

For personal use only

**Memphasys Limited
and its Controlled Entities
ABN 33 120 047 556**

**Annual Financial Report
for the year ended 30 June 2022**

Contents

Directors' report	2
Auditor's independence declaration	21
Consolidated statement of profit or loss and other comprehensive income	22
Consolidated statement of financial position	23
Consolidated statement of changes in equity	24
Consolidated statement of cash flows	25
Notes to the consolidated financial statements	26
Directors' declaration	56
Independent audit report to the members	57
Shareholder information	62

Memphasys Limited and its Controlled Entities

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 2022 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:

Mr Robert Cooke	Independent Non-Executive Chairman (appointed 26 April 2022)
Ms Alison Coutts	Managing Director and CEO
Mr Andrew Goodall	Non-Executive Director
Mr Shane Hartwig	Independent Non-Executive Director (resigned 25 April 2022)
Mr Paul Wright	Independent Non-Executive Director

Company Secretary

Mr Andrew Metcalfe (B.Bus, CPA, FGIA, GAICD) manages the Company Secretary services of Memphasys. Mr. Metcalfe is an experienced independent company secretary and business consultant, he 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 and Special Responsibilities	Share interests & unlisted options at the date of this report
<p>Mr Robert Cooke B. Health Administration, Grad. Dip. Acc and Fin Non-Executive Chairman, Chairman of the Audit and Risk Committee and member of the Nomination and Remuneration Committee from 26 April 2022.</p> <p>Mr Cooke is a highly strategic and results focussed private health care leader. With a 40+ year career in the health industry, his experience spans executive leadership of publicly listed and privately owned healthcare companies, and management of private and public hospitals in Australia, Asia and the UK. He is currently the Managing Director of Connelly Partners, a niche health care consulting company.</p> <p>Mr Cooke has a proven track record in setting strategy and delivering successful outcomes for stakeholders and shareholders, highly effective interaction with the financial community, and holds a unique understanding of the complex dynamics of the health care industry.</p> <p>Mr Cooke has served as a Director of ASX listed and private equity owned health care companies, within Australia and internationally. He is currently the Non-Executive Chairman of OptiScan, global leader in the development of microscopic imaging and related technologies for surgery and medical research.</p> <p>Before establishing Connelly Partners in 2018, Mr Cooke was the Managing Director & CEO of Healthscope, one of Australia's leading private hospital/medical centre/pathology operators between 2010 and 2017.</p>	<p>Direct Nil ordinary shares Nil unlisted options</p> <p>Indirect Nil ordinary shares Nil unlisted options</p>

Directors' Report

Names, Qualifications, Experiences and Special Responsibilities	Share interests & unlisted options at the date of this report
<p>Ms Alison Coutts B.E (Chem), MBA, Grad Dip Biotech Managing Director and CEO and member of the Audit and Risk and the Nomination and Remuneration Committees.</p> <p>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.</p> <p>Prior to her role at Memphasys, Ms Coutts co-founded various businesses including a corporate finance advisory business, a clinical development stage drug development company focussing on chronic obstructive pulmonary disease and a medical device company that is developing innovative, lightweight mobile X-Ray machines for medical use.</p> <p>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.</p>	<p>Direct 75,847,375 ordinary shares 3,363,000 unlisted options</p> <p>Indirect 3,777,764 ordinary shares Nil unlisted options</p>
<p>Andrew Goodall Non-Executive Director and member of the Audit and Risk and Nomination and Remuneration Committees.</p> <p>Mr Goodall, a significant shareholder in Memphasys, is an entrepreneur who now runs a private business involved in Commercial Property in New Zealand.</p>	<p>Direct 170,806,265 ordinary shares 1,350,000 unlisted options</p> <p>Indirect 692,240 ordinary shares Nil unlisted options</p>

For personal use only

Directors' Report

Names, Qualifications, Experiences and Special Responsibilities	Share interests & unlisted options at the date of this report
<p>Mr Shane Hartwig B Bus, CPA, ACIS Non-Executive Director and Chairman of the Audit and Risk Committee from 31 September 2019 and member of the Nomination and Remuneration Committee.</p> <p>Mr Hartwig is a Founder and Director of Peloton Capital, a well-established and highly successful corporate advisory firm with offices in Sydney and Perth.</p> <p>Mr Hartwig has over 25 years' national and international experience in the finance industry with exposure to both the debt and equity capital markets. His experience covers Initial Public Offerings (IPO's), capital raisings, prospectus and information memorandum preparation and project management, company assessments and due diligence reviews. He has also extensive experience in mergers and acquisitions, including in takeover transactions.</p>	<p>Direct Nil ordinary shares Nil unlisted options</p> <p>Indirect Nil ordinary shares Nil unlisted options</p>
<p>Mr Paul Wright MA (Eng), FAICD Non-Executive Director and Chairman of the Nomination and Remuneration Committee from 13 March 2020 and member of the Audit and Risk Committee.</p> <p>Mr Paul Wright has more than 30 years' experience as a highly skilled executive in strategic consulting and the development and sales of innovative medical devices and diagnostic tools.</p> <p>Mr Wright's background includes developing and implementing commercialisation strategies from early research and development through to developing global product sales channels. He has experience building distribution partnerships and the direct selling and marketing of highly innovative products internationally.</p> <p>In his early career, Mr Wright worked with business strategy consulting firm Bain & Company in Europe, North America and Asia, advising multinational clients on growth strategy, mergers and acquisitions and operations management.</p> <p>For the past two decades, Mr Wright worked as a CEO for three leading international Australian technology companies focusing on development, manufacturing and marketing of medical devices and diagnostic instruments, including Invetech and Vision Biosystems, which were acquired by a Fortune 500 company, and Universal Biosensors, where Mr Wright developed commercial partnerships with two large multinationals and oversaw the development, commercialisation and manufacturing scale-up of a blood coagulation analyser for world markets.</p> <p>Mr Wright is currently a non-executive director of design, engineering and technology commercialisation company Hydrix Ltd and an advisory board member for unlisted digital wastewater services company Waterwerx Pty Ltd.</p>	<p>Direct Nil ordinary shares Nil unlisted options</p> <p>Indirect Nil ordinary shares Nil unlisted options</p>

For personal use only

Directors' Report

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 2022 and the number of meetings attended by each Director.

Director/Alternate Director	Board Meetings		Audit & Risk Committee Meetings		Nomination and Remuneration Committee Meetings	
	Attended	Held	Attended	Held	Attended	Held
Alison Coutts	8	8	2 @	2	1	1
Andrew Ernest Goodall	8	8	2	2	1	1
Shane Hartwig #	5	5	2	2	1	1
Paul Wright	8	8	2	2	1	1
Robert Cooke *	3	3				

@ Attended on invitation

Resigned during the year

* Appointed 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.

For personal use only

Memphasys Limited and its Controlled Entities

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 27 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.

PRINCIPAL ACTIVITIES

Memphasys is focused on commercialising high value reproductive biotechnology and proprietary cell separation technologies. The Company is developing novel medical devices, diagnostics, and media with application to assisted reproduction technologies, including IVF in humans and artificial insemination in animals.

The Company's most advanced product is the Felix™ system which utilises a technology known as electrophoresis, combined with size-exclusion membranes to select the best quality cells for improved IVF treatments.

The Company is also in the process of developing several other technologies. These include its Samson™ Fertility Test, a rapid in vitro diagnostic device to detect the probability of the stallion being able to fertilise a mare; various media projects to extend the longevity of semen without the need for freezing; new, innovative methods of sperm separation and novel analytical methods to detect causes of infertility.

REVIEW OF OPERATIONS

Over the year Memphasys made great progress in commercialising the Felix™ system, Memphasys' most developed product, and developing its product pipeline. The Felix™ system is a novel automated device for quickly and gently separating high quality sperm from a raw semen sample for use in human IVF procedures, which is now starting to be sold in early access regulatory markets. This progress was made despite continued difficulties caused by Covid to supply chains and the global slowdown and temporary shutting of IVF clinics, many of which are still recovering and are still not back to pre-covid capacity.

Highlights over the year include the following:

- Appointing Distinguished Emeritus Professor John Aitken as Memphasys' Scientific Director. Professor Aitken's appointment has provided a fillip to the development of Memphasys' product pipeline by the reproduction biology specialists funded by Memphasys who he leads at the University of Newcastle.
- Progressing Memphasys' IP through obtaining more granted patents and lodging provisional patents on the Felix™ system and other pipeline products and obtaining more trademark approvals for both the Felix™ and Samson™ brands.
- Achieving ISO 13485 accreditation for Memphasys' Quality Management System ("QMS"), which is a key requirement for selling the Felix™ system in many jurisdictions.
- Obtaining initial sales of the Felix™ system, both for research institutes in China and for clinical use in India.
- Recruiting and treating the first patient in the *in vitro* Intracytoplasmic Sperm Injection ("ISCI") clinical trial with Monash IVF of the Felix™ system.
- Progressing the regulatory planning process to achieve approvals to market the Felix™ system in jurisdictions including Australia, China, USA and Europe.

Employment of Professor John Aitken as Scientific Director

In July 2021, Laureate Professor John Aitken was appointed as Memphasys' Scientific Director. He is employed part time to oversee the development of the range of new assisted reproductive products as well as supporting the commercial development of the Felix™ system. Professor Aitken's employment by the Company followed his retirement from the full-time position of Distinguished Laureate Professor of Biological Sciences within the School of Environmental and Life Sciences at the University of Newcastle on 30th June 2021. Professor Aitken remains as Distinguished Emeritus Laureate Professor of Biological Sciences at University of Newcastle where he manages research staff as part of his role with Memphasys.

Directors' Report

Commercial development of the Felix™ system

KOL *in vitro* studies

Fourteen internationally recognised IVF Clinic key opinion leader (“KOL”) sites have been conducting *in vitro* assessments of the Felix™ system and the majority had completed these assessments by the end of the period. Professor John Aitken has analysed the results to date, comparing *in vitro* measures of the sperm post processing by the Felix™ system and by Discontinuous Gradient Centrifuge (“DGC”), the most globally common sperm preparation method for IVF procedures.

The initial results demonstrated that while both DGC and the Felix™ System were able to select sperm of high quality from the raw semen samples, the overall quality of recovered sperm from the Felix™ system was superior to DGC in most cases, and in particular, the level of DNA fragmentation was less. Notably, the Felix™ system processed the semen samples in six minutes whilst DGC required at least 30 minutes, which is a substantial advantage of the Felix™ system, especially in a busy IVF clinic.

Professor Aitken has prepared a paper on this work, to be co-authored with the participating KOLs. It is anticipated to be published in a substantive reproductive biology journal.

Sales of the Felix™ system

During the period, the Felix™ system transitioned from product development to commencing commercial sales for clinical use, initially in India, a market with high and growing IVF demand. The first clinical sale was to the Coimbatore Womens Hospital Centre, one of the many international participants in the Felix™ system's KOL *in vitro* study.

The sale comprised a Felix™ desktop console, and an initial supply of sterile Felix single-use cartridges which are used to quickly process a semen sample and separate the best sperm cells. A single-use cartridge is used for processing each semen sample and the sperm separated in the cartridge, in an easy, automated, 6-minute, single step process, are then ready for use in IVF procedures.

The Coimbatore Womens Hospital is initially utilising the Felix™ system for couples suspected of suffering from male factor infertility. A further, follow up sale of a batch of cartridges was subsequently made to this clinic and more sales are expected in the future. Post reporting date, the clinic also reported that some frozen embryos have been implanted and have resulted in pregnancies.

Another two Indian KOL sites in Ahmedabad, Gujarat, are also testing the Felix™ system. One clinic has started undertaking embryo studies utilising the Felix™ system, which is the process adopted before a purchase decision is made. The other clinic is establishing a protocol with Memphasys for undertaking embryo testing.

