Memphasys Limited
and its Controlled Entities
ABN 33 120 047 556

Annual Financial Report
for the year ended 30 June 2021

Contents

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 2021 and the audit report thereon.

Directors

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

Ms Alison Coutts	Executive Chairman
Mr Andrew Goodall	Non-Executive Director
Mr Shane Hartwig	Non-Executive Director
Mr Paul Wright	Non-Executive Director

Company Secretary

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

Names, Qualifications, Experiences and Special Responsibilities	Share interests & unlisted options at the date of this report
Ms Alison Coutts B.E (Chem), MBA, Grad Dip Biotech Executive Chairman and member of the Audit and Risk and the Nomination and Remuneration Committees. Ms Alison Coutts has extensive experience across a number of industry sectors and disciplines. This includes international engineering project management, strategy consulting, executive search, investment banking and technology commercialisation. Prior to her role at Memphasys, Ms Coutts co-founded 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. Ms Alison Coutts has a Chemical Engineering degree and a Graduate Diploma in Biotechnology from the University of Melbourne and an MBA from Melbourne Business School.	**Direct** 75,847,375 ordinary shares 12,000,000 unlisted options **Indirect** 3,777,764 ordinary shares Nil unlisted options
Andrew Goodall Non-Executive Director and member of the Audit and Risk and Nomination and Remuneration Committees. Mr Goodall, a significant shareholder in Memphasys, is an entrepreneur who now runs a private business involved in Commercial Property in New Zealand.	**Direct** 170,806,265 ordinary shares 989,681 unlisted options **Indirect** 692,240 ordinary shares Nil unlisted options

Directors' Report

Names, Qualifications, Experiences and Special Responsibilities	Share interests & unlisted options at the date of this report
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. 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. 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.	**Direct** Nil ordinary shares 1,099,646 unlisted options **Indirect** Nil ordinary shares Nil unlisted options
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. 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. 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. 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. 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 BiosSystems, 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. 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.	**Direct** Nil ordinary shares Nil unlisted options **Indirect** Nil ordinary shares Nil unlisted options

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 2021 and the number of meetings attended by each Director.

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

* Attended on invitation

Rounding of amounts

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

Directors' Report

CORPORATE INFORMATION

Corporate Structure

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

Dividends

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

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 device 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 Stallion Fertility Test, a rapid in vitro diagnostic device to detect the probability of the stallion being able to fertilise a mare, which is currently in the prototype phase. They also include 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 twelve months to 30 June 2021, Memphasys has continued its focus on reproductive biotechnology and proprietary cell separation techniques.

Personnel and Awards

In August 2020 Memphasys announced global fertility expert Professor John Aitken has increased his commitment to Memphasys via entering into an employee agreement with a view to progressing the Felix Device as well as pursuing new product initiatives as rapidly as possible[1].

Professor Aitken's involvement with Memphasys has continued to deepen throughout this period and, post year-end, Professor Aitken has been employed by the Company as Research Director.

The employment of Professor Aitken by the Company, which will be for a time commitment of 50%, follows his retirement from the position of Distinguished Laureate Professor of Biological Sciences within the School of Environmental and Life Sciences at the University of Newcastle ("UoN") on 30th June 2021.

Post retirement, Professor Aitken will also assume the lifetime title of Distinguished Emeritus Laureate Professor of Biological Sciences at UoN, where he will maintain access to the university laboratory and research staff to enable him to continue his ground-breaking work with Memphasys.

This deepening commitment to Memphasys reflects the compelling opportunities presented and demonstrates the capability of the Company to work with internationally recognised leaders in reproductive biology.

Professor Aitken has become the top ranked world expert in spermatozoa and sperm capacitation (the physiological changes sperm must undergo to be able to penetrate and fertilise an egg) as well as a leader in Australian research grant success.

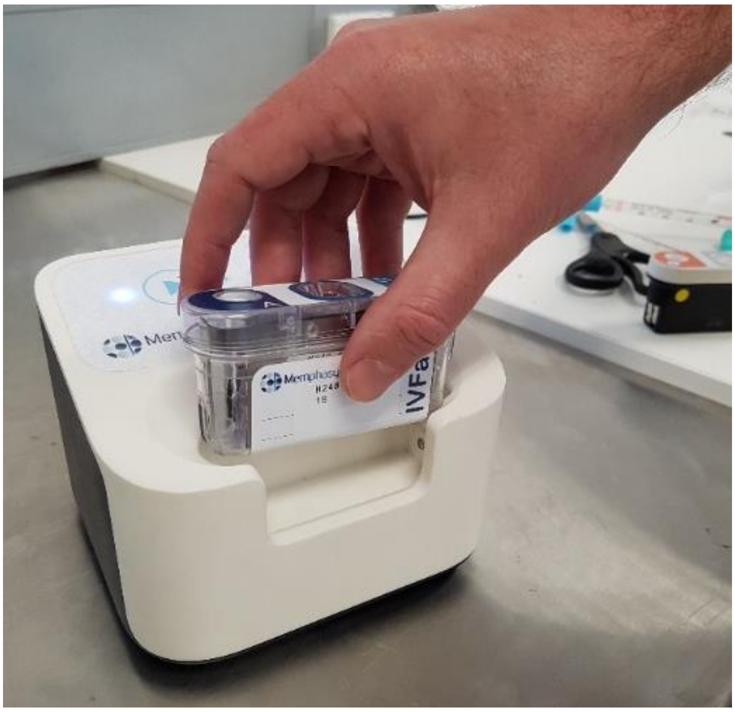
In 2012, Professor Aitken was named as NSW Scientist-of-the-year and in 2016 was presented with the prestigious Carl G. Hartman Award for reproductive biology. This award is one of the most prestigious international accolades

[1] See ASX Announcement dated: 17 August 2020

in reproductive science and, at the time of the award, Professor Aitken was only the second researcher working outside of North America to have been honoured with this distinction. More recently, Professor Aitken was also awarded the 2021 Distinguished Andrologist award by the American Society of Andrology ("ASA").

Throughout the period, Memphasys and its product development partner, Hydrix Services Pty Ltd ("Hydrix"), have also jointly received two Australian 2020 Good Design Awards for the Felix™ Device during the year[2].

The device received a Gold Good Design Award for engineering design and a Good Design Award for product design in the medical and scientific category.



Felix device console and single-use cartridge

Verification & Validation ("V&V") activities

Verification and validation are essential activities in the final stages of product development and require the test articles to be manufactured to the quality of a commercial device.

During the latter stages of the Validation process on the Felix Device, Memphasys identified an engineering flaw that is likely to have reduced the effectiveness of the Felix system in use by the Company's KOL partners[3].

The KOL data collected to date showed that the device was generally performing the function of separating good quality sperm. However, after remediation of the device, the sperm separation process is expected to improve. The engineering issue has required a minor modification of the device and is not an issue with the Felix core technology or science.

Most of the Felix verification work has been unaffected by this modification. However, some verification tasks were required to be redone and post year-end have been successfully completed[4]. Some validation work previously performed by development partners is also in the process of being re-performed with the final device.

Post financial year end there were three remaining validation activities to be conducted. These tests are straight forward to conduct and under normal circumstances would have been completed by 30 September 2021. However, two of these activities are still outstanding due to delays from the effects of COVID-19 on Company suppliers. We are experiencing significant delays across most supplier services. This includes logistics of moving

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[2] See ASX Announcement dated: 9 September 2020
[3] See ASX Announcement dated: 8 March 2021
[4] See ASX Announcement dated: 1 July 2021

cartridges and supplies to gamma irradiation facilities and other test facilities as well as delays in processing in the irradiation facility itself, and a limitation of semen sample availability at both the University of Newcastle and Monash IVF. The strict lockdown rules in place are severely limiting these activities. We expect that the delays could have the effect of delaying the completion of these final two validation tests beyond end September. The tests are expected to be completed soon thereafter but this will depend on the status of COVID-19 lockdown rules.

