

Appendix 4E

Preliminary final report

Name of entity

Memphasys Limited

ABN or equivalent company
reference

33 120 047 556

Financial year ended ('current period')

30 JUNE 2023

(Comparisons to 30 June 2022)

For announcement to the market

\$A'000

Revenue from continuing ordinary activities	Decreased	43%	to	15
Total income from continuing ordinary activities	Increased	13%	to	617
Loss from continuing operations	Increased	63%	to	(3,403)
Loss from ordinary activities after tax attributable to members	Increased	63%	to	(3,403)
Net Loss for the period attributable to members	Increased	63%	to	(3,403)

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend	Nil	Nil
Previous corresponding year	Nil	Nil

Record date for determining entitlements to the dividend,

N/A

For an explanation of the figures reported above and below, see the Directors Report attached to this Appendix 4E statement.

The Company's audited financial accounts for the year ended 30 June 2023 are attached to this Appendix 4E statement.

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

	For the year ended 30 June 2023 \$	For the year ended 30 June 2022 \$
Continuing operations		
1.1 Revenue		
Revenue from sales or services	15,371	27,148
Grant income	587,999	489,931
Settlement of engineering flaw	-	650,000
Income on fair value of convertible note options	21,000	54,000
Other income	50,398	27,043
Total revenue	674,768	1,248,122
1.2 Expenses		
Direct costs	(6,150)	(18,905)
Transport expenses	(1,183)	(4,059)
Employee benefit expenses	(221,243)	(387,791)
Research & development expenses	(1,469,294)	(1,089,366)
Depreciation and amortisation expenses	(612,839)	(123,211)
Finance cost expense	(428,197)	(569,677)
Marketing expenses	(150,631)	(107,097)
Director expenses	(208,687)	(153,375)
Corporate consultants' expenses	(362,110)	(286,171)
Compliance, audit, tax and legal expenses	(263,329)	(222,797)
General & administration	(353,723)	(367,637)
Total expenses	(4,077,386)	(3,330,086)
1.3 Loss before income tax	(3,402,618)	(2,081,964)
1.4 Income tax	-	-
1.5 Loss after tax from continuing operations	(3,402,618)	(2,081,964)
1.6 Net loss for the year	(3,402,618)	(2,081,964)
1.7 Net loss attributable to members of parent	(3,402,618)	(2,081,964)
1.8 Other comprehensive income / (loss) <i>Items that will not be reclassified subsequently to profit or loss</i>		
Net change in fair value of financial assets designated at fair value through other comprehensive income, net of tax	(48,000)	(76,000)
Total other comprehensive income / (loss) for the year	(48,000)	(76,000)
1.9 Total comprehensive loss for the year	(3,450,618)	(2,157,964)

Consolidated accumulated losses

	30 June 2023 \$	30 June 2022 \$
1.9 Accumulated losses at the beginning of the financial year	(42,770,612)	(41,167,423)
1.10 Net loss attributable to members (<i>item 1.6</i>)	(3,402,618)	(2,081,964)
1.11 Expired share options transferred to accumulated losses	-	478,775
1.12 Accumulated losses at end of the financial year	(46,173,230)	(42,770,612)

2. Consolidated Statement of Financial Position

	As at 30 June 2023 \$	As at 30 June 2022 \$
Current assets		
2.1 Cash and cash equivalents	637,832	269,077
2.2 Inventories	130,786	87,082
2.3 Other current assets	1,480,113	1,672,391
2.4 Total current assets	2,248,731	2,028,550
Non-current assets		
2.5 Financial assets at fair value through OCI	26,000	74,000
2.6 Property, plant and equipment	428,140	501,408
2.7 Intangible assets	10,294,734	9,678,774
2.8 Right-of-use asset	1,670,236	1,838,397
2.9 Total non-current assets	12,419,110	12,092,579
2.10 Total assets	14,667,841	14,121,129
Current liabilities		
2.11 Trade & other payables	555,457	559,713
2.12 Interest-bearing liabilities	4,469,437	3,405,998
2.13 Non-interest-bearing liabilities	77,330	154,668
2.14 Lease liabilities	110,913	98,727
2.15 Tax liabilities	47,647	33,762
2.16 Provisions	306,507	286,446
2.17 Total current liabilities	5,567,291	4,539,314
Non-current liabilities		
2.18 Lease liabilities	1,714,506	1,825,418
2.19 Non-interest bearing liabilities	-	77,330
2.20 Provisions	1,355	32,533
2.21 Total non-current liabilities	1,715,861	1,935,281
2.22 Total liabilities	7,283,152	6,474,595
2.23 Net assets	7,384,689	7,646,534
Equity		
2.24 Issued capital	53,417,790	50,340,937
2.25 Reserves	140,129	76,209
2.26 Accumulated losses	(46,173,230)	(42,770,612)
2.27 Total equity	7,384,689	7,646,534