To date the feedback from all three sites has been very positive on the ease of use, the speed and the performance of the Felix™ system. All three sites are keen to develop a database of clinical use case studies of the use of the Felix™ system for a range of couples with differing fertility issues and to publish the clinical outcomes.

India has implemented a range of medical device (IVF and non-IVF) regulatory changes, which require all medical devices to be registered. Memphasys appointed Implantex, a company headquartered in Singapore, with offices throughout S E Asia, including Mumbai, India, as its agent to oversee the required regulatory application for the Felix™ system. The application was lodged on 13 June 2022, post the Company's formal receipt of the ISO 13485 certificate, which was required for the application. The Indian regulator, Central Drugs Standard Control Organisation (“CDSCO”) has advised the approximate time frame to process the application is four to nine months from date of lodgement.

Companies may still sell medical devices in India without regulatory approval (under transition provisions) until 30 September 2022. The Company does not consider that these regulatory updates will have any material impact on the IVF market in India or the medium to long term prospectus of the Company.

India represents one of four 'early access markets' for the Felix™ system. The other markets, in order of size, are Japan, Canada and New Zealand. The Indian market accounts for approximately 10% of the global demand for fresh IVF cycles¹. In 2017, approximately 190,000 IVF cycles were performed in India. This number is forecast to rise to 587,570 by 2025. Increasingly, IVF centres are also freezing embryos for later implantation when the female partner's

¹ Allied Market Research Report, 2019

Directors' Report

hormone levels have stabilised. This is the case with the Coimbatore centre, where embryo freezing rather than fresh transfers is preferred.

Memphasys also completed its first sale of a Felix™ system for research use with a sale to Anhui Women & Children's Hospital in China, a national leader in male infertility research. The sale was made by Memphasys' China distributor, Diagens Biotechnology Company Ltd ("Diagens").

Diagens is a Chinese company that manufactures and distributes proprietary and other products to its network of 500+ assisted reproduction centres and 300+ prenatal diagnosis centres in China. Memphasys has been collaborating with Diagens for the past two years.

In 2017, 302,190 IVF cycles were performed in China which is expected to reach up to 842,890 by 2025¹.

Although it was heartening that maiden sales of the device and repeat sales of cartridges were made in the period, sales were slower than expected for a variety of reasons.

KOL testing, a prerequisite for initial sales, slowed within most of the KOL practices at various times over the past couple of years due to Covid restrictions and the subsequent requirement to re-establish IVF operations. Covid related travel restrictions also prohibited the Company's management from conducting sales discussions in person with KOL executives. Fortunately, travel restrictions have eased. The Company's CEO and Managing Director, Alison Coutts, travelled to clinics in India and to the ESHRE international human fertility conference in Italy in June and July 2022 and obtained great feedback from multiple KOLs on their experiences with using the Felix System, which was generally very positive. The KOLs have stated they like the ease of use, the speed, the quality of sperm processed and the wide array of semen samples that the Felix™ System can treat.

It has become apparent that KOLs able to purchase the device in the early access regulatory markets will want to undertake *in vivo* testing of the Felix™ system, making embryos with sperm selected by the Felix™ device before they make a purchasing decision. The clinics will typically compare the embryo quality produced from their current sperm preparation method with the embryo quality produced by the Felix™ system. They may only test with a limited number of embryos, which was the case for the initial Indian purchaser. Some other KOLs have indicated they may want to do a small clinical study to compare the two processes.

Obtaining published clinical data on the *in vivo* performance of the Felix™ system should also assist with the sales process. Memphasys is hopeful that such data will be available from the early clinics using the device *in vivo*, and from the clinical trial it is undertaking in Australia when it is finalised.

Quality Management System and ISO13485 accreditation

During the period Memphasys completed Verification and Validation ("V&V") on the Felix™ system for early access regulatory markets, which enabled Memphasys to subsequently sell the Felix™ system in these markets. Verification is undertaken to confirm the specified design requirements have been fulfilled. Validation is undertaken to confirm requirements for specific intended use can be consistently fulfilled. Passing V&V assessments was a prerequisite before commencing commercial sales.

Passing V&V was a precondition for Memphasys to subsequently receive ISO 13485 certification, an international accreditation for its Quality Management System. ISO 13485 accreditation, which was formally achieved in June 2022, means that processes, as documented in the Company's quality management system, required to design, manufacture and market a device such as the Felix™ system comply with the international ISO 13485 standard. It is a requirement in later access regulatory countries for a company marketing a medical device such as the Felix™ system, to have ISO13485 accreditation.

Regulatory Clinical trial for Felix™ system with Monash IVF

Memphasys is conducting a clinical study (FELIX- ICSI) in collaboration with the Monash IVF Group Ltd (ASX: MVF), a leading Australian reproductive and fertility services company².

The clinical study will assess the safety and performance of the Felix™ system vs Swim-Up ("SU") and DGC, to isolate sperm from semen prior to its use for human ICSI, a common technique used in IVF.

² Refer ASX announcement dated 9 December 2021

Directors' Report

Enrolment and treatment of first patients has begun, however, post reporting date, some changes to the trial protocol were made to speed up enrolment. A further three sites were added to the original four sites by the end of August. As the selection criteria were also found to be too restrictive, various of these criteria were also loosened e.g., by increasing female participant age to 42.5 years and allowing any male to participate if the fertilisation method was by ICSI (providing that the male met various other inclusion criteria). The study is anticipated to be completed by the end of December 2022, subject to recruitment/treatment rates.

Results, together with a comprehensive literature review, will be filed in a formal regulatory submission to the Therapeutic Goods Administration ("TGA") of Australia in support of Memphasys' application seeking to have the Felix™ system approved for sale in Australia, and will also support Felix™ system regulatory filings in international jurisdictions, most notably in the EU. TGA registration will also be recognised in many countries in S E Asia and in the Middle East.

Regulatory progress in high regulatory markets

The Company is continuing its activities to enable the Felix™ system to obtain regulatory approval in other later access countries which generally require the submission of a comprehensive technical file including clinical trial data. These later access countries include China (NMPA), United States (FDA) and Europe (C.E. Mark).

Memphasys is preparing for a pre-submission meeting with the USA Food and Drug Administration. Initial feedback from specialist regulatory consultants is that as the Felix™ system will be a novel class II device and, as there is no predicate device, it is likely to require a *de novo* submission.

The Company is pursuing the grant of Chinese regulatory approval and is hopeful that it will receive an accelerated review using the "green track" channel for innovative medical devices. Diagens is working with Memphasys to prepare a submission to China's National Medical Products Administration (NMPA) - the medical regulatory authority in China - on a potential fast track "Green Channel" regulatory approval for Felix to enable quicker commercial launch of the Felix™ in China, the world's largest IVF market.

Memphasys' Reproductive Biotechnology Product Pipeline

It is strategically important that Memphasys develops a high-quality product portfolio. This strategy is to mitigate the risk of over-reliance on any single product or process, keep Memphasys at the leading edge of new reproductive biotechnology developments, capitalise on the lifetime of experience and expertise that Professor John Aitken brings to the company and enable a cross pollination of expertise and discovery across the projects.

Not all projects will be commercially successful; some will fail on technical or commercial grounds along the development pathway. Memphasys' approach is to identify projects that are unlikely to be commercially successful as early in the development process as possible and to redeploy its highly valuable human resources to other projects with higher potential.

Memphasys has made considerable progress in new reproductive biotechnology product development with a group of seven highly qualified researchers at University of Newcastle, funded by Memphasys and under the leadership of Professor John Aitken. These potential new products address major market needs in human and animal reproduction and cover new sperm separation devices, male fertility diagnostics (human and animal), and accessory products that enable artificial reproduction services to be more widely and cheaply employed in humans and animals.

Memphasys' most advanced new product in the pipeline is its Samson™ stallion fertility diagnostic. The Samson™ device field trial in thoroughbreds and standardbred horses was completed during the September-November 2021 breeding season in Australia. The Samson™ device is designed to assess the stallion's semen quality and predict the likelihood of a successful pregnancy from a 'service' when combined with basic data on the serviced mare. An algorithm using retrospective data from the Samson™ device and other pertinent data such as stallion and mare age accurately predicted mare pregnancy within 30 minutes of the fertilising event in the horse stud field trials. A more sophisticated prototype device has been manufactured in preparation for testing in the coming season and it will utilise prospective rather than retrospective data, which will be more commercially useful, but it will also be more technically challenging.

The University of Newcastle research team has made great progress in developing a quick and readily applied oxidative stress diagnostic that could be utilised for a semen assessment in the home, GP office or IVF clinic. Further testing with student semen samples will be undertaken and, if the outcome continues to be successful, a prototype device will be fabricated for testing on clinical samples.

Directors' Report

The researchers have been working on various other projects including a semen transportation device to enable human semen to be held at ambient temperature for shipment to a remotely located diagnostic laboratory, and devices with proprietary media for enabling artificial insemination in horses and cattle to be performed without freezing the semen beforehand.

Patents and Trademarks

Memphasys maintains strong protection for its unique bio-separations technology and reproductive biotechnology products. It has several pending patent applications in regions including USA, Europe, Australia and various Asian countries.

During the period, Memphasys was granted a patent for its sperm separation system in China and a patent in Japan for the unique hydrogel membranes used in the Felix™ system. The granting of these patents adds to the Company's suite of patents already granted in regions including USA, China, UK, and Australia.

The Felix™ trademark is registered in Australia, USA, UK, EU, India, Japan, and Canada.

The granting of patents and the registering of the trademark in key markets is important in protecting what the Company believes will be a globally significant device for the IVF industry. The Samson™ brand is also trademarked in Australia.

Other business

Settlement Agreement with Hydrix

During the period, Memphasys entered a settlement agreement (via a binding Heads of Agreement) with its engineering and design partner Hydrix Services Pty Ltd ("Hydrix") concerning an engineering flaw with the Felix™ device³. The parties worked together to remediate the engineering issue within the device and were subsequently able to come to commercially acceptable terms to settle the issue.

R&D Rebate

The Company received a \$1.36 million tax rebate following the submission of its 2021 R&D Tax Incentive claim.

Financial Performance

In the financial year ended 30 June 2022, Memphasys incurred a net loss from continuing operations of \$2,081,964 (2021: net loss of \$1,486,432). The main reasons causing this difference were as follows:

- a) Although the total R&D expenditure slightly increased by 4% to \$3,511,856 (2021: \$3,368,704), the composition of this expenditure has moved from projects in 'development phase' (capitalised as Intangible Assets in the balance sheet) to projects in 'research phase' (released as R&D expenses to the P&L), which are the new portfolio of novel artificial reproduction products for human and animals under development with Professor Aitken and his team at the University of Newcastle, after a new agreement was signed with this University in November 2021. The table below shows the variances between projects and the resulting increase of \$623,102 in R&D expenditure released to the P&L:

Breakdown of R&D expenditure	2022	2021
	\$	\$
<i>Projects in "Development phase"</i>		
Sperm separations human (Felix)	2,234,988	2,401,500
Sperm separations animal	5,127	298,014
Membranes	182,375	202,926
<i>Total capitalised R&D expenditure</i>	Note 15 2,422,490	2,902,440
<i>Projects in "Research phase"</i>		
Nexgen bio-separations	-	27,937
New long-life sperm storage media (human & animal)	501,843	208,084
Rapid equine pregnancy prediction assay (Samson)	346,249	116,613
Rapid oxidative stress assay (ROSA)	241,274	113,630
<i>Total R&D expenditure released to P&L</i>	1,089,366	466,264
Total R&D expenditure	3,511,856	3,368,704

³ Refer to ASX announcement dated 8th March 2021

Memphasys Limited and its Controlled Entities

Directors' Report

- b) Finance costs expenses have significantly increased by \$480,163 due interest and expenses of convertible note loans announced to the market in May 2021.
- c) Other expenses have increased by \$238,685. This includes, among others, items like D&O insurance, website re-design, options issued to Hydrix as part of the agreement for the settlement of the engineering flaw, the payment of cash bonuses to employees and consultants for achieving milestone of first clinical sale in an early market by 31 December 2021, recruitment expenses and company promotional activities.

