Operating lease commitments

	2018	2017
	$	$
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payables:		
Within one year	**155,320**	140,324
Later than one year but not later than 5 years	**304,600**	-
	459,920	140,324

At 30 June 2018 the Group had one operating lease for its production and commercial properties in Australia. This is a non-cancellable lease and has a remaining non-cancellable lease term of 35 months.

c) Finance lease commitments

	2018	2017
	$	$
Commitments in relation to finance leases contracted for at the reporting date recognised as liabilities, payables:		
Within one year	**4,260**	4,260
Later than one year but not later than 5 years	**7,278**	11,597
	11,538	15,857

	2018	2017
	$	$
Total lease commitment	**11,538**	15,857
Lease commitment - interest component	**1,240**	2,206
Lease commitment – principal component	**10,298**	13,651

At 30 June 2018 the Group had one finance lease for purchase of telephone equipment. The remaining lease term is 33 months.

d) Available credit facility

The Company obtained a $200,000 line of credit facility from the Executive Chairman, Alison Coutts. The balance remaining for potential draw down at date of this report is $77,763.

29. Events after Balance Date

The following events occurred subsequent to 30 June 2018:

- In early July 2018, Memphasys senior executives attended the European Society for Human Reproduction & Embryology Conference in Barcelona, Spain. At the conference, executives met and progressed discussions with a range of European and Middle East-based Key Opinion Leaders.
- On 3 July 2018 Memphasys announced that it had resolved, subject to shareholder approval, to undertake a consolidation of the Company's issued capital on a 15:1 basis. The purpose of Consolidation was to decrease the number of shares on issue to a more manageable quantity and to enable smoother, less volatile share trading. A resolution to this effect was passed by shareholders at an extraordinary general meeting on 6 August 2018 and finally the issued capital was consolidated on 17 August 2018.
- On 16 July 2018 Memphasys published on ASIC's enforceable undertakings register the final summary of the expert report in relation to the 3 year Enforceable Undertaking that it had entered into in December 2014. With this publication there are no residual action items for either Memphasys or ASIC to complete. The Enforceable Undertaking related to potential contraventions of the Corporations Act 2001 between 2009 and 2012 by former directors who are no longer with the Company.
- On 30 July 2018 the Company lodged the R&D tax claim for an amount of $592,734 which was received from the ATO on 15 August 2018.

- On 9 August 2018 Memphasys received from Peters Investments Pty Ltd the second tranche of the placement of shares for the amount of $350,000 as part of a $1M strategic investment.

30. Company Details

The registered office and principal place of business of the company is:
30 Richmond Road
Homebush, NSW 2140
Australia

Directors' Declaration

1. In the opinion of the directors of Memphasys Limited ('the Company'):

   (a) the consolidated financial statements and notes that are set out on pages 19 to 51 and the Remuneration Report on pages 11 to 17 in the Directors' report, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance, for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive chairman and finance director for the financial year ended 30 June 2018.

3. The directors draw attention to Note 2(a) to the consolidated financial statements which include a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Alison Coutts
Chairman

Sydney
21 August 2018

PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF MEMPHASYS LIMITED
ABN 33 120 047 556

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Memphasys Limited "the Company" and its controlled entities "the Group", which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 3(a) Going Concern in the financial report which discloses that the Group incurred a net loss for the year ended 30 June 2018 of $401,159, had net cash outflows from operating activities of $738,419 and investing activities of $1,234,097, had net assets of $3,351,580 and working capital of $37,879. In Note 3(a) it is stated that the Group is dependent on the raising of additional funds for working capital purposes, primarily to assist in the development and commercialisation of the Felix technology. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities at the amounts stated in the financial statements in the normal course of business.

Key Audit Matters

In addition to the matter described in the "Material Uncertainty Related to Going Concern" section, key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	**How our audit addressed the key audit matter**
Impairment assessment of intangible assets *Refer to Note 15 Intangible Assets*	
At 30 June 2018 the statement of financial position includes intangible assets amounting to $3,333,180 that primarily relates to Felix project. We have identified this as a key audit matter due to significant judgement and assumptions relating to future performance of the Felix project. There is also lack of historical cash flows as it is yet to be commercialised. As disclosed in Note 15, the Group intends to advance commercialisation of Felix device in the coming year. Management use judgement to determine that the development costs included in the intangible asset meet the criteria for capitalisation. These criteria include assessing whether the product being developed is commercially feasible, whether the Group has adequate technical, financial and other required resources to complete the development and whether the costs will be fully recovered through future commercialisation.	Our procedures included amongst others: • Documenting and evaluating the design and operating effectiveness of controls in in respect of intangible assets. • Discussions with management and the Company's Head of the Scientific Advisory Board to gain an understanding on the progress of the development of the Felix project, whether any new risks have been identified and future plans and timing for commercialisation. • Gaining an understanding of the Felix project and associated costs incurred to-date and testing a sample of capitalised expenses to supplier invoices and assessing reasonableness of management's allocation of payroll costs to the project. • Using this understanding, evaluating management's assessment of whether the development costs associated with the Felix project met the criteria for capitalisation in accordance with accounting policies and Australian Accounting Standards.