One of the major tasks of the V&V process which has been largely unaffected by the updated device is the establishment and validation of the cleanroom, which was completed in November 2020[5]. The updated Felix cartridges are manufactured in the cleanroom, located at the Sydney headquarters of manufacturer W&S Plastics Pty Ltd ("W&S"). The cleanroom, which is for the exclusive use of Memphasys, is key to ensuring the Felix cartridges are manufactured sterile – a regulatory requirement for products used in IVF. The cleanroom was validated to ISO7/ISO8 standards.

W&S has the capacity to produce approximately 100 cartridges per day (26,000 cartridges annually) within the cleanroom, with the ability to scale up substantially, depending on demand.

Cleanroom at W&S Plastics: For manufacture and assembly of Felix cartridges

KOL program

As part of the commercialisation of the Felix Device, Memphasys has arranged for assessments of the device to be conducted by Key Opinion Leaders (KOLs) which are internationally leading andrology centres and laboratories in the IVF industry. These KOL partners have been selected for technical and academic expertise as well as geographic market positioning.

An initial 13 KOL sites located in eight countries were chosen and while positive in vitro performance data has been returned from sites in Shanghai (China), Tokyo (Japan), Gothenburg (Sweden), Ahmadabad (India), New York (USA), Melbourne (Australia), and Isfahan (Iran), the assessments have been delayed by COVID-19 and the update to the device engineering.

Updated versions of the Felix Device have been distributed to four early access markets (Japan, NZ, India, and Canada) for them to complete their clinical assessment study[6].

Once clinical testing of the upgraded Felix device has been completed successfully, sales discussions with KOL partners and other prospects in early access markets will resume.

Based on this, the Company now anticipates initiating commercial sales discussions in early access markets in the latter part of the quarter ending 30 September 2021. However, completion of the KOL studies and first sales will be subject to prevailing local COVID conditions, particularly in the four early access markets.

[5] See ASX Announcement dated: 19 November 2020
[6] See ASX Announcement dated: 27 April 2021

Regulatory

The global sales plan for Felix is dictated by considerations including market size, ease of access and service and pricing. However, the foremost preliminary consideration is jurisdictional regulatory requirements. The initial four target markets of Canada, Japan, NZ and India have low regulatory requirements which enables the potential for early sales. In addition, the market opportunities are substantial, and they are easy to service initially from Australia, especially NZ (see Table 1).

In Canada and Japan, the Felix device is considered laboratory equipment rather than a medical device which significantly reduces the regulatory requirements for Felix in these jurisdictions. Felix has passed the laboratory equipment requirements, the most important being electromagnetic compatibility and safety requirements for electrical equipment. This standard applies to all four markets (Canada, Japan, NZ and India) and has been passed in all four markets.

In NZ, the device has been registered on NZ's Web Assisted Notification of Devices (WAND) database, a necessary precondition before commercial sales can begin. In India, under the current regulatory standards, Felix may be commercially sold. However, this could change when new regulations are introduced in the future, but this is not expected to occur within at least the next 18 months.

The plan is to initially obtain regulatory clearance and roll out product sales in low regulatory markets. The first high regulatory market the Company will seek approval for the Felix Device is planned to be Australia, followed by USA, China and subsequently Europe, which has a new and more difficult regulatory environment for all medical devices manufacturers to comply with. Memphasys is continuing to advance its regulatory program, especially in Australia, China and the US, noting this will likely take two to three years to complete.

Table 1: IVF market in Canada, Japan, NZ and India

	Canada	**Japan**	**NZ**	**India**
IVF cycles[7]	16,852 (2018)[8]	689,000 (2020 forecast)[9]	9,400 (2020 forecast)[10]	302,000 (2020 forecast)[11]
CAGR growth rate of IVF Cycles 2019-2026, %	15.2%[12]	12.3 % [13]	7.8%[14]	15.1%[15]

Throughout the period Memphasys was also able to receive the successful granting of two additional U.S. patents by the U.S. Patent and Trademark Office (USPTO), bringing the total number of patents granted to four.

The additional U.S. patents granted are as follows:

- **Sperm separation by electrophoresis (U.S. Patent No. 10,946,346, issued on 16 March 2021)**: A method of using at least one physically cross-linked biocompatible polymeric membrane in the separation of sperm by electrophoresis

[7] One fresh IVF Cycle requires use of one, single use Felix device cartridge
[8] Canadian Fertility & Andrology Society (CFAS), 2019
[9] Allied Market Research Report, 2019
[10] Allied Market Research Report, 2019
[11] Allied Market Research Report, 2019
[12] Allied Market Research Report, 2019
[13] Allied Market Research Report, 2019
[14] Allied Market Research Report, 2019
[15] Allied Market Research Report, 2019

- **Biocompatible polymeric membranes (U.S. Patent No. 10,962,537 issued on 30 March 2021)**: A method of using at least one physically cross-linked biocompatible polymeric membrane in the separation of one or more macromolecules and/or cells by electrophoresis.

The granting of these patents further strengthens Memphasys' comprehensive patent portfolio and supports the Company's unique bio-separations technology. Memphasys also owns several pending patent applications in Australia, Europe, the USA and various Asian countries and has sole licensing rights from the UoN on three further patents granted in Australia, the UK and the USA pertaining to sperm cell separation by electrophoresis.

In addition, Memphasys has registered FELIX as a trademark for its 'Felix' sperm separation devices in Australia, the US, the EU and India. Trademark applications for FELIX have also been filed in Canada, China and Japan.

ARC Linkage Grant

During the period, Memphasys decided to terminate the ARC Linkage grant, jointly awarded to Memphasys and its research partners UNSW and UoN[16]. The grant was for assistance from UNSW and UoN on the development of a larger scale device to efficiently separate equine sperm (and subsequently sperm from other animals) for Artificial Insemination ("AI").

Fortunately, much of the initial and crucial work, to view and automate the mapping and analysis of equine sperm movement under the influence of electrophoresis, has now been accomplished with UoN and Hydrix. This work is fundamental to our ability to design an efficient device for animal AI and it is also likely to have benefits for designing a next generation human device, particularly for Intrauterine Insertion ("IUI") procedures, which require more sperm to be processed than for IVF and ICSI processes.

New product opportunities

In addition to the development of the Felix Device, Memphasys is currently overseeing the development of a portfolio of assisted reproductive biotechnology products in conjunction with global reproductive biology expert, Professor John Aitken.

The new product portfolio is focused on reproduction in both humans and animals (see Table 2) and have potentially high value in the reproductive biotechnology field. As a result, Memphasys is expanding its focus into reproductive biotechnology as well as bio-separations.

Preliminary feasibility studies were completed during the period and all programs were considered worthy of progression to initial product development phase[17].

[16] See ASX Announcement dated: 26 February 2021
[17] See ASX Announcement dated: 17 August 2020

Directors' Report

Table 2: MEM Assisted Reproductive Technology Product Opportunities

Product	Application; Target Market
Human Market	
Felix	Sperm separation; for use in IVF clinics
Felix media	Use in Felix to replace 3rd party media; for all markets
Long life media	Long term preservation of sperm without need to freeze; for use in IVF
Semen oxidative stress diagnostic	Semen quality assessment diagnostic; for testing the males in infertile patients
Animal Market	
Stallion Fertility Test (at dismount)	Fertility testing of semen; for use primarily in thoroughbred horse industry
Semen oxidative stress diagnostic	Semen quality assessment diagnostic: for use initially in equine for testing stallion fertility. Applies to many animal species
Long life media	Long term preservation of sperm without need to freeze; for use in IVF
EQUUS	2nd-gen sperm separation platform; for use initially in horse but applicable across all species. 2nd gen *Felix* for humans in longer term

The Stallion Fertility Test (at dismount) is to be the first of the products to be progressed to the next development stage, with the Company announcing in May 2021 that a prototype diagnostic product, is now being developed[18].

The stallion dismount diagnostic will be a rapid and easily applied in vitro test used at the breeding shed to detect the probability of the stallion being able to fertilise a mare based on the level of mitochondrial activity in the spermatozoa. The result would be known almost instantly following mating using a very small dismount semen sample.