The increase in expenditure mentioned in paragraphs above was partially offset by two main revenue items, as follows:

- a) The extraordinary revenue of \$650,000 due to the agreement reached with Hydrix for the settlement of the engineering flaw announced to the market in March 2021, and
- b) The increase of \$278,448 in the accrual of R&D tax incentive grant, driven by the bigger proportion of R&D expenditure on projects undergoing its 'research' phase.

The company has achieved in December 2021 the significant milestone of making the first commercial sale in an early access market of its Felix™ system to the Coimbatore Womens Hospital Centre in India, followed by a second sale to the same institution in March 2022. Although the quantum of the second sale was not material, the repeat clinical order validated Memphasys business model of recurring cartridge sales. Sales for research purposes were also made in October 2021 and March 2022 to Diagens in China.

The tax refund on R&D activities granted by the Federal Government ("Tax Incentive") continues to be the Company's main source of regular revenue. An R&D tax refund of \$1,495,672 has been approved by AusIndustry for R&D expenditure incurred in the current financial year.

Memphasys finalised the financial year with a deficiency in working capital of \$2,510,764 (2021: excess \$2,831,940) and with net assets of \$7,646,534 (2021: \$8,606,990). The deterioration in working capital is due to the reclassification from non-current to current liabilities of convertible note loans announced in May 2021, which at 30 June 2022 had a maturity date on 31 December 2022. Subsequent to year end the parties are in conversations to extend the maturity date to 31 December 2023.

Board and management

Memphasys appointed Robert Cooke on 26 April 2022 as Non-Executive Chairman. On the same date, Shane Hartwig resigned as Non-Executive Director and Alison Coutts was appointed Managing Director and CEO.

On 1 July 2021, Memphasys entered into an employment agreement with Professor John Aitken, who was appointed as Scientific Director.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the group during the financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Subsequent to 30 June 2022, the company announced \$3.36 million capital raising to accelerate commercialisation of Felix™ system and continue development of other pipeline products.

SHARE OPTIONS

There were 15,940,800 unlisted options on issue at 31 August 2022.

Memphasys Limited and its Controlled Entities

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:								
28 Mar 2019	28 Sep 2021	-	\$0.0332	20,000,000	-	20,000,000	-	-
28 Mar 2019	28 Sep 2021	-	\$0.0332	12,404,457	-	12,404,457	-	-
22 Oct 2019	22 Oct 2021	-	\$0.1142	989,681	-	-	989,681	-
22 Oct 2019	22 Oct 2021	30 Jun 2020	\$0.1142	12,000,000	-	-	12,000,000	-
22 Oct 2019	22 Oct 2021	15 Nov 2019	\$0.1142	1,466,194	-	-	1,466,194	-
22 Oct 2019	22 Oct 2021	30 Jun 2020	\$0.1142	4,800,000	-	-	4,800,000	-
30 Jul 2021	30 Jul 2023	31 Dec 2021	\$0.0905	-	4,962,200	-	4,962,200	-
30 Jul 2021	30 Jul 2023	30 Jun 2022	\$0.0905	-	3,462,000	-	-	3,462,000
30 Jul 2021	30 Jul 2024	30 Jun 2023	\$0.0965	-	3,115,800	-	-	3,115,800
25 Aug 2021	31 Dec 2023	-	\$0.0600	-	3,000,000	-	-	3,000,000
25 Aug 2021	31 Aug 2023	31 Dec 2021	\$0.0884	-	2,537,000	-	2,537,000	-
25 Aug 2021	31 Aug 2023	30 Jun 2022	\$0.0884	-	1,770,000	-	-	1,770,000
25 Aug 2021	31 Aug 2024	30 Jun 2023	\$0.0944	-	1,593,000	-	-	1,593,000
14 Sep 2021	13 Sep 2023	-	\$0.1000	-	3,000,000	-	-	3,000,000
Total				51,660,332	23,440,000	32,404,457	26,755,075	15,940,800

Options exercised during the year paid an amount of \$0.0332 per share.

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.

For personal use only

Memphasys Limited and its Controlled Entities

Directors' Report

Set out in the table below are summaries of options issued, exercised and lapsed during the year to related parties:

Related party	Grant / expiry dates	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	Exercisable	Non-Exercisable
<i>Directors</i>										
Andrew Goodall	22/10/19-22/10/21		\$0.1142	989,681	-	-	989,681	-	-	-
Andrew Goodall	25/08/21-31/12/23	(a)	\$0.0600	-	1,350,000	-	-	1,350,000	1,350,000	-
Shane Hartwig #	22/10/19-22/10/21		\$0.1142	1,099,646	-	-	1,099,646	-	-	-
<i>Subtotal Directors</i>				2,089,327	1,350,000	-	2,089,327	1,350,000	1,350,000	-
<i>Managers</i>										
Alison Coutts	22/10/19-22/10/21		\$0.1142	12,000,000	-	-	12,000,000	-	-	-
Alison Coutts	25/08/21-31/08/23		\$0.0884	-	2,537,000	-	2,537,000	-	-	-
Alison Coutts	25/08/21-31/08/23	(b)	\$0.0884	-	1,770,000	-	-	1,770,000	-	1,770,000
Alison Coutts	25/08/21-31/08/23	(b)	\$0.0994	-	1,593,000	-	-	1,593,000	-	1,593,000
Nick Gorring	22/10/19-22/10/21		\$0.1142	750,000	-	-	750,000	-	-	-
Nick Gorring	25/08/21-31/08/23		\$0.0905	-	860,000	-	860,000	-	-	-
Nick Gorring	25/08/21-31/08/23	(b)	\$0.0905	-	600,000	-	-	600,000	-	600,000
Nick Gorring	25/08/21-31/08/23	(b)	\$0.0965	-	540,000	-	-	540,000	-	540,000
Pablo Neyertz	22/10/19-22/10/21		\$0.1142	300,000	-	-	300,000	-	-	-
Pablo Neyertz	25/08/21-31/08/23		\$0.0905	-	159,100	-	159,100	-	-	-
Pablo Neyertz	25/08/21-31/08/23	(b)	\$0.0905	-	111,000	-	-	111,000	-	111,000
Pablo Neyertz	25/08/21-31/08/23	(b)	\$0.0965	-	99,900	-	-	99,900	-	99,900
John Aitken	25/08/21-31/08/23		\$0.0905	-	1,720,000	-	1,720,000	-	-	-
John Aitken	25/08/21-31/08/23	(b)	\$0.0905	-	1,200,000	-	-	1,200,000	-	1,200,000
John Aitken	25/08/21-31/08/23	(b)	\$0.0965	-	1,080,000	-	-	1,080,000	-	1,080,000
<i>Subtotal Managers</i>				13,050,000	12,270,000	-	18,326,100	6,993,900	-	6,993,900
Total				15,139,327	13,620,000	-	20,415,427	8,343,900	1,350,000	6,993,900

Director resigned during the year.

(a) Options attached to convertible note approved at the EGM held on 24 August 2021.

(b) Options will not vest until milestones are reached. Options vest based on the provision of service over the vesting period whereby the executive becomes beneficially entitled to the option on vesting date. Options are exercisable by the holder as from the vesting 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 \$94,753 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 2022 has been received and a copy can be found immediately after 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 2022.

For personal use only

Memphasys Limited and its Controlled Entities

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 Managing Director/CEO 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.

Employment contracts

Managing Director and CEO

The contract of the Managing Director and CEO, 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.

Senior Executive

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.
- Either party may terminate the contract by providing the other, depending on the executive, between eight weeks and three months' written notice.
- Employee's employment automatically continues on the terms stipulated in the contract.

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 Managing Director and CEO's fees are determined independently to the fees of Non-Executive Directors based on responsibility of the role and are also in line with how this position is remunerated in the market by small-listed biotechnology companies. 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.

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

Executive Remuneration

Executive remuneration includes:

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

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 2022 are set out in the following tables.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total
	Cash salary and fees	Cash & accrued bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled shares	Equity-settled options	
2022	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
Andrew Goodall	50,000	-	-	-	-	-	-	50,000
Shane Hartwig #	40,750	-	-	-	-	-	-	40,750
Paul Wright	45,472	-	-	4,547	-	-	-	50,019
Robert Cooke * (Chairman)	16,550	-	-	1,655	-	-	-	18,205
<i>Executive Directors:</i>								
Alison Coutts (MD and CEO)	328,306	32,912	-	23,568	22,921	-	15,488	423,195
<i>Other Key Management Personnel:</i>								
John Aitken *	226,460	5,000	-	22,876	7,788	-	19,250	281,374
Nick Gorring	141,098	5,000	-	14,610	(3,886)	-	9,625	166,447
Pablo Neyertz	136,000	5,000	-	14,100	10,180	-	1,781	167,061
	984,636	47,912	-	81,356	37,003	-	46,144	1,197,051

Resigned during the year

* Appointed during the year

Memphasys Limited and its Controlled Entities

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total \$
	Cash salary and fees \$	Cash bonus \$	Non-monetary \$	Super-annuation \$	Long service leave \$	Equity-settled shares \$	Equity-settled options \$	
2021								
<i>Non-Executive Directors:</i>								
Andrew Goodall	50,000	-	-	-	-	-	-	50,000
Shane Hartwig	41,667	-	-	-	-	-	9,291	50,958
Paul Wright	45,662	-	-	4,338	-	-	-	50,000
<i>Executive Directors:</i>								
Alison Coutts (Chairman)	328,306	-	-	21,694	33,765	-	-	383,765
<i>Other Key Management Personnel:</i>								
Nick Gorrington	135,255	-	-	12,849	5,236	-	-	153,340
Pablo Neyertz	136,000	-	-	12,920	9,336	-	-	158,256
	<u>736,890</u>	<u>-</u>	<u>-</u>	<u>51,801</u>	<u>48,337</u>	<u>-</u>	<u>9,291</u>	<u>846,319</u>

Share options granted to Directors and Executives and their option holding

Share options were issued during the year to the Directors and executives, among other employees, of Memphasys and consolidated entity as part of their remuneration. Details of these options and their terms are outlined below.

a) Performance options issued to executives, among other employees, in July 2021

Executive	Number of options	Exercise price (% premium to the VWAP over the 30 trading days prior to the issue date)	Options value
John Aitken	2,280,000	Tranche 2: 34% Tranche 3: 43%	\$19,250
Nick Gorrington	1,140,000		\$9,625
Pablo Neyertz	210,900		\$1,781
Total	3,630,900		\$30,656

Tranche 1 of the options, totalling 2,739,100 options, were cancelled as they did not meet the commercialisation hurdle. The fair value of tranches 2 and 3 of the options were estimated on grant date using Black-Scholes option pricing model, with the following assumptions used:

	Tranche 2	Tranche 3
Dividends yield	0%	0%
Fair market value of stock #	\$0.0668	\$0.0668
Exercise price of option	\$0.0896	\$0.0956
Risk-free interest rate	0.04%	0.16%
Volatility	72.14%	72.14%
Expected option life	2 years	3 years

VWAP 5 days prior to issue date

b) Performance options issued to the Executive Chairman in August 2021

5,900,000 options issued to Alison Coutts, with shareholder approval passed at EGM 24 August 2021. Tranche 1 of the options, totalling 2,537,000 options, were cancelled as they did not meet both the commercialisation and share price hurdle. The fair value of tranches 2 and 3 of the options was \$15,488, estimated on grant date using Black-Scholes option pricing model, with the following assumptions used:

Memphasys Limited and its Controlled Entities

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

	Tranche 2	Tranche 3
Dividends yield	0%	0%
Fair market value of stock #	\$0.0660	\$0.0660
Exercise price of option	\$0.0884	\$0.0944
Risk-free interest rate	0.02%	0.15%
Volatility	49.37%	49.37%
Expected option life	2 years	3 years

VWAP 30 days prior to Extraordinary General Meeting

c) Options issued to director Andrew Goodall in August 2021

1,350,000 unlisted options issued, with shareholder approval passed at EGM 24 August 2021, for every dollar of convertible note subscribed, exercisable at \$0.06 on or before 31 December 2023. The fair value of these options, estimated on grant date using Black-Scholes option pricing model, was \$43,200.