3. Consolidated Statement of Cash Flow

	For the year ended 30 June 2023 \$	For the year ended 30 June 2022 \$
Cash flows from operating activities		
3.1 Receipts from customers	15,371	27,148
3.2 Payments to suppliers and employees	(2,838,246)	(2,159,206)
3.3 Government grants	1,504,045	1,379,512
3.4 Settlement of engineering flaw	-	500,000
3.5 Recoupment of legal fees	12,725	-
3.6 Interest received	13,093	709
3.7 Finance costs	(113,657)	(117,018)
3.8 Net cash flows used in operating activities	(1,406,669)	(368,855)
Cash flows from investing activities		
3.9 Payment for purchases of property, plant and equipment	(6,197)	(2,864)
3.10 Payment for cleanroom set up	(154,668)	(154,668)
3.11 Payment for purchases of development assets	(1,815,835)	(2,239,576)
3.12 Net cash flows used in investing activities	(1,976,700)	(2,397,108)
Cash flows from financing activities		
3.13 Proceeds from issues of securities	3,360,416	1,075,828
3.14 Share issue costs	(283,565)	(30,529)
3.15 Proceeds from third party loans	849,000	-
3.16 Proceeds from related party borrowings	-	75,000
3.17 Repayment of related party borrowings	(75,000)	-
3.18 Repayment of lease liabilities	(98,727)	(88,174)
3.19 Net cash flows from financing activities	3,752,124	1,032,125
3.20 Net (decrease)/increase in cash held	368,755	(1,733,838)
3.21 Cash at beginning of year	269,077	2,002,915
3.22 Cash and cash equivalents at end of year <i>(See reconciliation of cash)</i>	637,832	269,077

4. Consolidated Statement of Changes in Equity

	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2022	50,340,937	76,209	(42,770,612)	7,646,534
Movement				
Loss for the year	-	-	(3,402,618)	(3,402,618)
Net change in fair value of financial assets designated at fair value through other comprehensive income, net of tax	-	(48,000)	-	(48,000)
Total comprehensive income for the year	-	(48,000)	(3,402,618)	(3,450,618)
Issue of share capital	3,360,418	-	-	3,360,418
Transaction costs on share issue	(283,565)	-	-	(283,565)
Share options issued	-	111,920	-	111,920
Expired share options transferred to equity	-	-	-	-
Expired share options transferred to accumulated losses	-	-	-	-
Balance at 30 June 2023	53,417,790	140,129	(46,173,230)	7,384,689

	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2021	48,884,176	890,237	(41,167,423)	8,606,990
Movement				
Loss for the year	-	-	(2,081,964)	(2,081,964)
Net change in fair value of financial assets designated at fair value through other comprehensive income, net of tax	-	(76,000)	-	(76,000)
Total comprehensive income for the year	-	(76,000)	(2,081,964)	(2,157,964)
Issue of share capital	1,075,828	-	-	1,075,828
Transaction costs on share issue	(30,529)	-	-	(30,529)
Share options issued	-	152,209	-	152,209
Expired share options transferred to equity	411,462	(411,462)	-	-
Expired share options transferred to accumulated losses	-	(478,775)	478,775	-
Balance at 30 June 2022	50,340,937	76,209	(42,770,612)	7,646,534