The Australian thoroughbred industry is a large, high-value market. It is estimated that more than 20,000 matings occur throughout Australia each season, resulting in some 13,000 foals. However, there is a high variability of success which places significant economic stress on the industry. A rapid and accurate test applied at the time of conception would be valuable to determine the chance of pregnancy success and mitigate economic loss.

Corporate

On 26 May 2021, the Company announced two major shareholders Peters Investments Pty Ltd ($1.65m) and Non-Executive Director Andrew Goodall ($1.35m) have committed a total of $3m (before costs) to the Company in the form of a loan to be issued as convertible notes subject to shareholder approval[19]. Shareholder approval was obtained at the EGM held on 24 August 2021.

This funding will enable the Company to complete a range of necessary tasks for the upgraded Felix device, ahead of the re-commencement of commercial sales discussions in early access markets during the later stages of the quarter ending September 2021.

The funding will also enable the Company to advance the additional products currently being developed by the Company in conjunction with the UoN.

Throughout the year, Memphasys also received a A$1,293,092 tax rebate following the submission of its 2020 R&D Tax Incentive claim. The R&D Tax Incentive scheme is a program jointly administered by the Australian Taxation Office and AusIndustry, under which companies can receive a refundable tax offset of eligible expenses on research and development activities.

The Company also reported that it had reached the trigger for a round of performance options to staff and consultants during the year. With satisfaction of all legal and regulatory requirements in the three market

[18] See ASX Announcement dated: 4 May 2021
[19] See ASX Announcement dated: 26 May 2021

jurisdictions of Canada, Japan and NZ completed by 30 June 2020 (for Canada) and by 30 September 2020 (for Japan and NZ), Memphasys' board agreed the milestones were met in the vesting of a set of 16,800,000 performance options[20]. 12,000,000 of these performance options were granted to Executive Chairman, Alison Coutts, after shareholder approval was received for their issue on 21 October 2019. The options expire on 21 October 2021 and are exercisable at a price of $0.1142.

Financial Performance

Memphasys finalised the financial year with working capital of $2,831,940 (2020: $2,971,003) and with net assets of $8,606,990 (2020: $9,755,760).

Capitalised expenditure on the three projects in the development stage was as follows:

- Human assisted reproduction technologies (Felix), which received an investment of $2,401,500 (2020: $2,703,354);
- Animal assisted reproduction technologies, which received an investment of $298,014 (2020: $210,237); and
- New membranes for the Felix device, which received an investment of $202,926 (2020: $223,571).

Activities carried out by the Company have not changed from the prior financial year, except for the research of a new portfolio of novel artificial reproduction products for human and animals with Professor Aitken and his research team at the UoN. Memphasys incurred a $1,486,432 loss from continuing operations (2020: $1,133,879). The main reason causing this difference is the additional expenditure on the portfolio of R&D products mentioned at the start of this paragraph.

The tax refund on R&D activities granted by the Federal Government ("Tax Incentive") continues to be the Company's sole source of regular revenue. An R&D tax refund of $1,359,513 has been approved by AusIndustry for R&D expenditure incurred in the current financial year.

Board and management

There was no change in the board and management of the Company.

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 2021, the company obtained shareholder approval for the issue of convertible notes, details of which are set out in Note 20.

SHARE OPTIONS

There were 65,200,332 unlisted options on issue at 30 August 2021.

[20] See ASX Announcement dated: 26 February 2021

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	18,204,457	-	5,800,000	-	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	18,000,000	-	-	6,000,000	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	7,550,000	-	-	2,750,000	4,800,000
Total			-	65,210,332	-	5,800,000	8,750,000	51,660,332

1,000,000 options at $0.0332 have been exercised post balance date.

14,540,000 options have been issued post balance date: 8,424,200 at $0.0905, 3,115,800 at $0.0965 and 3,000,000 at $0.06.

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 2021 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 2021.

Directors' Report

REMUNERATION REPORT – AUDITED

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

Principles used to determine the nature and amount of remuneration

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

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

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

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

Employment contracts

Executive Chairman

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

A new employment contract was signed with the Executive Chairman, which included a new annual salary package of $350,000 (including superannuation) with effect from 1 July 2020.

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

Directors' Fee Pool

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

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 2021 are set out in the following tables.

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

REMUNERATION REPORT – AUDITED (continued)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		
2020	Cash salary and fees $	Cash bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled shares $	Equity-settled options $	Total $
Non-Executive Directors:								
Andrew Goodall	50,000	-	-	-	-	-	-	50,000
Marjan Mikel #	26,042	-	-	-	-	-	-	26,042
Shane Hartwig *	29,167	-	-	-	-	-	18,581	47,748
Paul Wright *	13,699	-	-	1,301	-	-	-	15,000
Executive Directors:								
Alison Coutts (Chairman)	277,500	-	-	21,003	17,162	-	202,771	518,436
Other Key Management Personnel:								
Nick Gorring	124,329	-	-	11,811	7,659	-	12,073	155,172
Pablo Neyertz	129,750	-	-	12,326	13,005	-	5,069	160,150
	650,487	-	-	46,441	37,826	-	238,494	973,548

Resigned during the year
* Appointed during the year.

Share options granted to Directors and Executives and their option holding

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	-

2020	Balance at start of year	Granted as remuneration	Exercised during the year	Cancelled during the year	Balance at end of the year	Exercisable	Non Exercisable
Alison Coutts	-	18,000,000	-	-	18,000,000	8,000,000	10,000,000
Andrew Goodall	-	1,099,646	-	1,099,646 *	-	-	-
Andrew Goodall	-	989,681 @	-	-	989,681	989,681	-
Marjan Mikel	-	1,099,646	-	733,098 #	-^	-	-
Shane Hartwig	-	1,099,646	-	-	1,099,646	733,097	366,549
Nick Gorring	-	1,200,000	-	-	1,200,000	500,000	700,000
Pablo Neyertz	-	400,000	-	-	400,000	200,000	200,000
Total	-	23,888,619	-	1,832,744	21,689,327	10,422,778	11,266,549

* Decided by director to get cash in lieu of options
# Options forfeited as director resigned during the period.
^ Options held but not disclosed as no longer a director.
@ Options granted not as part of remuneration. However, included in this table for practical purposes to summarise the director option holding.

REMUNERATION REPORT – AUDITED (continued)

Directors, Executives and their shareholding

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.

2020	Balance as at 1 July 2019	Net movement	Director resigned	Balance as at 30 June 2020
Alison Coutts (a)	79,625,139	-	-	79,625,139
Andrew Goodall (b)	134,341,983	37,156,522	-	171,498,505
Marjan Mikel	8,475,000	2,173,913	10,648,913	-
Pablo Neyertz	688,967	-	-	688,967
Total	**223,131,089**	**39,330,435**	**10,648,913**	**251,812,611**

(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 2021, payables to related parties were as follows:

	2021 $	2020 $
Andrew Goodall director fees	**4,583**	4,583
Shane Hartwig director fees	**4,583**	6,875
Alison Coutts superannuation	**-**	5,251
Pablo Neyertz superannuation	**-**	3,230
Nick Gorring superannuation	**-**	3,196
Paul Wright superannuation	**-**	1,084
	9,166	**24,219**

ii) Loans payable to related parties - principal:

Current balances:		**2021 $**	2020 $
Andrew Goodall	(a)	**1,319,552**	-
Total		**1,319,552**	-

Loan ref	Currency	Interest rate	Maturity	Security
a)	AUD	8%	Dec 22	Unsecured

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

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

	Interest paid		Interest accrued	
	2021	2020	**2021**	2020
	$	$	**$**	$
Andrew Goodall	**-**	-	**10,356**	-
		-	**10,356**	-

iv) Loans converted into shares:

	Number of shares		Converted loan balance	
	2021	2020	**2021**	2020
			$	$
Andrew Goodall and related parties	-	12,740,806	-	293,039
Total	**-**	12,740,806	**-**	293,039

Other transactions with Directors, Executives and their related parties

The Company received a loan from Non-Executive Director Andrew Goodall of $1.35m (before costs) to be issued as convertible notes subject to shareholder approval. Shareholder approval was obtained at the EGM on 24 August 2021.