The fair value of the attached options was estimated using Black-Scholes valuation model:

- Stock price \$0.04
- Risk-free interest rate 3.29%
- Expiry period 0.5
- Volatility 108%
- Fair value per option \$0.007

Directors, Executives and their option holding

2022	Balance at start of year	Granted as remuneration	Free options issued with con note	Lapsed during the year	Balance at end of the year	Exercisable	Non Exercisable
Alison Coutts	12,000,000	5,900,000	-	14,537,000	3,363,000	-	3,363,000
Andrew Goodall	989,681	-	1,350,000	989,681	1,350,000	1,350,000	-
Shane Hartwig	1,099,646	-	-	1,099,646	-	-	-
Nick Gorring	750,000	2,000,000	-	1,610,000	1,140,000	-	1,140,000
Pablo Neyertz	300,000	370,000	-	459,100	210,900	-	210,900
John Aitken	-	4,000,000	-	1,720,000	2,280,000	-	2,280,000
Total	15,139,327	12,270,000	1,350,000	20,415,427	8,343,900	1,350,000	6,993,900

No options were exercised during the year by KMP (2021: nil).

2021	Balance at start of year	Granted as remuneration	Exercised during the year	Lapsed during the year	Balance at end of the year	Exercisable	Non Exercisable
Alison Coutts	18,000,000	-	-	6,000,000	12,000,000	12,000,000	-
Andrew Goodall	989,681	-	-	-	989,681	989,681	-
Shane Hartwig	1,099,646	-	-	-	1,099,646	1,099,646	-
Nick Gorring	1,200,000	-	-	450,000	750,000	750,000	-
Pablo Neyertz	400,000	-	-	100,000	300,000	300,000	-
Total	21,689,327	-	-	6,550,000	15,139,327	15,139,327	-

Directors, Executives and their shareholding

2022	Balance as at 1 July 2021	Net movement	Balance as at 30 June 2022
Alison Coutts (a)	79,625,139	-	79,625,139
Andrew Goodall (b)	171,498,505	-	171,498,505
Pablo Neyertz	788,967	-	788,967
Total	251,912,611	-	251,912,611

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

2021	Balance as at 1 July 2020	Net movement	Balance as at 30 June 2021
Alison Coutts (a)	79,625,139	-	79,625,139
Andrew Goodall (b)	171,498,505	-	171,498,505
Pablo Neyertz	688,967	100,000	788,967
Total	251,812,611	100,000	251,912,611

(a) Alison Coutts' shareholding comprises 75,847,375 shares held directly and 3,777,764 held indirectly.

(b) Andrew Goodall's shareholding comprises 170,806,265 shares held directly, and 692,240 shares held indirectly.

Transactions with related parties

i) At 30 June 2022, payables to related parties were as follows:

	2022 \$	2021 \$
Andrew Goodall director fees	4,583	4,583
Shane Hartwig director fees	-	4,583
Alison Coutts bonus	27,913	-
	32,496	9,166

ii) Loans payable to related parties - principal:

	2022 \$	2021 \$
Current balances:		
Andrew Goodall	43,200 #	1,319,552
Alison Coutts	21,000	-
Alison Coutts Consulting Pty Ltd	54,000	-
Total	118,200	1,319,552

free options (classified as liability) attached to convertible note sold in January 2021. Refer to Note 18.

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

	Interest paid		Interest accrued	
	2022 \$	2021 \$	2022 \$	2021 \$
Andrew Goodall	-	-	59,436	10,356
	-	-	59,436	10,356

Other transactions with Directors, Executives and their related parties

In January 2022, Andrew Goodall sold his convertible note, with a face value of \$1,350,000, to the existing major shareholder Peters Investments Pty Ltd, retaining the 1,350,000 unlisted options attached to it.

The Company received short-term loans from Alison Coutts and Alison Coutts Consulting Pty Ltd, of \$21,000 and \$54,000 respectively, at 8% annual interest rate and to be converted to shares as part of the rights issue announced to the market on 17 August 2022.

For personal use only

Memphasys Limited and its Controlled Entities

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

Additional information

The earning of the consolidated entity for the five years to 30 June 2022 are summarised below:

	2022	2021	2020	2019	2018
	\$	\$	\$	\$	\$
Sales revenue	27,148	-	-	-	-
EBITDA (loss)	(1,389,786)	(1,139,974)	(898,891)	(991,201)	(117,615)
EBIT (loss)	(1,512,996)	(1,399,461)	(1,095,122)	(1,000,121)	(126,535)
Losses after income tax	(2,081,964)	(1,486,432)	(1,133,879)	(1,044,478)	(401,159)

The factors that are considered to affect the shareholders return are summarised below:

	2022	2021	2020	2019	2018
	\$	\$	\$	\$	\$
Share price at financial year end	0.040	0.064	0.050	0.030	0.010
Total dividends declared	-	-	-	-	-
Basic earnings per share (dollar per share)	(0.027)	(0.020)	(0.0008)	(0.0025)	(0.0001)

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
31 August 2022

**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 2022, 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 APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

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



R M SHANLEY
Partner

PITCHER PARTNERS
Sydney

31 August 2022

Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2022

		2022	2021
	Notes	\$	\$
Continuing operations:			
Revenue	5	27,148	-
Grant income	5	489,931	211,483
Interest income	5	709	2,543
Settlement of engineering flaw	5	650,000	-
Income on fair value of convertible note options	5	54,000	-
Other Income	5	26,334	90,569
Total revenue		1,248,122	304,595
Direct cost		(18,905)	-
Transport expenses		(4,059)	-
Employee benefit expenses		(807,631)	(685,503)
Research and development expenses		(1,089,366)	(466,264)
Depreciation and amortisation expenses	6	(123,211)	(99,544)
Finance cost expenses	6	(569,677)	(89,514)
Director expenses		(153,375)	(147,129)
Corporate consultants' expenses		(286,171)	(264,067)
Other expenses		(277,691)	(39,006)
Total expenses		(3,330,086)	(1,791,027)
Loss before income tax expense from continuing operations		(2,081,964)	(1,486,432)
Income tax expense	7	-	-
Loss after income tax expense from continuing operations		(2,081,964)	(1,486,432)
Net loss for the year attributable to members of parent		(2,081,964)	(1,486,432)
Other comprehensive income / (expense):			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Net change in fair value of financial assets designated at fair value through other comprehensive income, net of tax		(76,000)	-
Total other comprehensive income / (expense) for the period		(76,000)	-
Total comprehensive loss for the period		(2,157,964)	(1,486,432)
Total comprehensive loss attributable to:			
Owners of the Company		(2,157,964)	(1,486,432)
Non-controlling interest		-	-
Total comprehensive loss for the period		(2,157,964)	(1,486,432)
Earnings per share (EPS)	8	Dollar/share	Dollar/share
- basic loss per share		(0.0027)	(0.0020)
- diluted loss per share		(0.0027)	(0.0019)

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

Consolidated statement of financial position
 As at 30 June 2022

		30 June 2022	30 June 2021
	Notes	\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	269,077	2,002,915
Trade and other receivables	10	-	-
Inventory	11	87,082	118,794
Other current assets	12	1,672,391	1,567,072
TOTAL CURRENT ASSETS		2,028,550	3,688,781
NON-CURRENT ASSETS			
Financial assets at fair value through OCI	13	74,000	-
Property, plant and equipment	14	501,408	594,237
Intangible assets	15	9,678,774	8,291,264
Right-of-use asset	16	1,838,397	2,006,557
TOTAL NON-CURRENT ASSETS		12,092,579	10,892,058
TOTAL ASSETS		14,121,129	14,580,839
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	559,713	339,749
Interest-bearing liabilities	18	3,405,998	-
Non-interest-bearing liabilities	19	154,668	181,002
Lease liabilities	16	98,727	87,857
Tax liabilities	20	33,762	5,050
Provisions	21	286,446	243,183
TOTAL CURRENT LIABILITIES		4,539,314	856,841
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	18	-	2,932,339
Non-interest-bearing liabilities	19	77,330	231,998
Lease liabilities	16	1,825,418	1,924,462
Provisions	21	32,533	28,209
TOTAL NON-CURRENT LIABILITIES		1,935,281	5,117,008
TOTAL LIABILITIES		6,474,595	5,973,849
NET ASSETS		7,646,534	8,606,990
EQUITY			
Issued capital	22	50,340,937	48,884,176
Reserves	24	76,209	890,237
Accumulated losses		(42,770,612)	(41,167,423)
TOTAL EQUITY		7,646,534	8,606,990

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

Consolidated statement of changes in equity
 For the year ended 30 June 2022

	Notes	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total Equity \$
Balance 1 July 2021		48,884,176	890,237	(41,167,423)	8,606,990
Movement					
Loss for the year		-	-	(2,081,964)	(2,081,964)
Net change in fair value of financial assets designated at fair value through other comprehensive income, net of tax	24	-	(76,000)	-	(76,000)
Total comprehensive income for the period		-	(76,000)	(2,081,964)	(2,157,964)
Exercise of options	22	1,075,828	-	-	1,075,828
Transaction costs on share issue	22	(30,529)	-	-	(30,529)
Share options issued	24	-	152,209	-	152,209
Expired share options transferred to equity	22	411,462	(411,462)	-	-
Expired share options transferred to accumulated losses		-	(478,775)	478,775	-
Balance 30 June 2022		50,340,937	76,209	(42,770,612)	7,646,534
Balance 1 July 2020		48,697,744	739,007	(39,680,991)	9,755,760
Movement					
Loss for the year		-	-	(1,486,432)	(1,486,432)
Other Comprehensive income for the year		-	-	-	-
Total comprehensive income for the period		-	-	(1,486,432)	(1,486,432)
Exercise of options	22	192,560	-	-	192,560
Transaction costs on share issue	22	(6,128)	-	-	(6,128)
Share options issued		-	151,230	-	151,230
Balance 30 June 2021		48,884,176	890,237	(41,167,423)	8,606,990

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

Consolidated statement of cash flows
For the year ended 30 June 2022

		2022	2021
	Notes	\$	\$
Cash flows from operating activities			
Receipts from customers		27,148	-
Payments to suppliers and employees		(1,478,534)	(1,221,125)
Government grant receipts		1,379,512	1,352,331
Settlement of engineering flaw		500,000	-
Interest received		709	2,543
Finance costs		(117,018)	(66,500)
Net cash flows provided by operating activities	9 (a)	311,817	67,249
Cash flows from investing activities			
Payment for purchase of property, plant and equipment		(2,864)	(118,073)
Payment for cleanroom setup		(154,668)	(20,000)
Payments for internal development		(2,920,248)	(2,886,019)
Net cash flows used in investing activities		(3,077,780)	(3,024,092)
Cash flows from financing activities			
Proceeds from issue of shares		1,075,828	192,560
Share issue costs		(30,529)	(6,128)
Receipts from third-party loans		-	1,600,129
Receipts from related party loans		75,000	1,374,196
Repayment of related party loans		-	(65,000)
Repayment of lease liabilities		(88,174)	(103,799)
Net cash flows provided by financing activities		1,032,125	2,991,958
Net increase / (decrease) in cash and cash equivalents		(1,733,838)	35,115
Cash and cash equivalents at beginning of year		2,002,915	1,967,800
Cash and cash equivalents at end of year	9	269,077	2,002,915

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 2022 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 31 August 2022.

b) Basis of measurement

The consolidated financial statements have been prepared on an accruals basis and are based on historical cost except for those classes of assets and liabilities carried at fair value.