5. Reconciliation of cash

Reconciliation of cash at the end of the year (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	30 June 2023 \$	30 June 2022 \$
5.1 Cash on hand and at bank	637,832	269,077
5.2 Total cash at end of year (item 3.22)	637,832	269,077

6. Earnings per security (EPS)

	30 June 2023	30 June 2022
6.1 Basic losses per share	(0.0018)	(0.0027)
6.2 Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,841,679,638	784,355,320
6.3 Diluted losses per share	(0.0018)	(0.0027)
6.4 Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,841,679,638	784,355,320

7. NTA backing

	30 June 2023	30 June 2022
7.1 NTA backing per ordinary security	\$(0.003)	\$(0.003)

8. Matters subsequent to the end of the financial year

The Company announced on 7 August 2023 that it signed an exclusive agreement with Vitrolife Japan KK, a subsidiary of Vitrolife Group, to sell and distribute the Felix™ system in Japan for a term of five years.

No other matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Annual General Meeting

The annual general meeting will be held as follows:

Place	30 Richmond Road, Homebush West, NSW 2140
Date	Wednesday 22 nd of November 2023
Time	11 a.m.
Approximate date the annual report will be available	Friday 1 st September 2023

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

**Annual Financial Report
for the year ended 30 June 2023**

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Memphasys Limited and its Controlled Entities

Directors' Report 30 June 2023

The Directors present their report, together with the consolidated financial statements of the Group, being Memphasys Limited (the "Company") and its controlled entities, for the financial year ended 30 June 2023 and the audit report thereon.

Directors

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

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

Company Secretary

Mr Andrew Metcalfe (B.Bus, CPA, FGIA, GAICD) manages the Company Secretary services of Memphasys Limited. Mr. Metcalfe is an experienced independent company secretary and business consultant, he was appointed on the 29 November 2016 and is well qualified for the position having been a company secretary and governance advisor to ASX listed companies for over 20 years.

Names, Qualifications, Experiences and Special Responsibilities	Share interests & unlisted options at the date of this report
Mr Robert Cooke B. Health Administration, Grad. Dip. Acc and Fin Non-Executive Chairman, Chairman of the Audit and Risk Committee and member of the Nomination and Remuneration Committee from 26 April 2022. Mr Cooke is a highly strategic and results focussed private health care leader. With a 40+ year career in the health industry, his experience spans executive leadership of publicly listed and privately owned healthcare companies, and management of private and public hospitals in Australia, Asia and the UK. He is currently the Managing Director of Connelly Partners, a niche health care consulting company. Mr Cooke has a proven track record in setting strategy and delivering successful outcomes for stakeholders and shareholders, highly effective interaction with the financial community, and holds a unique understanding of the complex dynamics of the health care industry. Mr Cooke has served as a Director of ASX listed and private equity owned health care companies, within Australia and internationally. He has been the Non-Executive Chairman of OptiScan from 19 April 2021. OptiScan is the global leader in the development of microscopic imaging and related technologies for surgery and medical research. Before establishing Connelly Partners in 2018, Mr Cooke was the Managing Director & CEO of Healthscope, one of Australia's leading private hospital/medical centre/pathology operators between 2010 and 2017.	Direct Nil ordinary shares 2,500,000 unlisted options Indirect Nil ordinary shares Nil unlisted options

Directors' Report
30 June 2023

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 Managing Director and CEO 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 77,847,375 ordinary shares 1,593,000 unlisted options Indirect 7,137,944 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 171,206,265 ordinary shares 1,350,000 unlisted options Indirect 692,240 ordinary shares Nil unlisted options

Directors' Report
30 June 2023

Names, Qualifications, Experiences and Special Responsibilities	Share interests & unlisted options at the date of this report
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 Biosystems, which were acquired by a Fortune 500 company, and Universal Biosensors, where Mr Wright developed commercial partnerships with two large multinationals and oversaw the development, commercialisation and manufacturing scale-up of a blood coagulation analyser for world markets. Mr Wright has been a non-executive director of design, engineering and technology commercialisation company Hydrix Ltd since 8 August 2018. He is also 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
30 June 2023