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
30 August 2021

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

In relation to the independent audit for the year ended 30 June 2021, 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

30 August 2021

Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2021

	Notes	2021 $	2020 $
Continuing operations:			
Revenue		**-**	-
Gross profit		**-**	-
Other income	5	**304,595**	196,446
General and administration expenses		**(1,235,249)**	(1,148,440)
Research and development expenses		**(466,264)**	(113,288)
Finance cost expenses	6	**(89,514)**	(68,597)
Loss before income tax		**(1,486,432)**	(1,133,879)
Income tax expense	7	**-**	-
Loss after tax from continuing operations		**(1,486,432)**	(1,133,879)
Net loss for the year attributable to members of parent		**(1,486,432)**	(1,133,879)
Other comprehensive (expense)/income:			
Items that are or may be reclassified subsequently to profit or loss:			
Exchange translation differences		**-**	-
Total other comprehensive loss for the year			-
Total comprehensive loss for the year		**(1,486,432)**	(1,133,879)
Total comprehensive loss attributable to:			
Owners of the Company		**-**	-
Non-controlling interest		**-**	-
Total comprehensive loss for the year		**(1,486,432)**	(1,133,879)
Earnings per share (EPS)	8	**Dollar/share**	Dollar/share
– basic loss per share		**(0.0020)**	(0.0008)
– diluted loss per share		**(0.0019)**	(0.0008)

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 2021

	Notes	**30 June 2021** $	30 June 2020 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	**2,002,915**	1,967,800
Trade and other receivables	10	**-**	-
Inventory	11	**118,794**	32,677
Other current assets	12	**1,567,072**	1,557,310
TOTAL CURRENT ASSETS		**3,688,781**	3,557,787
NON-CURRENT ASSETS			
Property, plant and equipment	13	**594,237**	208,464
Intangible assets	14	**8,291,264**	6,546,093
Right-of-use asset	15	**2,006,557**	986,297
TOTAL NON-CURRENT ASSETS		**10,892,058**	7,740,854
TOTAL ASSETS		**14,580,839**	11,298,641
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	16	**339,749**	285,744
Non-interest-bearing liabilities	17	**181,002**	26,344
Lease liabilities	15	**87,857**	106,843
Tax liabilities	18	**5,050**	93
Provisions	19	**243,183**	167,770
TOTAL CURRENT LIABILITIES		**856,841**	586,784
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	20	**2,932,339**	-
Non-interest-bearing liabilities	17	**231,998**	-
Lease liabilities	15	**1,924,462**	931,053
Provisions	19	**28,209**	25,044
TOTAL NON-CURRENT LIABILITIES		**5,117,008**	956,097
TOTAL LIABILITIES		**5,973,849**	1,542,881
NET ASSETS		**8,606,990**	9,755,760
EQUITY			
Issued capital	21	**48,884,176**	48,697,744
Reserves	23	**890,237**	739,007
Accumulated losses		**(41,167,423)**	(39,680,991)
TOTAL EQUITY		**8,606,990**	9,755,760

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

Memphasys Limited and its Controlled Entities
ABN 33 120 047 556

Consolidated statement of changes in equity
For the year ended 30 June 2021

	Notes	Issued Capital $	Share Options Reserve $	Accumulated Losses $	Total Equity $
Balance 1 July 2019		**43,424,091**	**1,451,272**	**(38,803,922)**	**6,071,441**
Movement					
Loss for the year		-	-	(1,133,879)	(1,133,879)
Other Comprehensive income for the year		-	-	-	-
Total comprehensive income for the period		**-**	**-**	(1,133,879)	(1,133,879)
Issue of share capital	21	4,836,944	-	-	4,836,944
Transaction costs on share issue		(346,291)	-	-	(346,291)
Expired share options transferred to equity		783,000	(783,000)	-	-
Expired share options transferred to accumulated losses		-	(256,810)	256,810	-
Share options issued	23	-	327,545	-	327,545
Balance 30 June 2020		**48,697,744**	**739,007**	**(39,680,991)**	**9,755,760**
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)
Issue of share capital	21	192,560	-	-	192,560
Transaction costs on share issue		(6,128)	-	-	(6,128)
Share options issued	23	-	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 2021

	Notes	2021 $	2020 $
Cash flows from operating activities			
Payments to suppliers and employees		**(1,241,125)**	(1,011,857)
Government grant receipts		**1,352,331**	1,173,264
Finance costs		**(66,500)**	(68,597)
Net cash flows provided by operating activities	9 (a)	**44,706**	92,810
Cash flows from investing activities			
Interest received		**2,543**	27,385
Payment for purchase of property, plant and equipment		**(118,073)**	(236,280)
Payments for internal development		**(2,886,019)**	(2,901,417)
Net cash flows used in investing activities		**(3,001,549)**	(3,110,312)
Cash flows from financing activities			
Proceeds from issue of shares		**192,560**	4,543,905
Share issue costs		**(6,128)**	(339,901)
Receipts from third-party loans		**1,600,129**	-
Receipts from related party loans		**1,374,196**	-
Repayment of related party loans		**(65,000)**	-
Repayment of lease liabilities		**(103,799)**	(92,275)
Net cash flows provided by financing activities		**2,991,958**	4,111,729
Net increase / (decrease) in cash and cash equivalents		**35,115**	1,094,227
Cash and cash equivalents at beginning of year		**1,967,800**	873,573
Cash and cash equivalents at end of year	9	**2,002,915**	1,967,800

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 2021 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 30 August 2021.

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Use of estimates and judgements

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

- Going concern – refer to Note 3(a);
- Other receivables impairment – refer to Note 10;
- Intangible assets impairment review – refer to Note 14(d);
- Determining the lease term when recognising the right-of-use asset and lease liability – refer to Note 15; and
- Fair value of derivatives – refer to Note 20.

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 2021 of $1,486,432 (2020: $1,133,879).
- For the year ended 30 June 2021 the Group had net cash flows from operating activities of $44,706 (2020: net cash flows $92,810) and net cash outflows from investing activities of $3,001,549 (2020: $3,110,312).
- At 30 June 2021, the Group had an excess in working capital of $2,831,940 (2020: $2,971,002).
- At 30 June 2021, the Group had net assets of $8,606,990 (2021: $9,755,760).

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

- Achieve initial Felix commercial sales in various “early market” jurisdictions;
- Complete V&V and start a clinical trial for one of the major “high hurdle” jurisdictions 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 $1,359,512 which is expected to be received in September 2021.
- The Company anticipates raising up to $1.07m from the conversion of 32,404,457 options at $0.0332 due to expire at the end of September 2021.
- 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.

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

3. Significant accounting policies (continued)

b) Principles of consolidation

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

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

The company reassesses whether 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

There is only one segment located in Australia.

d) Foreign currency transactions and balances

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

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

e) Income tax

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

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

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

3. Significant accounting policies (continued)

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

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

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

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

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

Amortised cost is calculated as:

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

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.

3. Significant accounting policies (continued)

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.

g) 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:

	2021	2020
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.

h) 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.

3. Significant accounting policies (continued)

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.

i) Impairment of assets

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

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

j) 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.

k) Provisions

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

l) 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.

m) 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.

3. Significant accounting policies (continued)

n) 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.

o) 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.

p) Revenue

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

3. Significant accounting policies (continued)

q) 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.

r) 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.

s) 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.

t) Borrowing costs

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

u) 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.

v) 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.

3. Significant accounting policies (continued)

w) New Accounting Standards adopted by the group

The group has applied all new and revised Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 July 2020, including the following:

AASB 2020-4 Amendments to Australian Accounting Standards - Covid-19-Related Rent Concessions and AASB 2021-3 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021

The group has applied AASB 2020-4 *Amendments to Australian Accounting Standards – Covid 19-Related Rent Concessions* and has elected to early adopt AASB 2021-3 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021* in the current reporting period, with effect from 1 July 2020.