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);
- Intangible assets impairment review – refer to Note 15(d); and
- Determining the lease term when recognising the right-of-use asset and lease liability – refer to Note 16.

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.

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

- The Group made a net loss for the year ended 30 June 2022 of \$2,081,964 (2021: \$1,486,432).
- For the year ended 30 June 2022 the Group had net cash flows from operating activities of \$311,817 (2021: net cash flows \$67,249) and net cash outflows from investing activities of \$3,077,780 (2021: \$3,024,092).
- At 30 June 2022, the Group had an deficit in working capital of \$2,510,764 (2021: excess in working capital \$2,831,940).
- At 30 June 2022, the Group had net assets of \$7,646,534 (2021: \$8,606,990).

The Group's focus for the next twelve months is to:

- Achieve initial and, if possible, follow up Felix commercial sales in various "early market" jurisdictions;
- Complete a clinical trial in Australia to pave the way for registration in that market;
- Develop the new portfolio of vitro diagnostic, medical device and media products with Professor Aitken and UoN for potential use in both the human and animal ART markets.

The expenditure required to undertake all of these activities has been included in the Group's cash flow forecast and based on this forecast the Group will require extra funding in the next twelve months to complete all of these activities. We believe the timetable for expenditure adopted in the forecast is in the best interests of maximising shareholder returns and reflects the Group's confidence in its ability to access funds when required in the next twelve months.

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

- AusIndustry has approved the R&D tax claim for an amount of \$1,495,672 which is expected to be received in September 2022.
- The Company anticipates raising \$3.36m from the capital raising announced to the market on 17 August 2022.
- 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 funding to advance the development of the Felix human and animal ART devices to commercialisation and continue its bio-separation activities to bring these closer to a commercial outcome.

On this basis no adjustments have been made to the financial report relating to the recoverability and classification of the carrying amount of assets or the amount and classification of liabilities that might be necessary should the Group not continue as a going concern. Accordingly, the financial report has been prepared on a going concern basis.

Should the Group be unsuccessful with the initiatives detailed above then, there is a material uncertainty as to whether the Group may in the future not be able to continue as a going concern and may therefore be required to realise assets and extinguish liabilities other than in the ordinary course of business with the amount realised being different from those shown in the financial statement.

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 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

Although the company has started commercialising Felix™ in the current period, the operating results of this particular business are not being regularly reviewed by the entity management yet. Therefore, the entity still only has one segment being Research and Development.

d) 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 the purchase or sale of the asset.

Financial instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss, in which case transaction costs are immediately recognised as expenses in profit or loss.

ii) Classification and subsequent measurement

Finance instruments are subsequently measured at either fair value or amortised cost using the effective interest rate method. 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.

Derivatives

A derivative is a financial instrument that derives its value from another asset or liability. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Fair value is an attempt to put an objective price on a financial instrument, either instead of or in the absence of its current market price.

Calculating the fair value of derivatives involves taking into account factors that affect how likely the derivative is to prove beneficial to the holder.

e) 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:

	2022	2021
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.

3. Significant accounting policies (continued)

f) 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.

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.

g) Impairment of non-financial 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.

h) 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.

3. Significant accounting policies (continued)

i) 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.

j) 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.

k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of standard cost.

l) Leases

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

3. Significant accounting policies (continued)

m) Revenue

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer.

For each contract with a customer, the consolidated entity identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

n) 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.

o) 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.

p) 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.

q) Borrowing costs

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

3. Significant accounting policies (continued)

r) 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.

s) Lapsed options

When options are lapsed, they are transferred from reserves to issued capital or accumulated losses, depending on whether they have been originally credited against share issue expenses or released to profit and loss.

t) 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.

u) New Accounting Standards adopted by the group

The consolidated entity has adopted all the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

v) New Accounting Standards and interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2022. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

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.

4. Parent entity disclosures (continued)

	2022 \$	2021 \$
Statement of financial position		
Assets:		
Current assets	<u>11,499,430</u>	10,950,976
Total assets	<u>11,573,430</u>	<u>10,950,976</u>
Liabilities:		
Current liabilities	<u>3,833,097</u>	370,004
Total liabilities	<u>3,865,629</u>	<u>3,330,552</u>
Equity:		
Issued capital	50,340,937	48,884,176
Accumulated losses	(42,638,322)	(42,153,989)
Options reserve	<u>5,185</u>	<u>890,237</u>
Total equity	<u>7,707,800</u>	<u>7,620,424</u>
Statement of profit or loss and other comprehensive income		
Total loss for the year	<u>(963,109)</u>	<u>(1,049,569)</u>
Total comprehensive expense for the year	<u>(963,109)</u>	<u>(1,049,569)</u>

Guarantees

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

Contingent liabilities

At 30 June 2022, Memphasys Limited had no contingent liabilities (2021: Nil).

Contractual commitments

At 30 June 2022, Memphasys Limited had a contractual commitment up to November 2022 to pay \$275,600 to the University of Newcastle to work on the development of reproductive technologies in reproductive health to develop novel products for the Assisted Reproductive Technology (ART) industry.

Contingent assets

At 30 June 2022, Memphasys Limited had no contingent assets.

5. Revenue / other income

	Note	2022 \$	2021 \$
Revenue from contract with customers			
Revenue from sales		27,148	-
Total revenue		<u>27,148</u>	<u>-</u>
Grant income			
Grant income – R&D Tax Incentive Scheme	15	460,691	202,244
Grant income – Business Growth Grant		9,240	9,239
Grant income – Innovation Connections Grant		20,000	-
Total grant income		<u>489,931</u>	<u>211,483</u>
Other income			
Settlement of engineering flaw		650,000	-
Finance income		709	2,543
Gain from derecognition of lease asset and liability		-	82,569
Creditor write-off		26,334	8,000
Income on fair value of convertible note options		54,000	-
Total other income		<u>731,043</u>	<u>93,112</u>
Total revenue, grant and other income		<u>1,248,122</u>	<u>304,595</u>

6. Loss for the year

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

	Note	2022 \$	2021 \$
Expenses			
Depreciation:			
Plant and equipment		77,883	65,491
Right-of-use asset	16	45,328	34,053
Total depreciation expense		<u>123,211</u>	<u>99,544</u>
Depreciation does not include amounts which have been capitalised under development expenditure.			
Finance costs:			
Interest expense on leases		117,018	64,175
Loan expenses		83,908	2,325
Interest expense on loans with related parties		56,436	10,356
Interest expense on loans with third parties		309,315	12,658
		<u>566,677</u>	<u>89,514</u>
Staff costs:			
Salaries #		1,372,175	1,061,417
Superannuation #		127,142	91,298
Employee share-based payments		71,024	137,199
# Includes amounts which have been capitalised under development expenditure.			
Salaries capitalised under development expenditure		796,208	811,731
Superannuation capitalised under development expenditure		88,693	73,337
Legal fees		29,475	39,373

7. Income tax expense

a) Income tax expense

	2022	2021
	\$	\$
Income tax reported in the statement of profit or loss and other comprehensive income	-	-

b) Reconciliation of effective tax rate

	2022	2021
	\$	\$
Accounting loss before tax from continuing operations	<u>(2,157,964)</u>	<u>(1,486,432)</u>
Prima facie tax benefit on loss from ordinary activities before income tax at 25% (2021: 26%)	(539,491)	(386,473)
Less:		
Tax effect of:		
Non-deductible expenditure	310,394	156,900
Research and development tax incentive (non-assessable)	(115,173)	(52,583)
Sundry	14,859	-
Current year tax losses carried forward	329,411	282,156
Income tax expense recorded in statement of profit or loss and other comprehensive income	<u>-</u>	<u>-</u>

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 2022. The unused tax losses held in the Australian group of companies as at 30 June 2022 is \$35,500,597. 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. Earnings per share

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

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2022

8. Earnings per share (continued)

	2022 \$	2021 \$
Loss after tax from operations	(2,081,964)	(1,486,432)
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	784,355,320	756,698,537
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	784,355,320	789,102,944
Earnings per share	Dollar/share	Dollar/share
Basic loss	(0.0027)	(0.0020)
Diluted loss	(0.0027)	(0.0019) #

The basic and diluted EPS are the same since the options on issue at balance date are anti-dilutive.

9. Cash and cash equivalents

	2022 \$	2021 \$
Cash at bank	269,077	2,002,915

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

	2022 \$	2021 \$
Loss from ordinary activities after income tax expense:	(2,081,964)	(1,486,432)
Depreciation	123,211	259,487
Grant income	(469,931)	(202,244)
Gain on derecognition of lease asset and liability	-	(82,569)
Gain on creditor write-off	(26,334)	(8,000)
Shares received in lieu of reimbursement of direct costs	(150,000)	-
Unrealised Income on Fair Value of convertible note options	(54,000)	-
Share option reserve	152,209	151,230
	(2,506,809)	(1,368,528)
Change in operating assets and liabilities:		
(Increase)/decrease in other current assets	364,612	(12,305)
(Increase)/decrease in inventory	31,712	(86,117)
Increase/(decrease) in trade and other payables	248,676	62,005
Increase/(decrease) in accrued interest	452,659	23,014
Increase/(decrease) in tax liabilities	28,712	4,957
Increase in provisions	47,587	78,588
Increase in deferred income	1,644,668	1,343,092
Net cash outflows from operating activities	311,817	44,706

Non-cash transactions

During the year the Company had no non-cash transactions (2021: \$Nil).

10. Trade and other receivables

	2022 \$	2021 \$
Trade and other receivables – non-current		
Related party receivable – Thee Woon Goh	947,311	947,311
Impairment of related party receivables	<u>(947,311)</u>	<u>(947,311)</u>
	<u>-</u>	<u>-</u>

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, retaining a lien over the securities. This receivable has been fully impaired in prior reporting periods. The Company is working on a resolution for dealing with this issue and expects that the issue will be resolved during FY 2023.