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 2023 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	N/A	N/A	N/A	N/A
Andrew Ernest Goodall	8	8	2	2	3	3
Paul Wright	7	8	2	2	3	3
Robert Cooke	8	8	2	2	3	3

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
30 June 2023**

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 Limited (ASX: MEM) is an Australian-based emerging small-cap reproductive biotechnology company. The primary aim of Memphasys Limited and its controlled entities ("the Group") is to develop and commercialise novel reproduction and fertility solutions for humans and animals. The Group's investor offering is underpinned by four strong fundamentals, namely its:

- Pipeline of unique human and animal products co-developed with Professor John Aitken, a world-renowned leader in fertility;
- Product R&D strategy focused exclusively on addressing unmet demand in global reproduction technology markets;
- Comprehensive 'pathway to market' plan to successfully deliver each product to its defined market; and
- Leadership team with the requisite expertise to deliver strategy and grow long-term shareholder value.

REVIEW OF OPERATIONS

OPERATING OVERVIEW

The Group prioritises the development of its novel reproductive biotechnology products according to their potential to deliver the strongest and/or fastest commercial returns for shareholders. Its product pipeline is categorised into three groups:

Core Product Pipeline

In commercialisation stage:

- The Felix™ System (Felix™)

Developing Product Pipeline

In development and subject to stringent assessment prior to proceeding to commercialisation:

- Rapid Oxidative Stress Assay, now called "ROS assay".
- AI-Port

Research Product Pipeline

Ongoing research currently focussed on the development of novel media for use in human IVF and in animal reproductive technology. The pipeline will extend the breadth of MEM's products in development. The initial work is undertaken in conjunction with MEM's research partner, the University of Newcastle ("UoN") under the guidance of Professor John Aitken, MEM's Scientific Director, and is subject to stringent assessment prior to proceeding to full product development.

The primary focus of MEM's activities in the full year to June 2023 was on the critical commercialisation of its core product pipeline, Felix™, and the advancement of its developing and research product pipelines.

To this end, MEM hired key talent, developed strategies to build advocacy for its products with key stakeholders locally and globally, and undertook more detailed assessments of the commercial landscape in its target markets. MEM also continued to build data from clinical trials and studies on Felix™ to support its regulatory submissions and was granted additional patents to further strengthen its global IP.

Directors' Report

30 June 2023

Building Advocacy and Strategic Partnerships

MEM's primary activities of the past financial year centred on raising the profile of MEM's unique products and building strong partnerships to commercialise them in countries identified as early target markets.

One of the key outcomes of MEM's heightened commercialisation strategy throughout the 2023 financial year eventuated early in the 2024 financial year when an exclusive agreement was signed between MEM and Vitrolife Japan KK ("Vitrolife"), a subsidiary of the global Vitrolife Group ("Vitrolife AB"), to sell and distribute Felix™ in Japan, for a term of five years. The strategic collaboration enhances the availability of cutting-edge fertility treatment for men in Japan, a major IVF market, where population levels have been on the decline for many years.

Vitrolife AB is a world-leading global provider of medical devices, consumables and genetic testing services dedicated to the human IVF and reproductive health market. It has manufacturing sites in Sweden, Denmark and the United States of America and a direct presence in 25 countries. Vitrolife is recognised within the human IVF market for its innovation and technology leadership and premium quality products. It predominantly markets its own products and only very selectively markets the products of other companies.

As part of the agreement, Vitrolife will provide marketing, sales, and training with an initial focus on key clinicians and high-volume clinics in Japan's private health sector.

Members of MEM's leadership team also directly engaged stakeholders in the regulatory, investor, commercial and clinical sectors through a series of significant industry events including the Fertility Society of Australia and New Zealand ("FSANZ") Conference on the Gold Coast in May and the European Society of Human Reproduction & Embryology ("ESHRE") Conference in Copenhagen in June 2023.