AASB 2020-4 and AASB 2021-3 amends AASB 16 *Leases* to provide an optional practical expedient to lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all the following conditions are met:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) any reduction in lease payments affects only payments due on or before 30 June 2022; and

(c) there is no substantive change to other terms and conditions of the lease.

In accordance with AASB 2020-4 and AASB 2021-3, the group has no rent concessions in any of the leases.

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.

	2021 **$**	2020 $
Statement of financial position		
Assets:		
Current assets	**10,950,976**	8,647,778
Total assets	**10,950,976**	8,647,778
Liabilities:		
Current liabilities	**370,004**	290,403
Total liabilities	**3,330,552**	315,447
Equity:		
Issued capital	**48,884,176**	48,697,744
Accumulated losses	**(42,153,989)**	(41,104,420)
Options reserve	**890,237**	739,007
Total equity	**7,620,424**	8,332,332
Statement of profit or loss and other comprehensive income		
Total loss for the year	**(1,049,569)**	(894,913)
Total comprehensive expense for the year	**(1,049,569)**	(894,913)

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 2021, Memphasys Limited had no contingent liabilities (2020: Nil).

Contractual commitments

At 30 June 2021, Memphasys Limited had no contractual commitments.

Contingent assets

An engineering flaw in the Felix device was identified in the latter stages of the engineering validation process, as announced to the market on 8 March 2021. This flaw contributed to a substantial delay to initial commercial sales of the device. Memphasys and its engineering and design partners worked closely to identify and remediate the issue. Memphasys has lodged a claim with our engineering and design partner on this issue and the parties have been working cooperatively together to find a financial resolution. There is likely to be compensation to Memphasys due to this issue, but as the extent, mechanism and timing of the compensation was not known as of 30 June 2021, no components of any potential settlement have been recognised in the financial statements. The Company expects a financial settlement agreement to be reached imminently.

5. Revenue / other income

	Note	**2021** **$**	2020 $
Other income			
Grant income – R&D Tax Incentive Scheme	14	**202,244**	46,607
Grant income – Business Growth Grant		**9,239**	20,000
Federal Government Stimulus Package – Cash Boost		**-**	100,000
Finance income		**2,543**	29,839
Gain from derecognition of lease asset and liability	15	**82,569**	-
Creditor write-off		**8,000**	-
Total other income		**304,595**	196,446

6. Loss for the year

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

	Note	**2021** **$**	2020 $
Expenses			
Depreciation:			
Plant and equipment	13	**118,955**	55,331
Right-of-use asset	15	**140,531**	140,900
Total depreciation expense		**259,487**	196,231

Depreciation includes amounts which have been capitalised under development expenditure.

Finance costs:		
Interest expense on leases	**64,175**	68,597
Loan brokerage costs	**2,325**	-
Interest expense on loans with related parties	**10,356**	-
Interest expense on loans with third parties	**12,658**	-
	89,514	68,597

	Note	2021 $	2020 $
Staff costs:			
Salaries		**1,061,417**	950,614
Superannuation		**91,298**	84,868
Employee share-based payments		**137,199**	283,879

Salaries include amounts which have been capitalised under development expenditure.

Legal fees	**39,373**	13,513

7. Income tax expense

a) Income tax expense

	2021 $	2020 $
Income tax reported in the statement of profit or loss and other comprehensive income	**-**	-

b) Reconciliation of effective tax rate

	2021 $	2020 $
Accounting loss before tax from continuing operations	**(1,486,432)**	(1,133,879)
Prima facie tax benefit on loss from ordinary activities before income tax at 27.5% (2020: 27.5%)	**(386,473)**	(311,817)
Less:		
Tax effect of:		
Non-deductible expenditure	**156,900**	35,995
Research and development tax incentive (non-assessable)	**(52,583)**	(12,817)
Non-assessable Government Grant (Cash Flow Boost)	**-**	(27,500)
Current year tax losses carried forward	**282,156**	316,138
Income tax expense recorded in statement of profit or loss and other comprehensive income	**-**	-

c) Deferred income tax

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

d) Tax losses

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

The Australian tax jurisdiction has tax losses which are not recognised in its book at 30 June 2021. The unused tax losses held in the Australian group of companies as at 30 June 2021 is $34,548,645. 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:

	2021 **$**	2020 $
Loss after tax from operations	**(1,486,432)**	(1,133,879)
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	**756,698,537**	1,388,316,844
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**789,102,944**	1,426,521,301

9. Cash and cash equivalents

	2021 **$**	2020 $
Cash at bank	**2,002,915**	1,967,800

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

	2021 **$**	2020 $
Loss from ordinary activities after income tax expense:	**(1,486,432)**	(1,133,879)
Depreciation	**259,487**	196,231
Options issued in lieu of director fees	**-**	18,581
Options issued in lieu of finance costs	**-**	18,369
Grant income	**(202,244)**	(46,607)
Gain on derecognition of lease asset and liability	**(82,569)**	-
Gain on creditor write-off	**(8,000)**	-
Federal Government stimulus packaged cash boost 2 accrued	**-**	50,000
Share option reserve	**151,230**	8,618
	(1,368,528)	(888,687)
Change in operating assets and liabilities:		
(Increase)/decrease in other current assets	**(12,305)**	(277,275)
(Increase)/decrease in inventory	**(86,117)**	(32,677)
Increase/(decrease) in trade and other payables	**62,005**	(22,867)
Increase/(decrease) in accrued interest	**23,014**	-
Increase/(decrease) in tax liabilities	**4,957**	(7,343)
Increase in provisions	**78,588**	69,985
Increase in deferred income	**1,343,092**	1,251,674
Net cash outflows from operating activities	**44,706**	92,810

Non-cash transactions

During the year the Company had no non-cash transactions. In the prior financial year the Company issued ordinary shares on conversion of loans for the amount of $293,039.

10. Trade and other receivables

Trade and other receivables – non-current	2021 $	2020 $
Related party receivable – Thee Woon Goh	**947,311**	947,311
Impairment of related party receivables	**(947,311)**	(947,311)
	-	-

On 25 November 2011, Mr Thee Woon Goh, a non-executive director at the time of the Singapore subsidiary, Prime Biologics Pte Ltd, exercised 12,622,691 short-dated share options. The consideration for these shares was not paid when due in November 2011 and the Company entered into a debt agreement with Mr Thee Woon Goh. retaining a lien over the securities. This receivable has been fully impaired in prior reporting periods and the Company will seek to deal with the encumbered securities during the 2021/22 financial year.

11. Inventories

	2021 $	2020 $
Raw materials – at cost	**34,230**	32,677
Finished goods – at cost	**84,564**	-
	118,794	32,677

12. Current assets – other assets

	Note	2021 $	2020 $
Term deposit – bank guarantee rent Homebush *		**42,750**	42,750
Security deposits		**5,290**	5,290
Prepaid expenses		**159,519**	166,178
Amount receivable under R&D Tax Incentive Scheme	14(c)	**1,359,513**	1,293,092
Federal Government Stimulus Package - Cash Boost 2 receivable		**-**	50,000
		1,567,072	1,557,310

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

13. Property, plant and equipment

	Note	Plant & Equipment $	Leasehold Improvements $	Total $
Cost:				
Balance at 1 July 2019		686,808	592,357	1,279,165
Additions		236,281	-	236,281
Balance at 30 June 2020		923,089	592,357	1,515,446
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
Accumulated depreciation:				
Balance at 1 July 2019		659,294	592,357	1,251,651
Depreciation for the year	6	55,331	-	55,331
Balance at 30 June 2020		714,625	592,357	1,306,982

Balance at 1 July 2020		714,625	592,357	1,306,982
Depreciation for the year	6	118,955	-	118,955
Balance at 30 June 2021		833,581	592,357	1,425,937
Net book value at 30 June 2020		**208,464**	**-**	**208,464**
Net book value at 30 June 2021		**594,237**	**-**	**594,237**