11. Inventories

	2022 \$	2021 \$
Raw materials – at cost	43,339	34,230
Finished goods – at cost	<u>43,743</u>	<u>84,564</u>
	<u>87,082</u>	<u>118,794</u>

12. Current assets – other assets

	2022 \$	2021 \$
Term deposit – bank guarantee rent Homebush *	42,750	42,750
Security deposits	5,290	5,290
Prepaid expenses	119,439	159,519
Amount receivable under R&D Tax Incentive Scheme	15(c) 1,495,672	1,359,513
Amount receivable under Innovation Connections Grant	<u>9,240</u>	<u>-</u>
	<u>1,672,391</u>	<u>1,567,072</u>

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

13. Financial assets at fair value through OCI

	2022 \$	2021 \$
Investment in Hydrix Limited	<u>74,000</u>	<u>-</u>
	<u>74,000</u>	<u>-</u>

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2022

14. Property, plant and equipment

	Note	Plant & Equipment \$	Leasehold Improvements \$	Total \$
Cost:				
Balance at 1 July 2020		923,089	592,357	1,515,446
Additions		504,728	-	504,728
Balance at 30 June 2021		1,427,817	592,357	2,020,174
Balance at 1 July 2021		1,427,817	592,357	2,020,174
Additions		2,864	-	2,864
Balance at 30 June 2022		1,430,681	592,357	2,023,038
Accumulated depreciation:				
Balance at 1 July 2020		714,626	592,357	1,306,983
Depreciation for the year		118,955	-	118,955
Balance at 30 June 2021		833,581	592,357	1,425,938
Balance at 1 July 2021		833,581	592,357	1,425,938
Depreciation for the year		95,693	-	95,693
Balance at 30 June 2022		929,274	592,357	1,521,631
Net book value at 30 June 2021		594,237	-	594,231
Net book value at 30 June 2022		501,408	-	501,408

For personal use only

15. Intangible assets

a) Reconciliation of movements in intangible assets

	Note	Internal Development \$	Total \$
Cost:			
Balance at 1 July 2020		10,930,908	10,930,908
Additions		2,902,440	2,902,440
Balance at 30 June 2021		13,833,348	13,833,348
Balance at 1 July 2021		13,833,348	13,833,348
Additions		2,422,490	2,422,490
Balance at 30 June 2022		16,255,838	16,255,838
Accumulated grant income:			
Balance at 1 July 2020		4,384,815	4,384,815
Deferred R&D Tax Incentive grant income for the year		1,157,269	1,157,269
Balance at 30 June 2021		5,542,084	5,542,084
Balance at 1 July 2021		5,542,084	5,542,084
Deferred R&D Tax Incentive grant income for the year	15(c)	1,034,980	1,034,980
Balance at 30 June 2022		6,577,064	6,577,064
Net carrying value at 30 June 2021		8,291,264	8,291,264
Net carrying value at 30 June 2022		9,678,774	9,678,774

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

	2022 \$	2021 \$
Felix Device - sperm separations humans	7,832,244	6,552,129
Equus Device - sperm separations animals	896,400	893,463
Membranes for Felix Device	950,130	845,672
	9,678,774	8,291,264

c) Reconciliation of grant income receivable

	Note	2022 \$	2021 \$
Analysis of grant income receivable:			
Component relating to projects under development	15(a)	1,034,980	1,157,269
Recognised as grant income in the current year	5	460,691	202,244
Total government grants receivable	12	1,495,671	1,359,513

15. Intangible assets (continued)

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 considered:

- The contract manufacturers for the Felix cartridges, W&S, the largest plastic moulding manufacturer in the southern hemisphere, and the Felix consoles, SRX a global electronic manufacturer, are positioned to produce commercial Felix devices.
 - Consoles were commercially ready in October 2020.
 - Cartridges were commercially ready in October 2021.
- The performance of the Felix device has been bolstered by testing with global KOL partners, and this testing has shown that the technology behind the Felix device is capable of competing with the existing methods (DGC and swim up) for separating sperm for IVF.
- Despite being commercially ready and available in some early markets, sales have been slower than anticipated in these markets, but even so, the device is well positioned for substantial future sales. It has now become apparent to Memphasys through the testing of the device by KOLs in these early access markets that the KOLs require *in vivo* data (embryo quality and pregnancy data), not only *in vitro* data, before they buy. One Indian clinic is getting ready to do *in vitro* studies. The other two Indian sites are now using the Felix device to create embryos which they freeze for a few months before they implant to allow the females' hormone levels to normalise. One of these clinics is doing embryo studies (at least 50 embryos) before it is ready to make the purchasing decision but said that they are pleased with the embryo quality from sperm processed by the Felix device so far. The other clinic, which has made two commercial Felix purchases, has been focussing on males with infertility issues, which has made testing slower than if they had been using for all males. The clinic has made many embryos and has also started implanting which has led to pregnancies. More *in vivo* data is required as the numbers are still relatively small, however they have stated they like the embryo quality from sperm processed by the Felix device. All three Indian clinics and other KOLs have stated they find the device much quicker and easier to use than their current methods of processing sperm.
- The Felix device has no clinical trial data yet. Such data would greatly assist sales. The Felix device is being evaluated in an Australian clinical trial with Monash IVF at seven of their IVF sites. Achieving the clinical end point (embryo utilisation rate not being inferior to embryo utilisation rates from embryos created by processing of sperm by DGC or swim up) is crucial for achieving TGA certification in Australia. Having TGA certification is expected to open up other markets eg in the Middle East and in S E Asia, and will also potentially enable the device to obtain CE Mark certification in Europe. The clinical trial is anticipated to finish by end of December 2022 depending on recruitment rates.
- The Group has assessed that there are no new specific risks in relation to the commercial development of the project. Covid initially impacted the access to clinical samples and the operating protocol for the Australian clinical trial started with too few sites and was too restrictive with respect to patient inclusion/ exclusion criteria, but the procedure has been updated and has received ethics approval. It is anticipated that the trial will conclude as originally intended, by the end of December 2022, subject to recruitment rate being as currently predicted.
- The key risk to Felix commercialisation is the regulatory approval timelines in later access, highly regulated markets, most notably Australia (TGA), the USA (FDA) and EU (MDR). The overhaul to the medical device regulations, "MDR" in Europe, may also have flow on effects to other markets such as Australia. However, the Company has determined that the Canadian, Japanese, Indian and New Zealand markets could be accessed earlier for commercial sales of the Felix device to be made. Whilst the clinics in these early markets will require *in vivo* data (typically embryo quality and clinical pregnancy) before they consider purchasing, and this process will delay sales, the intrinsic value of the device remains higher than the carrying value.
- The Group has assessed those 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.
- This assessment was based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets and forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 2%. A discount rate of 13.1% was used in the value-in-use calculations.
- Memphasys is confident it has sufficient funding for the coming year to advance the commercialisation of the Felix device.

16. Right-of-use asset and lease liability

At 30 June 2022, the Group had the following lease arrangements:

- A non-cancellable lease for its production and commercial property in Homebush, which has a remaining term of 23 months. It includes a further three (3) options to renew the lease for three (3) years each, being the first term from 1 June 2024 expiring 31 May 2027, the second term from 1 June 2027 expiring 31 May 2030 and the third option term from 1 June 2030 expiring 31 May 2033.
- A lease for the cleanroom to manufacture the Felix disposable cartridges, built in the premises of W&S, in Moorebank. Although the lease agreement has not yet been formalised, it has been agreed that the amount of \$40,000 a year, which has been set at market rates, will give Memphasys the exclusive rights to use the cleanroom. The duration of the lease is still subject to discussion. In the absence of any better guidance, a 3-year lease (with a remaining term of 24 months at 30 June 2022) adding further three (3) options to renew the lease for three (3) years each has been recognised, similarly to the property rented in Homebush and according to the intentions of the Company.

	2022 \$	2021 \$
Non-current assets – right-of-use assets		
<i>Properties under lease agreements</i>		
<u>Homebush</u>		
At cost	1,637,763	1,637,763
Accumulated depreciation	(147,853)	(11,373)
	1,489,910	1,626,390
<u>Moorebank</u>		
At cost	380,167	380,167
Accumulated depreciation	(31,680)	-
	348,487	380,167
Total carrying amount of lease assets	1,838,397	2,006,557
Lease liabilities - current		
Property lease liabilities – Homebush	79,416	69,980
Property lease liabilities - Moorebank	19,311	17,877
Total current lease liabilities	98,727	87,857
Lease liabilities – non-current		
Property lease liabilities – Homebush	1,482,755	1,562,171
Property lease liabilities - Moorebank	342,663	362,291
Total non-current lease liabilities	1,825,418	1,924,462
Net carrying value at 30 June	1,924,145	2,012,319
	2022 \$	2021 \$
AASB 16 related amounts recognised in the Statement of Profit and Loss		
Depreciation Charge related to Right of Use Assets	45,328	34,053
Interest Expense on Lease Liabilities (under Finance Costs)	117,018	64,175
Total year leases recognised in the Statement of Profit and Loss	162,346	98,228

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2022

17. Trade and other payables

	Note	2022 \$	2021 \$
Trade payables		131,669	158,583
Payable to related parties	26(g)(i)	32,496	9,166
Other creditors and accruals (details in table below)		395,548	172,000
		<u>559,713</u>	<u>339,749</u>
Other creditors and accruals		2022	2021
		\$	\$
University of Newcastle – unbilled research fees		214,354	-
Monash IVF – unbilled collaboration fees		120,000	123,000
Others		61,194	49,000
		<u>395,548</u>	<u>172,000</u>

The Group's exposure to liquidity risk related to trade and other payables is disclosed in Note 28.

18. Interest-bearing liabilities

	Note	2022 \$	2021 \$
Current:			
Convertible note unsecured-Related party liability	26(g)(ii)	43,200	-
Convertible note unsecured-Third-party debt		3,287,798	-
Alison Coutts		21,000	-
Alison Coutts Consulting Pty Ltd		54,000	-
Total current interest-bearing liabilities		<u>3,405,998</u>	<u>-</u>
2022 Analysis of convertible note unsecured			
		Face value	Carrying value
Related party liability–Andrew Goodall			
Convertible notes attached options (iii)	AUD	-	43,200
Subtotal related party liability Andrew Goodall		-	43,200
Third-party debt–Peters Investments Pty Ltd			
Convertible notes principal (i)	AUD	3,000,000	2,738,325
Convertible notes facilitation fees (i)			83,908
Convertible notes interest (i)			391,765
Convertible notes conversion derivative (ii)			21,000
Convertible notes attached options (iii)			96,000
Subtotal third-party debt Peters Investments Pty Ltd		3,000,000	3,330,998
Alison Coutts	AUD	21,000	21,000
Alison Coutts Consulting Pty Ltd	AUD	54,000	54,000
Total current interest-bearing liabilities		<u>3,075,000</u>	<u>3,405,998</u>

18. Interest-bearing liabilities (continued)

	Note	2022 \$	2021 \$
Non-current:			
Related party debt - unsecured	26(g)(ii)	-	1,319,552
Third-party debt – unsecured		-	1,612,787
Total non-current interest-bearing liabilities		-	2,932,339

2021 Analysis of debt	Currency	Interest rate	Maturity	Face value	Carrying value
Related party debt – Andrew Goodall					
Convertible notes principal (i)	AUD	8%	Dec '22	1,350,000	1,232,246
Convertible notes interest (i)					10,356
Convertible notes conversion derivative (ii)					33,750
Convertible notes attached options (iii)					43,200
Subtotal related party debt Andrew Goodall				1,350,000	1,319,552
Third-party debt – Peters Investments Pty Ltd					
Convertible notes principal (i)	AUD	8%	Dec '22	1,650,000	1,506,079
Convertible notes interest (i)					12,658
Convertible notes conversion derivative (ii)					41,250
Convertible notes attached options (iii)					52,800
Subtotal third-party debt Peters Investments Pty Ltd				1,650,000	1,612,787
Total non-current interest-bearing liabilities				3,000,000	2,932,339

(i) In May 2021, Andrew Goodall and Peters Investments Pty Ltd subscribed unsecured Convertible Notes in the Company, with a combined value of \$3,000,000. The material terms of the Convertible Notes are:

- Interest rate of 8% per annum, payable in cash or shares at the Lender's election.
- Facilitation Fee of 3% of gross value of Convertible Notes, added to the gross value of the Convertible Notes.
- Repayment Date: 31 December 2022.
- Conversion Price: the lower of:
 - \$0.06; and
 - a 20% discount to the issue price of shares and/or the exercise price of any options offered under any capital raising(s) completed by the Company of greater than \$1,000,000 prior to the Repayment Date.
- Shareholder approval was obtained at the EGM held on 24 August 2021.

In January 2022, Andrew Goodall sold his convertible note, with a face value of \$1,350,000, to Peters Investments Pty Ltd, retaining the 1,350,000 unlisted options attached to it.

(ii) The conversion feature has been classified as an embedded derivative and fair value determined based on applying probabilities to Black-Scholes valuation models.

(iii) In addition to the material terms and conditions of the Convertible Notes as set out above, the Company has agreed to issue one (1) unlisted option to the investors for every dollar of Convertible Notes subscribed, exercisable at \$0.06 on or before 31 December 2023.

18. Interest-bearing liabilities (continued)

Andrew Goodall has retained the 1,350,000 options attached to the convertible note sold to Peters Investments Pty Ltd in January 2022.