	• Performing an analysis of management's assessment of the commercial feasibility and that the future economic benefits will be greater than the sum of development costs at reporting date plus future development costs to commercialise. • Assessing the adequacy of financial statement disclosures.
Recognition of R&D tax incentive *Refer to Note 12 in the Notes to the Financial Statements.*	
At 30 June 2018, the statement of financial position includes R & D receivable amounting to $592,734. This area is a key audit matter due to the inherent subjectivity that is involved in the Group making judgements in relation to the calculation and recognition of the R&D tax incentive income and receivable.	Our procedures included, amongst others: • Making enquiries with management to obtain and document an understanding of their process to calculate the R&D tax incentive; • Evaluation of management's processes and controls to determine if it appropriately addresses the risks; • Obtaining the work of the client's expert and the calculations prepared and agreeing amounts claimed to supporting documentation; • Reviewing historical reliability of estimates and budgets to support the reliability of the estimate; • Involving our specialists to perform a review of the calculation to determine eligibility of costs claimed; and • Assessing the adequacy of financial statement disclosures.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors Report and Shareholder Information which were obtained as at date of our audit report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 17 of the directors' report for the year ended 30 June 2018. In our opinion, the Remuneration Report of Memphasys Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company 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.

Mark Godlewski

Pitcher Partners

M A GODLEWSKI
Partner

PITCHER PARTNERS
Sydney

23 August 2018

Shareholder information

The shareholder information set out below was applicable as 20 August 2018.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Holdings Ranges	Holders	Total Units	Percentage
1-1,000	462	87,971	0.024
1,001-5,000	150	389,291	0.107
5,001-10,000	74	546,868	0.150
10,001-100,000	310	11,854,215	3.257
100,001-99,999,999,999	189	351,044,133	96.461
Totals	**1,185**	**363,922,478**	**100.000**

B. Equity security holders

Twenty largest quoted equity security holders

The name of the twenty largest holders of quoted equity securities are listed below:

	Ordinary shares	
Holder Name	**Number Held**	**Percentage of shares issued**
MR ANDREW ERNEST GOODALL	87,768,600	24.117%
PETERS INVESTMENTS PTY LTD	66,666,667	18.319%
MS ALISON COUTTS	58,726,377	16.137%
NUTSVILLE PTY LTD <INDUST ELECTRIC CO S/F A/C>	8,249,518	2.267%
JOHN AITKEN	7,527,840	2.069%
MR JOHN MCGREGOR SKINNER	5,333,334	1.466%
MR HAKAN BASAGAC	4,000,000	1.099%
SCINTILLA STRATEGIC INVESTMENTS LIMITED	3,333,334	0.916%
REDEDGE ENTERPRISES PTY LTD <STEWART FAMILY A/C>	3,333,334	0.916%
G M CHILCOTT PTY LTD <THE CHILCOTT UNIT A/C>	3,333,334	0.916%
J & TW DEKKER PTY LTD <J & TW DEKKER FAMILY A/C>	3,194,331	0.878%
B ARTHUR PTY LTD <BARRY ARTHUR SUPER FUND A/C>	2,933,334	0.806%
WINDAMURAH PTY LTD <ATKINS SUPER FUND A/C>	2,840,212	0.780%
MR ADAM STUART DAVEY <THE DAVEY INVESTMENT A/C>	2,666,667	0.733%
MR JOHN LEONARD WOODWARD <THE WOODWARD INVESTMENT A/C>	2,275,526	0.625%
PETER CARLSON	2,133,334	0.586%
FIVE OAKS HOLDINGS PTY LTD <ROBERT COVINO FAMILY A/C>	2,000,000	0.550%
MR ADAM STUART DAVEY	2,000,000	0.550%
J&S CORPORATE INVESTMENTS PTY LTD <SLD FAMILY A/C>	1,932,934	0.531%
HOPETOUN NOMINEES PTY LTD <HOPETOUN A/C>	1,666,667	0.458%
MR RODNEY JAMES WELLSTEAD	1,666,667	0.458%
DOUKAKIS HOLDINGS PTY LTD <DOUKAKIS SUPERANNUATION A/C>	1,666,667	0.458%
Total Securities of Top 20 Holdings	275,248,677	75.634%
Total of Securities	363,922,478	

Shareholder information

C. Substantial Shareholders as at 20 August 2018

Ordinary shares

Holder Name	Number Held	Percentage
MR ANDREW ERNEST GOODALL	87,768,600	24.117%
PETERS INVESTMENTS PTY LTD	66,666,667	18.319%
MS ALISON COUTTS	58,726,377	16.137%

D. Unquoted Equity Securities

	Number on Issue	Number of Holders
Memphasys Limited Directors, Employee and Consultants Option Plan	-	-
	-	-

E. Voting Rights

The voting rights attaching to each class of equity securities are set out below:

a) Ordinary Shares
On a show of hands, one vote for every member or proxy of a member present and entitled to vote. On a poll, every member shall have one vote for each fully paid share held.

b) Options
No voting rights.

Corporate Directory

Memphasys Limited
ABN 33 120 047 556

Directors

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

Company Secretary and
Andrew Metcalfe
Accosec Pty Ltd
Suite 3, Level 2, 470 Collins Street
Melbourne, VIC 3000

Share Registry
Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney, NSW 2000

Registered Office
30 Richmond Road
Homebush, NSW 2140
Australia

Tel: 61 2 8415 7300
Fax: 61 2 8415 7399
Email: info@memphasys.com
Website: www.memphasys.com

Solicitors
Steinepreis Paganin Lawyers and Consultants
Level 4, The Read Buildings
16 Milligan Street
Perth, WA 6000

Auditors
Pitcher Partners Sydney
Level 22, MLC Centre, 19 Martin Place
Sydney, NSW 2000