14. Intangible assets

a) Reconciliation of movements in intangible assets

	Note	Internal Development $	Total $
Cost:			
Balance at 1 July 2019		**7,793,646**	7,793,646
Additions		**3,137,262**	3,137,262
Balance at 30 June 2020		**10,930,908**	10,930,908
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**
Accumulated grant income:			
Balance at 1 July 2019		**3,138,330**	3,138,330
Deferred R&D Tax Incentive grant income for the year	14(c)	**1,246,485**	1,246,485
Balance at 30 June 2020		**4,384,815**	4,384,815
Balance at 1 July 2020		**4,384,815**	4,384,815
Deferred R&D Tax Incentive grant income for the year	14(c)	**1,157,369**	1,157,369
Balance at 30 June 2021		**5,542,084**	5,542,084
Net carrying value at 30 June 2020		**6,546,093**	**6,546,093**
Net carrying value at 30 June 2021		**8,291,264**	**8,291,264**

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

	2021 $	2020 $
Felix Device - sperm separations humans	**6,552,129**	5,108,161
Equus Device - sperm separations animals	**893,463**	714,274
Membranes for Felix Device	**845,672**	723,658
	8,291,264	6,546,093

c) Reconciliation of grant income receivable

	Note	**2021** **$**	2020 $
Analysis of grant income receivable:			
Component relating to projects under development	14(a)	**1,157,269**	1,246,485
Recognised as grant income in the current year	5	**202,244**	46,607
Total government grants receivable	12	**1,359,513**	1,293,092

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:

- Memphasys' engineering development partner, Hydrix, has completed their verification activities for the Felix device. Felix comprises a sterile single use disposable cartridge and a benchtop console. Felix is designed to separate sperm with less average DNA damage out of a semen sample, for use in human assisted reproductive technologies (ART).
- 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 are expected to be commercially ready in October 2021, following the rectification of a design issue that was uncovered at the start of 2021.
- Testing at the UoN and Monash IVF led to the optimisation of the design, consumables, and operating parameters. The performance of the Felix device has also been bolstered by experiments with global partners.
- Testing has shown that the technology behind the Felix device is capable of competing with the existing methods for separating sperm.
- The prototype reusable Felix cartridge has also demonstrated its usefulness in developing technology for separating animal sperm, in particular equine and bovine sperm. Additionally, Memphasys' collaboration with Hydrix and the UoN has led to advancements in developing a prototype for optimising sperm separation and analysis in equine semen, and the technology is expected to provide insights to advancing the next generation Felix device.
- Memphasys has developed manufacturing processes and quality assurance testing of its membranes to support ongoing membrane development and, together with W&S, is developing methods to increase efficiency in production to lower costs.
- The Group has assessed that there are no new specific risks in relation to the development and commercialisation of the projects. COVID-19 initially impacted the access to clinical samples, but it is anticipated that Monash IVF will be able to provide the required resources as they are needed in future. The key risk to Felix commercialisation is still the regulatory approval timelines in highly regulated markets, most notably Australia (TGA), 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 do not have high regulatory barriers for commercial sales of the Felix device to be made and therefore the device may be sold earlier in these markets than in the higher regulatory markets.
- 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.
- Memphasys is confident it has sufficient funding for the coming year to advance the commercialisation of the Felix device.

15. Right-of-use asset and lease liability

At 30 June 2021, the Group had the following lease arrangements:

- A new non-cancellable lease was signed for its production and commercial property in Homebush, starting on 1 June 2021 which has a remaining term of 35 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. The lease agreement expired at 31 May 2021 was derecognised and replaced by the current lease asset and liability. The gain from derecognition of the old lease asset and liability is as follows:

	Note	$
Balances at 31 May 2021:		
Lease liability		**939,709**
Lease asset		**857,140**
Gain from derecognition of lease asset and liability	5	**82,569**

- 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 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.

	2021 $	2020 $
Non-current assets – right-of-use assets		
Properties under lease agreements		
Homebush		
At cost	1,637,763	1,127,197
Accumulated depreciation	(11,373)	(140,900)
	1,626,390	**986,297**
Moorebank		
At cost	**380,167**	**-**
	380,167	**-**
Total carrying amount of lease assets	**2,006,557**	**989,492**
Lease liabilities - current		
Equipment lease liabilities	**-**	**2,974**
Property lease liabilities – Homebush	**69,980**	**103,869**
Property lease liabilities - Moorebank	**17,877**	**-**
Total current lease liabilities	**87,857**	**106,843**
Lease liabilities – non-current		
Property lease liabilities – Homebush	**1,562,171**	931,053
Property lease liabilities - Moorebank	**392,291**	**-**
Total non-current lease liabilities	**1,924,462**	**931,053**
Net carrying value at 30 June	**2,012,319**	**1,037,896**

	2021 $	2020 $
AASB 16 related amounts recognised in the Statement of Statement of Comprehensive Income / (Loss)		
Depreciation Charge related to Right of Use Assets	140,531	140,900
Interest Expense on Lease Liabilities (under Finance Costs)	63,954	68,105
Short Term Leases Expense	(39,706)	(44,226)
Low Value Assets Expense	-	-
Total Year Cash Outflows for Leases	**164,779**	**164,779**

16. Trade and other payables

	Note	2021 $	2020 $
Trade payables		**158,583**	218,650
Payable to related parties	24(g)(*i*)	**9,166**	24,219
Other creditors and accruals		**172,000**	42,875
		339,749	285,744

The Group's exposure to liquidity risk related to trade and other payables is disclosed in Note 26.

17. Non-interest-bearing liabilities

	2021 $	2020 $
Current:		
Third-party debt – unsecured	**181,002**	26,334
Total current non-interest-bearing liabilities	**181,002**	26,334

Analysis of current debt

30 June 2021	**Currency**	**Year of maturity**	**Carrying value $**
Third-party debt unsecured – Ms Chang Sew Ying Alison *	AUD	At call	26,334
Third-party debt unsecured – W&S Plastics Pty Ltd **	AUD	2022	154,668
Total current debt at 30 June 2021			**181,002**

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

** 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).

	2021 $	2020 $
Non-current:		
Third-party debt – unsecured	**231,998**	-
Total non-current non-interest-bearing liabilities	**231,998**	-

17. Non-interest-bearing liabilities (continued)

Analysis of non-current debt

30 June 2021	**Currency**	**Year of maturity**	**Carrying value $**
Third-party debt unsecured – W&S Plastics Pty Ltd *	AUD	2024	231,998
Total non-current debt at 30 June 2021			**231,998**

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

18. Tax liabilities

	2021 $	2020 $
Office of State Revenue NSW – payroll tax	**-**	11,030
Australian Taxation Office – GST	**(19,302)**	(33,461)
Australian Taxation Office – PAYG	**24,352**	22,524
	5,050	93

19. Provisions

	2021 $	2020 $
Current:		
Provision for employee benefits	**243,183**	167,770
Non-current:		
Provision for employee benefits	**28,209**	25,044

20. Interest-bearing liabilities

	Note	**2021 $**	2020 $
Non-current:			
Related party debt - unsecured	25(g)(*ii*)	**1,319,552**	**-**
Third-party debt – unsecured		**1,612,787**	-
Total non-current interest-bearing liabilities		**2,932,339**	-

20. Interest-bearing liabilities (continued)

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) Andrew Goodall and Peters Investments Pty Ltd have subscribed unsecured Convertible Notes in the Company, with a combined value of $3,000,000. The Convertible Notes are subject to standard Conditions Precedent including all necessary shareholder and regulatory approvals. 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, to be 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. If the Company failed to receive such approval, all monies advanced plus any accrued interest would have had to be repaid.

(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 (subject to shareholder approval which has been passed at the EGM held on 24 August 2021, post reporting date) 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.

If the Company had not received shareholder approval for the issue of these options, the Company would have had to pay to the investors an amount equal to the Black-Scholes valuation model of the options as at the date the shareholder meeting.

The attached option has been classified as an embedded derivative and fair value determined based on Black-Scholes valuation model.