The fair value of (ii) derivative liability and (iii) attached options is estimated using Black-Scholes valuation model.

For the derivative liability:

	2022	2021
Stock price	\$0.04	\$0.052
Risk-free interest rate	3.29%	0.10%
Expiry period	0.5	1.6
Volatility	108%	112%
Fair value per share	\$0.007	\$0.032

19. Non-interest-bearing liabilities

	2022	2021
	\$	\$
Current:		
Third-party debt – unsecured *	154,668	181,002
Total current non-interest-bearing liabilities	154,668	181,002
Non-current:		
Third-party debt – unsecured **	77,330	231,998
Total non-current non-interest-bearing liabilities	77,330	231,998

* Current portion of debt for building the cleanroom facility in the premises of W&S. The original debt, which totalled \$464,000 including the non-current portion, was arranged to be paid for through a decelerating amortisation schedule and included in the price of the first 100,000 cartridges purchased by Memphasys from W&S. In March 2021, Memphasys rearranged with W&S for the debt to be paid for in three years, in quarterly instalments of \$38,667. A revised contract is to be signed with W&S, incorporating the abovementioned payment arrangement and other items, unknown at the time of signing the original contract, like the following:

- extra costs to manufacture in the cleanroom (mainly increased labour, mostly used to keep the cleanroom and equipment sterile),
- rental payments for Memphasys to have exclusive rights to use the cleanroom, and
- the option to continue the agreement post 36 months and a separation clause (not in current agreement).

* Noncurrent portion of debt for building the cleanroom facility in the premises of W&S.

20. Tax liabilities

	2022	2021
	\$	\$
Office of State Revenue NSW – payroll tax	18,918	-
Australian Taxation Office – GST	(19,422)	(19,302)
Australian Taxation Office – PAYG	34,266	24,352
	33,762	5,050

21. Provisions

	2022 \$	2021 \$
Current:		
Provision for employee benefits	<u>286,446</u>	<u>243,183</u>
Non-current:		
Provision for employee benefits	<u>32,533</u>	<u>28,209</u>

22. Share capital

a) Share capital

	2022 Shares	2021 Shares	2022 \$	2021 \$
Ordinary Shares – fully paid	<u>792,178,337</u>	759,773,880	<u>50,340,937</u>	48,884,176

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

	2022 Shares	2021 Shares	2022 \$	2021 \$
Balance at beginning of year	759,773,880	753,973,880	48,884,176	48,697,744
Exercise of options	32,404,457	5,800,000	1,075,828	192,560
Transfer of expired option reserve #	-	-	411,462	-
	<u>792,178,337</u>	759,773,880	<u>50,371,466</u>	48,890,304
Less issue costs			<u>30,529</u>	6,128
Balance at end of year	<u>792,178,337</u>	759,773,880	<u>50,340,937</u>	48,884,176

Options reserves for options expired during the reported period, granted to corporate finance advisors for work done on raising capital for the Company, were transferred to issued capital.

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. Every holder of ordinary shares attending the meeting is entitled to one vote. Ordinary shares do not have a par value.

ii) Listed Options

No listed share options were issued during the 2022 financial year (2021: nil).

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2022

22. 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:								
28 Mar 2019	28 Sep 2021	-	\$0.0332	20,000,000	-	20,000,000	-	-
28 Mar 2019	28 Sep 2021	-	\$0.0332	12,404,457	-	12,404,457	-	-
22 Oct 2019	22 Oct 2021	-	\$0.1142	989,681	-	-	989,681	-
22 Oct 2019	22 Oct 2021	30 Jun 2020	\$0.1142	12,000,000	-	-	12,000,000	-
22 Oct 2019	22 Oct 2021	15 Nov 2019	\$0.1142	1,466,194	-	-	1,466,194	-
22 Oct 2019	22 Oct 2021	30 Jun 2020	\$0.1142	4,800,000	-	-	4,800,000	-
30 Jul 2021	30 Jul 2023	31 Dec 2021	\$0.0905	-	4,962,200	-	4,962,200	-
30 Jul 2021	30 Jul 2023	30 Jun 2022	\$0.0905	-	3,462,000	-	-	3,462,000
30 Jul 2021	30 Jul 2024	30 Jun 2023	\$0.0965	-	3,115,800	-	-	3,115,800
25 Aug 2021	31 Dec 2023	-	\$0.0600	-	3,000,000	-	-	3,000,000
25 Aug 2021	31 Aug 2023	31 Dec 2021	\$0.0884	-	2,537,000	-	2,537,000	-
25 Aug 2021	31 Aug 2023	30 Jun 2022	\$0.0884	-	1,770,000	-	-	1,770,000
25 Aug 2021	31 Aug 2024	30 Jun 2023	\$0.0944	-	1,593,000	-	-	1,593,000
14 Sep 2021	13 Sep 2023	-	\$0.1000	-	3,000,000	-	-	3,000,000
Total				51,660,332	23,440,000	32,404,457	26,755,075	15,940,800

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.

23. Capital Management

Management controls the capital of the Group to maintain a good debt to equity ratio 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.

24. Reserves

	2022 \$	2021 \$
Share options reserve	152,209	890,237
Asset revaluation reserve	(76,000)	-
	<u>76,209</u>	<u>890,237</u>

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	Investment balance
6,577,800	Personnel & consultants	ESOP Jul'21 – tranches 2&3	55,536
3,363,000	Alison Coutts	Performance options Aug'21–tranches 2&3	15,488
3,000,000	Hydrix Limited	Settlement of engineering flaw Sep'21	81,185
Total value of options expense in the financial year ended 30 June 2022			<u>152,209</u>
Total value of share options reserve at 30 June 2022			<u>152,209</u>

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

Personnel & consultants	Tranche 2	Tranche 3
Dividends yield	0%	0%
Fair market value of stock #	\$0.0668	\$0.0668
Exercise price of option	\$0.0896	\$0.0956
Risk-free interest rate	0.04%	0.16%
Volatility	72.14%	72.14%
Expected option life	2 years	3 years

Alison Coutts	Tranche 2	Tranche 3
Dividends yield	0%	0%
Fair market value of stock #	\$0.0660	\$0.0660
Exercise price of option	\$0.0884	\$0.0944
Risk-free interest rate	0.02%	0.15%
Volatility	49.37%	49.37%
Expected option life	2 years	3 years

24. Reserves (continued)

Hydrix	
Dividends yield	0%
Fair market value of stock #	\$0.067
Exercise price of option	\$0.10
Risk-free interest rate	2.69%
Volatility	95%
Expected option life	2 years

Asset revaluation reserve

The asset revaluation reserve is used to adjust the fair value of the financial assets designated at fair value through other comprehensive income, net of tax:

Number of shares	Held in	Share price	Investment balance
1,000,000	Hydrix Limited	\$0.15 at September 2021 when shares received as part of the settlement of engineering flaw	150,000
		\$0.074 at 30 June 2022	74,000
Net change in fair value of the financial assets designated at fair value through other comprehensive income, net of tax:			<u>(76,000)</u>

25. Auditors' remuneration

	2022	2021
	\$	\$
Audit & Assurance services		
Review of interim report	21,475	20,850
Audit of financial report – year end	40,000	38,000
Total remuneration for services	<u>61,475</u>	<u>58,850</u>

26. 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**

Mr Robert Cooke	Independent Non-Executive Chairman (appointed 26 April 2022)
Ms Alison Coutts	Managing Director and CEO
Mr Andrew Goodall	Non-Executive Director
Mr Shane Hartwig	Independent Non-Executive Director (resigned 25 April 2022)
Mr Paul Wright	Independent Non-Executive Director

ii. **Executives**

John Aitken	Scientific Director
Nick Gorring	Operations Manager
Pablo Neyertz	Director of Finance

26. Related parties (continued)

c) Key management personnel compensation

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

	2022 \$	2021 \$
Short-term employee benefits	1,032,548	736,890
Long-term employee benefits	37,003	48,337
Post-employment benefits	81,356	51,801
Share-based payments	46,144	9,291
	1,197,051	846,319

d) Share based compensation - Options

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

Share options were issued during the year to the Directors and executives, among other employees, of Memphasys and consolidated entity as part of their remuneration. Details of these options and their terms are outlined below.

i) Performance options issued to executives, among other employees, in July 2021

Executive	Number of options	Exercise price (% premium to the VWAP over the 30 trading days prior to the issue date)	Options value
John Aitken	2,280,000	Tranche 2: 34% Tranche 3: 43%	\$19,250
Nick Gorring	1,140,000		\$9,625
Pablo Neyertz	210,900		\$1,781
Total	3,630,900		\$30,656

Tranche 1 of the options, totalling 2,739,100 options, were cancelled as they did not meet the commercialisation hurdle. The fair value of tranches 2 and 3 of the options were estimated on grant date using Black-Scholes option pricing model, with the following assumptions used:

	Tranche 2	Tranche 3
Dividends yield	0%	0%
Fair market value of stock #	\$0.0668	\$0.0668
Exercise price of option	\$0.0896	\$0.0956
Risk-free interest rate	0.04%	0.16%
Volatility	72.14%	72.14%
Expected option life	2 years	3 years

VWAP 5 days prior to issue date

d) Performance options issued to the Executive Chairman in August 2021

5,900,000 options issued to Alison Coutts, with shareholder approval passed at EGM 24 August 2021. Tranche 1 of the options, totalling 2,537,000 options, were cancelled as they did not meet the commercialisation hurdle. The fair value of tranches 2 and 3 of the options was \$15,488, estimated on grant date using Black-Scholes option pricing model, with the following assumptions used:

26. Related parties (continued)

	Tranche 2	Tranche 3
Dividends yield	0%	0%
Fair market value of stock #	\$0.0660	\$0.0660
Exercise price of option	\$0.0884	\$0.0944
Risk-free interest rate	0.02%	0.15%
Volatility	49.37%	49.37%
Expected option life	2 years	3 years

VWAP 30 days prior to Extraordinary General Meeting

ii) Options issued to director Andrew Goodall in August 2021

1,350,000 unlisted options issued, with shareholder approval passed at EGM 24 August 2021, for every dollar of convertible note subscribed, exercisable at \$0.06 on or before 31 December 2023. The fair value of these options, estimated on grant date using Black-Scholes option pricing model, was \$43,200.

e) Shareholding of directors and executives

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.

2022	Balance as at 1 July 2021	Net movement	Balance as at 30 June 2022
Alison Coutts (a)	79,625,139	-	79,625,139
Andrew Goodall (b)	171,498,505	-	171,498,505
Pablo Neyertz	788,967	-	788,967
Total	251,912,611	-	251,912,611
2021	Balance as at 1 July 2020	Net movement	Balance as at 30 June 2021
Alison Coutts (a)	79,625,139	-	79,625,139
Andrew Goodall (b)	171,498,505	-	171,498,505
Pablo Neyertz	688,967	100,000	788,967
Total	251,812,611	100,000	251,912,611

(a) Alison Coutts' shareholding comprises 75,847,375 shares held directly and 3,777,764 held indirectly.

(b) Andrew Goodall's shareholding comprises 170,806,265 shares held directly, and 692,240 shares held indirectly.

f) Option holding of directors and executives

The numbers of options 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 options granted during the reporting period as director compensation.

26. Related parties (continued)

Directors & executives and their option holding

2022	Balance at start of year	Granted as remuneration	Free options issued with con note	Lapsed during the year	Balance at end of the year	Exercisable	Non Exercisable
Alison Coutts	12,000,000	5,900,000	-	14,537,000	3,363,000	-	3,363,000
Andrew Goodall	989,681	-	1,350,000	989,681	1,350,000	1,350,000	-
Shane Hartwig	1,099,646	-	-	1,099,646	-	-	-
Nick Gorrington	750,000	2,000,000	-	1,610,000	1,140,000	-	1,140,000
Pablo Neyertz	300,000	370,000	-	459,100	210,900	-	210,900
John Aitken	-	4,000,000	-	1,720,000	2,280,000	-	2,280,000
Total	15,139,327	12,270,000	1,350,000	20,415,427	8,343,900	1,350,000	6,993,900

No options were exercised during the year.