20. Interest-bearing liabilities (continued)

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

For the derivative liability:

• Stock price	$0.052
• Risk-free interest rate	0.10%
• Expiry period (years)	1.6
• Expected volatility	112%
• Fair value per share	$0.032

For the attached options:

• Stock price	$0.052
• Risk-free interest rate	0.10%
• Expiry period (years)	2.6
• Expected volatility	112%
• Fair value per option	$0.025

21. Share capital

a) Share capital

	2021 Shares	2020 Shares	**2021 $**	2020 $
Ordinary Shares – fully paid	**759,773,880**	753,973,880	**48,884,176**	48,697,744

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

	Note	**2021 Shares**	2020 Shares	**2021 $**	2020 $
Balance at beginning of year		**753,973,880**	550,133,718	**48,697,774**	43,424,091
Share issue under share placement		**-**	169,867,890		3,906,961
Exercise of options		**5,800,000**	21,231,466	**192,560**	636,944
Share issue on conversion of loans	25 (g)*(iv)*	**-**	12,740,806	**-**	293,039
Transfer of expired option reserve		**-**	-	**-**	783,000
		759,773,880	753,973,880	**48,890,304**	49,044,035
Less issue costs		**-**	-	**6,128**	346,291
Balance at end of year		**759,773,880**	753,973,880	**48,884,176**	48,697,744

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 2021 financial year (2020: nil).

21. Share capital (continued)

c) Unlisted Options

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

Grant date	Expiry date	Vesting commencement date	Exercise price	Balance at start of year	Issued during the year	Exercised during the year	Lapsed / cancelled during the year	Balance at end of the year
Consolidated and parent entity – 2020:								
28 Mar 2019	28 Sep 2021	-	$0.0332	20,000,000	-	-	-	20,000,000
28 Mar 2019	28 Sep 2021	-	$0.0332	18,204,457	-	5,800,000	-	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	18,000,000	-	-	6,000,000	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	7,550,000	-	-	2,750,000	4,800,000
Total			-	65,210,332	-	5,800,000	8,750,000	51,660,332

1,000,000 options at $0.0332 have been exercised post balance date.

14,540,000 options have been issued post balance date: 8,424,200 at $0.0905, 3,115,800 at $0.0965 and 3,000,000 at $0.06.

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

22. 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.

23. Reserves

Share options reserve

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

Number of options	Granted to	Granted on	Reserve amount $
38,204,458	Patersons Securities Limited	Rights Issue Mar '19	411,462
Total value of options expense in the financial year ended 30 June 2019			411,462
989,681	Andrew Goodall	Non-interest loans Oct '19	25,085
1,099,646	Shane Hartwig	In lieu of director fees Oct '19	18,581
18,000,000	Alison Coutts	Performance options Oct '19	202,771
7,550,000	Employees and consultant	Performance options Oct '19	81,108
Total value of options expense in the financial year ended 30 June 2020			327,545
1,099,646	Shane Hartwig	In lieu of director fees Oct '19	9,291
18,000,000	Alison Coutts	Performance options Oct '19	101,385
7,550,000	Employees and consultant	Performance options Oct '19	40,554
Total value of options expense in the financial year ended 30 June 2021			151,230
Total value of options at 30 June 2021			890,297

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

- For the options granted to Andrew Goodall, Shane Hartwig, Alison Coutts, employees and consultant in October 2019:

Share price	$0.0853
Dividends yield	0%
Risk-free interest rate	1%
Expected volatility	70%

24. Auditors' remuneration

Pitcher Partners	**2021 $**	2020 $
Audit & Assurance services		
Review of interim report	**20,850**	20,850
Audit of financial report – year end	**38,000**	37,000
Total remuneration for services	**58,850**	57,850

25. Related parties

a) Parent and ultimate controlling party

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

b) Detail of key management personnel

i. Directors

Ms Alison Coutts	Executive Chairman
Mr Andrew Goodall	Non-Executive Director
Mr Shane Hartwig	Non-Executive Director
Mr Paul Wright	Non-Executive Director

ii. Executives

Nick Gorring	Operations Manager
Pablo Neyertz	Director of Finance

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:

	2021 $	2020 $
Short-term employee benefits	**785,227**	688,613
Post-employment benefits	**51,801**	46,441
Share-based payments	**9,291**	238,494
	846,319	973,548

d) Share based compensation - Options

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

The amount of options remuneration is determined on a pro rata basis, by expensing the fair value estimate of each option over the vesting period and the individual option grant. The fair value of each option is estimated on grant date using Black-Scholes option pricing model.

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.

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.

25. Related parties (continued)

2020	**Balance as at 1 July 2019**	**Net movement**	**Director resigned**	**Balance as at 30 June 2020**
Alison Coutts (a)	79,625,139	-	-	79,625,139
Andrew Goodall (b)	134,341,983	37,156,522	-	171,498,505
Marjan Mikel	8,475,000	2,173,913	10,648,913	-
Pablo Neyertz	688,967	-	-	688,967
Total	**223,131,089**	**39,330,435**	**10,648,913**	**251,812,611**

(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.

Directors & executives and their option holding

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	-

* Also holds 1,350,000 options valued at $43,200 attached to the convertible note, as disclosed in Note 20.

2020	**Balance at start of year**	**Granted as remuneration**	**Exercised during the year**	**Cancelled during the year**	**Balance at end of the year**	**Exercisable**	**Non Exercisable**
Alison Coutts	-	18,000,000	-	-	18,000,000	8,000,000	10,000,000
Andrew Goodall	-	1,099,646	-	1,099,646 *	-	-	-
Andrew Goodall	-	989,681	-	-	989,681	989,681	-
Marjan Mikel	-	1,099,646	-	733,098	-	-	-
Shane Hartwig	-	1,099,646	-	-	1,099,646	733,097	366,549
Nick Gorring	-	1,200,000	-	-	1,200,000	500,000	700,000
Pablo Neyertz	-	400,000	-	-	400,000	200,000	200,000
Total	-	23,888,619	-	1,832,744	21,689,327	10,422,778	11,266,549

g) Other transactions with key management personnel and related parties

i) At 30 June 2021, payables to related parties were as follows:

	2021 $	2020 $
Andrew Goodall director fees	**4,583**	4,583
Shane Hartwig director fees	**4,583**	6,875
Alison Coutts superannuation	**-**	5,251
Pablo Neyertz superannuation	**-**	3,230
Nick Gorring superannuation	**-**	3,196
Paul Wright superannuation	**-**	1,084
	9,166	24,219

25. Related parties (continued)

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

Current balances:	Note	**2021 $**	2020 $
Andrew Goodall	20	**1,319,552**	-
Total		**1,319,552**	-

Post reporting date, a resolution was passed at the EGM on 24 August 2021 for this loan to be issued as convertible note.

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

	Interest paid		**Interest accrued**	
	2021 $	2020 $	**2021 $**	2020 $
Andrew Goodall *	**-**	-	**10,356**	-
	-	-	**10,356**	-

* Interest accrued on Convertible Note loan. Please refer to Note 20.

iv) Loans converted into shares:

	Number of shares		**Converted loan balance**	
	2021	2020	**2021 $**	2020 $
Andrew Goodall and related parties	-	12,740,806	-	293,039
Total	**-**	12,740,806	**-**	293,039

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

The Company received a loan from Non-Executive Director Andrew Goodall of $1.35m (before costs) to be issued as convertible notes subject to shareholder approval. Shareholder approval was obtained at the EGM on 24 August 2021.

26. Controlled entities

Name of entity	**Country of Incorporation**	**Class of share**	**Equity Holding 2020 %**	**2019 %**	
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

27. 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. Therefore, there is no exposure to credit risk.

b) Liquidity risk

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

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

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**	
	2021	2020	**2021**	2020	**2021**	2020
	$	$	**$**	$	**$**	$
Financial liabilities:						
Trade & other payables	339,749	285,744		-	339,749	285,774
Interest bearing liabilities	-	-	2,932,339	-	2,932,339	-
Non-interest-bearing liabilities	181,002	26,334	231,998	-	413,000	26,334
Lease liabilities	87,857	106,843	1,924,462	931,053	2,012,319	1,037,896
Tax liabilities	5,050	93	-	-	5,050	93
Expected outflows	**613,658**	**419,014**	**5,088,799**	**931,053**	**5,702,457**	1,350,067
Financial assets:						
Cash & cash equivalents	2,002,915	1,967,800	-	-	2,002,915	1,967,800
Other assets	164,809	221,468	42,750	42,750	207,559	264,218
Tax receivables	1,359,513	1,293,062	-	-	1,359,513	1,293,062
Expected inflows	**3,527,237**	**3,482,360**	**42,750**	**42,750**	**3,569,987**	3,525,110
Net expected cash flow	**2,913,579**	**3,063,346**	**(5,046,049)**	**(888,303)**	**(2,132,470)**	2,175,043

27. Financial risk management policies (continued)

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 2021 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 not operated internationally and has no assets and liabilities in foreign currencies at the end of the period. Therefore, there is no exposure to foreign exchange risk.

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:

- 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 112%, (ii) risk free interest rate of 0.10% and (iii) exercise price ($0.06 or lower price for conversion derivative). Refer to Note 20 for further details.

28. 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.

29. Events after Balance Date

Subsequent to 30 June 2021, the company obtained shareholder approval for the issue of convertible notes, details of which are set out in Note 20.

30. Company Details

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

Directors' Declaration

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

   (a) the consolidated financial statements and notes that are set out on pages 19 to 49 and the Remuneration Report on pages 13 to 17 in the Directors' report, are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the Group's financial position as at 30 June 2021 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 2021.

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
30 August 2021

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201 Sussex Street
Sydney NSW 2000

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Memphasys Limited "the Company" and its controlled entities "the Group", which comprises the consolidated statement of financial position as at 30 June 2021, 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 2021 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.

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 2021 of $1,486,432, had net cash flows from operating activities of $44,706 and net cash outflows from investing activities of $3,001,549, had net assets of $8,606,990 and working capital of $2,831,940. In Note 3(a) it is stated that the Group is dependent on the raising of additional funds for working capital purposes, primarily to assist in the development and commercialisation of the Felix technology. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities at the amounts stated in the financial statements in the normal course of business.

Key Audit Matters

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**
Impairment assessment of intangible assets *Refer to Note 14 Intangible Assets*	
At 30 June 2021 the statement of financial position includes intangible assets amounting to $8,291,264 that primarily relates to the Felix project. We have identified this as a key audit matter due to significant judgements and assumptions relating to future performance of the Felix project. There is also lack of historical cash flows as the intangible asset is yet to be commercialised. As disclosed in Note 14, the Group intends to advance commercialisation of the Felix device in the coming year. Management use judgement to determine that the development costs included in the carrying value of the intangible asset meet the criteria for capitalisation. These criteria include assessing whether the product being developed is commercially feasible, whether the Group has adequate technical, financial and other required resources to complete the development and whether the costs will be fully recovered through future commercialisation.	Our procedures included amongst others: • Obtaining an understanding and evaluation of the design and operating effectiveness of controls in place in respect of costs capitalised to intangible assets. • Reviewing reporting to the Board during the year and further discussing with management to gain an understanding on the progress of the development of the Felix project, whether any new risks have been identified and future plans and timing for commercialisation. • Gaining an understanding of the Felix project and associated costs incurred to-date and testing a sample of capitalised expenses to supplier invoices and assessing reasonableness of management’s allocation of payroll costs to the project. • Using this understanding, evaluating management’s assessment of whether the development costs associated with the Felix project met the criteria for capitalisation in accordance with accounting policies and Australian Accounting Standards. • Performing an analysis of management’s assessment of the commercial feasibility and that the future economic benefits will be greater than the sum of development costs at reporting date plus future development costs to commercialise. • Assessing the adequacy of financial statements disclosures.

Recognition of R&D tax incentive *Refer to Note 12 in the Notes to the Financial Statements.*	
At 30 June 2021, the statement of financial position includes R&D receivable amounting to $1,359,513. This area is a key audit matter due to the judgements and assumptions that is involved in the Group make in relation to the calculation and recognition of the R&D tax incentive income and receivable.	Our procedures included, amongst others: • Making enquiries with management to obtain and document an understanding of their process to calculate the R&D tax incentive. • Evaluating management's processes and controls to determine if they appropriately address the risks. • Obtaining the work of the client's expert and the calculations prepared and agreeing amounts claimed to supporting documentation. • Reviewing historical reliability of estimates and budgets to support the reliability of the estimate. • 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 2021 which were obtained as at date of our audit report, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 13 to 17 of the directors' report for the year ended 30 June 2021. In our opinion, the Remuneration Report of Memphasys Limited, for the year ended 30 June 2021, 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

30 August 2021

PITCHER PARTNERS
Sydney

Shareholder information

The shareholder information set out below was applicable as 23 August 2021.

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	453	82,539	0.010
1,001-5,000	217	733,558	0.100
5,001-10,000	251	2,063,989	0.270
10,001-100,000	855	35,299,863	4.640
100,001-999,999,999	416	722,593,931	94.980
Totals	**2,192**	**760,773,880**	**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	205,795,000	27.051%
MR ANDREW ERNEST GOODALL	170,806,265	22.452%
MS ALISON COUTTS	75,847,375	9.970%
MR ADAM STUART DAVEY <THE DAVEY INVESTMENT A/C>	13,540,000	1.780%
MR ALLAN GRAHAM JENZEN & MRS ELIZABETH JENZEN <AG & E JENZEN P/L NO2 SF A/C>	12,475,000	1.640%
NUTSVILLE PTY LTD <INDUST ELECTRIC CO S/F A/C>	11,941,667	1.570%
MR JOHN AITKEN	7,527,840	0.989%
BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	7,338,967	0.965%
MRS VIVIANA INES MESSINA	5,600,000	0.736%
CG NOMINEES (AUSTRALIA) PTY LTD	5,000,000	0.657%
MR MICHAEL WILLIAM ATKINS	4,587,406	0.603%
MONASH IVF GROUP LIMITED	4,000,000	0.526%
ON TIME TAXIS PTY LTD	3,800,000	0.499%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	3,795,803	0.499%
ALISON COUTTS CONSULTING PTY LTD <ALISON COUTTS SUPER FUND A/C>	3,757,763	0.494%
CROSSBAY PTY LTD	3,650,000	0.480%
WINDAMURAH PTY LTD <ATKINS SUPER FUND A/C>	3,506,879	0.461%
MR JIM HRONAKIS	3,300,000	0.434%
MIKEL ENTERPRISES PTY LTD <NOTRE MAISON A/C>	3,000,000	0.394%
GEORDIE BAY HOLDINGS PTY LTD	2,750,000	0.361%
Total Securities of Top 20 Holdings	552,019,965	72.560%
Total of Securities	**760,773,880**	

Shareholder information

C. Substantial Shareholders as at 23 August 2021

Ordinary shares

Holder Name	Number Held	Percentage
PETERS INVESTMENTS PTY LTD	205,000,000	27.051%
MR ANDREW ERNEST GOODALL	170,806,265	22.453%
MS ALISON COUTTS	75,847,375	9.970%

D. Unquoted Equity Securities

Security Class	Number of Holders	Number on Issue
Director Options $0.1142 Exp 22 October 2021	1	1,099,646.
Ex-director Options $0.1142 Exp 22 October 2021	1	366,548
Employee & Consultant Options $0.1142 Exp 22 Oct 2021	7	7,800,000.
Goodall Options $0.1142 Exp 22 October 2021	2	989,681.
Incentive Options $0.1142 Exp 22 October 2021	1	12,000,000.
Unlisted Options $0.0332 exp 28/09/2021	8	31,404,457
Unlisted Options Tranche 1 Expiry 30 July 2023	7	4,962,200.
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:	**41**	**62,200,332**

E. Voting Rights

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

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

b) Options
No voting rights.

Corporate Directory

Memphasys Limited
ABN 33 120 047 556

Directors

Alison Coutts	Executive Chairman
Andrew Goodall	Non-Executive Director
Shane Hartwig	Non-Executive Director
Paul Wright	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
Steinepreis 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