2021	Balance at start of year	Granted as remuneration	Exercised during the year	Lapsed during the year	Balance at end of the year	Exercisable	Non Exercisable
Alison Coutts	18,000,000	-	-	6,000,000	12,000,000	12,000,000	-
Andrew Goodall	989,681	-	-	-	989,681	989,681	-
Shane Hartwig	1,099,646	-	-	-	1,099,646	1,099,646	-
Nick Gorrington	1,200,000	-	-	450,000	750,000	750,000	-
Pablo Neyertz	400,000	-	-	100,000	300,000	300,000	-
Total	21,689,327	-	-	6,550,000	15,139,327	15,139,327	-

g) Other transactions with key management personnel and related parties

i) At 30 June 2022, payables to related parties were as follows:

	2022 \$	2021 \$
Andrew Goodall director fees	4,583	4,583
Shane Hartwig director fees	-	4,583
Alison Coutts bonus	27,913	-
	32,496	9,166

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

Current balances:	2022 \$	2021 \$
	Note	
Andrew Goodall	18	43,200 #
Alison Coutts		21,000
Alison Coutts Consulting Pty Ltd		54,000
Total		118,200

free options (classified as liability) attached to convertible note sold in January 2022.

26. Related parties (continued)

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

	Interest paid		Interest accrued	
	2022	2021	2022	2021
	\$	\$	\$	\$
Andrew Goodall *	-	-	59,436	10,356
	-	-	59,436	10,356

* Interest accrued on Convertible Note loan. Please refer to Note 18.

h) Other transactions with Directors, Executives and their related parties

In January 2022, Andrew Goodall sold his convertible note, with a face value of \$1,350,000, to the existing major shareholder Peters Investments Pty Ltd, retaining the 1,350,000 unlisted options attached to it.

The Company received short-term loans from Alison Coutts and Alison Coutts Consulting Pty Ltd, of \$21,000 and \$54,000 respectively, at 8% annual interest rate and to be converted to shares as part of the rights issue announced to the market on 17 August 2022.

27. Controlled entities

Name of entity	Country of Incorporation	Class of share	Equity Holding		
			2022	2021	
			%	%	
Feronia Fertility 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

28. Financial risk management policies

The Group's is exposed to the following financial risks in relation to the financial instruments that it held at the end of the reporting period.

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. Cash is held in a financial institution with first grade credit rating. 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;
- 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.

28. 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	
	2022	2021	2022	2021	2022	2021
	\$	\$	\$	\$	\$	\$
Financial liabilities:						
Trade & other payables	559,713	339,749	-	-	559,713	339,749
Interest bearing liabilities	3,405,998	-	-	2,932,339	3,405,998	2,932,339
Non-interest-bearing liabilities	154,668	181,002	77,330	231,998	231,998	413,000
Lease liabilities	98,727	87,857	1,825,418	1,924,462	1,924,145	2,012,319
Tax liabilities	33,762	5,050	-	-	33,762	5,050
Expected outflows	4,252,868	613,658	1,902,748	5,088,799	6,155,616	5,702,457
Financial assets:						
Cash & cash equivalents	269,077	2,002,915	-	-	269,077	2,002,915
Other assets	133,969	164,809	42,750	42,750	176,719	207,559
Tax receivables	1,495,672	1,359,513	-	-	1,495,672	1,359,513
Expected inflows	1,898,718	3,527,237	42,750	42,750	1,941,468	3,569,987
Net expected cash flow	(2,354,150)	2,913,579	(1,859,998)	(5,046,049)	(4,214,148)	(2,132,470)

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 2022 the Company has no interest-bearing liabilities subject to future change in interest rates, 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 operated internationally in low volumes and has no assets and liabilities in foreign currencies at the end of the period. Therefore, there was no exposure to foreign exchange risk.

d) Financial instruments carried at fair value

The Group's financial instruments are measured at fair value at the end of the reporting period on a recurring basis, categorised into three-level fair value hierarchy as defined in AASB13, *Fair Value Measurement*. The level into which a fair value measurement is classified and determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

29. Financial risk management policies (continued)

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using only Level 2 inputs i.e. observable inputs which fail to Meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

The Convertible Notes conversion derivative and attached option, included under Interest-bearing liabilities, are classified as Level 3 liabilities. The significant assumptions used in preparing the option pricing model for valuing the (i) volatility of 108%, (ii) risk free interest rate of 3.29% and (iii) exercise price (\$0.06 or lower price for conversion derivative). Refer to Note 18 for further details.

29. Capital Commitments

The Company has no commitments for the acquisition of plant and equipment contracted for at the reporting date that have not been recognised as liabilities.

30. Events after Balance Date

Subsequent to 30 June 2022, the company announced \$3.36 million capital raising to accelerate commercialisation of Felix™ system and continue development of other pipeline products.

31. Company Details

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

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2022

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 22 to 55 and the Remuneration Report on pages 15 to 20 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 2022 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 2022.
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
31 August 2022

**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 2022, the consolidated statement of profit or loss and other 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 2022 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 (including Independence Standards)* “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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

For personal use only

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 2022 of \$2,081,964, had net cash flows from operating activities of \$311,817 and net cash outflows from investing activities of \$3,077,780, had net assets of \$7,646,534 and a deficit in working capital of \$2,510,764. In Note 3(a) it is stated that the Group is dependent on the raising of additional funds for working capital purposes, including \$3.36m through a capital raising announced to the market subsequent to year end, 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

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 year. 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
<p>Impairment assessment of intangible assets</p> <p><i>Refer to Note 15 Intangible Assets</i></p> <p>At 30 June 2022 the statement of financial position includes intangible assets amounting to \$9,678,774 that primarily relates to the Felix technology.</p> <p>Given the significance of the carrying value of the intangible assets to the financial position of the Group and the judgements and assumptions required in value-in-use model (including forecast cash flows and discount rate), the recoverability of these assets was a key audit matter.</p> <p>Management also exercises judgement to determine whether the capitalised costs, such as payroll costs and other expenditure, in the carrying value of the intangible assets 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.</p>	<p>Our procedures included amongst others:</p> <ul style="list-style-type: none"> • Obtaining an understanding and evaluating the design and implementation of controls in place in respect of costs capitalised to intangible assets. • Evaluating the value-in-use model for the Felix technology and the key assumptions in the model. • Evaluating the forecast cash flows used in the value-in-use model were consistent with most up-to-date budgets prepared by management and provided to the Board. • Evaluating the appropriateness of the discount rate used in the value-in-use model. • Testing a sample of capitalised expenses to source documentation and reviewing the source documentation to verify the expenses are project related. • Testing reasonableness of management's allocation of payroll costs to the projects. • Evaluating management's assessment of whether the capitalised expenditure met the criteria for capitalisation in accordance with accounting policies and Australian Accounting Standards. • Assessing the adequacy of financial statements disclosures.

For personal use only

Recognition of R&D tax incentive
*Refer to Note 12 in the Notes to the
Financial Statements.*

At 30 June 2022, the statement of financial position includes R&D receivable amounting to \$1,495,672.

This area is a key audit matter due to the judgements and assumptions the Group makes in relation to the calculation and recognition of the R&D tax incentive

Our procedures included, amongst others:

- Obtaining an understanding and evaluating the design and implementation of management's controls over the recognition of R&D receivable
- Obtaining the assessment completed by management's experts in respect of the R&D calculation.
- Evaluating the competence, capability and objectivity of management's experts.
- Obtaining R&D calculations for the year and testing mathematical accuracy.
- Testing a sample of claimed expenditure to source documentation and reviewing the source documentation to verify the expenses are eligible.
- Engaging our internal R&D tax specialist to review the expenditure methodology used by management.
- Assessing the adequacy of financial statements 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 for the year ended 30 June 2022 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.

For personal use only

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, actions taken to eliminate threats or safeguards applied

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 15 to 20 of the directors' report for the year ended 30 June 2022. In our opinion, the Remuneration Report of Memphasys Limited, for the year ended 30 June 2022, 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.



R M SHANLEY
Partner

31 August 2022



PITCHER PARTNERS
Sydney

For personal use only

Shareholder information

The shareholder information set out below was applicable as 27 August 2022.

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	457	82,400	0.010
1,001-5,000	211	707,151	0.080
5,001-10,000	252	2,057,577	0.240
10,001-100,000	841	33,942,034	3.890
100,001-999,999,999	471	835,389,175	95.780
Totals	2,232	872,178,337	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:

Holder Name	Number held	Percentage of shares issued
PETERS INVESTMENTS PTY LTD	237,587,568	27.241%
MR ANDREW ERNEST GOODALL	170,806,265	19.584%
MS ALISON COUTTS	75,847,375	8.696%
MR ADAM STUART DAVEY <THE DAVEY INVESTMENT A/C>	17,278,782	1.981%
MR ALLAN GRAHAM JENZEN & MRS ELIZABETH JENZEN <AG & E JENZEN P/L NO2 SF A/C>	16,100,000	1.846%
NUTSVILLE PTY LTD <INDUST ELECTRIC CO S/F A/C>	10,492,972	1.203%
ASSERT CORPORATE & INVESTOR RELATIONS PTY LTD	10,000,000	1.147%
BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	7,798,659	0.894%
MR JOHN AITKEN	7,527,840	0.863%
MRS VIVIANA INES MESSINA	5,670,000	0.650%
CROSSBAY PTY LTD	5,489,267	0.629%
WINDAMURAH PTY LTD <ATKINS SUPER FUND A/C>	5,151,391	0.591%
MR MICHAEL WILLIAM ATKINS	4,080,000	0.468%
MONASH IVF GROUP LIMITED	4,000,000	0.459%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	3,988,013	0.457%
ON TIME TAXIS PTY LTD	3,800,000	0.436%
ALISON COUTTS CONSULTING PTY LTD <ALISON COUTTS SUPER FUND A/C>	3,757,763	0.431%
MR ADAM STUART DAVEY <SHENTON PARK INVESTMENT A/C>	3,651,481	0.419%
TRINITY DIRECT PTY LTD	3,530,141	0.405%
MR JIM HRONAKIS	3,500,000	0.401%
Total Securities of Top 20 Holdings	600,057,517	68.800%
Total of Securities	872,178,337	

Shareholder information

C. Substantial Shareholders as at 27 August 2022

Ordinary shares

Holder Name	Number Held	Percentage
PETERS INVESTMENTS PTY LTD	237,587,568	27.241%
MR ANDREW ERNEST GOODALL	170,806,265	19.584%
MS ALISON COUTTS	75,847,375	8.696%

D. Unquoted Equity Securities

Security Class	Number of Holders	Number on Issue
Free Attaching Option - Exercise \$0.06 Expiry 31 December 2023	2	3,000,000.
Incentive Options - Tranche 2 - Ex price \$0.088 Exp 31 Aug 2023	1	1,770,000.
Incentive Options - Tranche 3 - Ex price \$0.094 Exp 31 Aug 2024	1	1,593,000.
Unlisted Options \$0.10 Exp 13/09/2023	1	3,000,000.
Unlisted Options Tranche 2 Expiry 30 July 2023	7	3,462,000.
Unlisted Options Tranche 3 Expiry 30 July 2024	7	3,115,800.
Total:	19	15,940,800

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

Robert Cooke	Independent Non-Executive Chairman
Alison Coutts	Managing Director and CEO
Andrew Goodall	Non-Executive Director
Paul Wright	Independent Non-Executive Director

Company Secretary

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

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

Auditors

Pitcher Partners Sydney
Level 16, Tower 2, 201 Sussex Street
Sydney, NSW 2000

For personal use only