MEM is now increasingly focusing on informing and educating both the investment and reproductive science communities on the underlying science behind its novel product portfolio. MEM's Scientific Director, Emeritus Professor John Aitken, used the opportunity of the ESHRE Conference to raise the serious issue of oxidative stress and its escalating impact with age and for its broader implications for the well-being of humans and animals. In his address, Professor Aitken pressed for the important need to develop a more accessible technology such as MEM's ROS assay (formerly known as ROSA) to improve diagnosis and aid treatment of oxidative stress.

MEM also used these opportunities to undertake detailed due diligence of its target markets; to determine the positioning, marketing, and sales of MEM products within each market; to engage potential distributors, including Vitrolife, and examine the opportunities for synergies with MEM; and to evaluate the quality and pricing of existing competitor products against its portfolio of products.

Endorsement Through Key Opinion Leader ("KOL") Studies and Clinical Trials

MEM received strong validation of Felix™ from several of its KOL partners during the 2023 financial year with the publication of peer reviewed research in prestigious high-ranking journals. KOL studies provide critical support material for regulatory submissions.

As the respected practitioners of the global IVF sector, KOLs are a reference point for the broader IVF community on industry innovation. Their status within the industry often makes them 'first buyers' of new, innovative products.

In December 2022, a study titled "A comparison between the Felix™ electrophoretic system of sperm isolation and conventional density gradient centrifugation: a multi-centre analysis" was published in the *Journal of Assisted Reproduction and Genetics*. The study was conducted by a group of five ART Centres in Australia, India, Sweden, US and China. The study compared the quality of sperm populations isolated by Felix™ and DGC in terms of processing time, sperm concentration, motility, vitality, and DNA integrity. The paper concluded: "Felix™ is a positive technical development capable of isolating suspensions of highly motile spermatozoa exhibiting low levels of DNA damage in a fraction of the time taken by conventional procedures such as DGC".

A second study published in the *American Society of Andrology and the European Academy of Andrology* in January 2023 titled "Spermatozoa isolation with Felix™ outperforms conventional density gradient centrifugation preparation in selecting cells with low DNA damage" found Felix™ "significantly improved" sperm fractions with higher motility and less oxidative and DNA damage. The study was conducted by GReD supported by the University Clermont Auvergne (UCA) and led by Professor Joel Drevet.

Directors' Report

30 June 2023

In June 2023, a study by PhD candidate Alina Hungerford titled "Analysis of sperm separation protocols for isolating cryopreserved human spermatozoa" was published in *Reproduction and Fertility*. The study revealed that only cells separated using Felix™ exhibited significantly lower levels of DNA fragmentation following cryopreservation. Felix™ "significantly lowered the levels of DNA fragmentation observed in cryostored human sperm populations, while maintaining relatively high levels of motility and sperm recovery". The results of the study were also presented at the annual FSAZ 2023 Conference.

MEM progressed its clinical study in collaboration with leading Australian reproductive and fertility services provider, Monash IVF Group Ltd ("MVF"), during financial year ended June 2023. The trial is assessing the performance of the Felix™ device against Swim-Up and Density Gradient Centrifugation ("DGC"), the two commonly used methods in the preparation of sperm for use in IVF procedures. It is anticipated that the trial will finish by end of March 2024, depending on recruitment rates.

The results of the MVF clinical study will form the basis of MEM's regulatory application to the Australian Therapeutic Goods Administration (TGA). The TGA does not provide applicants with a clear timeline around the submission process and / or a timeframe as to when the product will be cleared for commercial purposes. The trial results will also support MEM's application to sell Felix™ in other jurisdictions including the European Union. MEM is also planning to submit an application under the EU MDR for CE Mark approval in Europe using the same clinical data set.

The Group's Strategic Approach to its Target Markets and the Regulatory Environment

The Group develops and commercialises high potential value reproductive biotechnology and proprietary cell separation technologies in the form of novel medical devices, diagnostics, and media.

MEM categorises its target markets into two categories: early and high access markets.

Early access markets are those with less complex regulatory hurdles such as Japan, Canada and New Zealand. In these markets the Felix™ product does not require regulatory clearance prior to sale. These markets represent the shortest pathway to market. Of these markets, Japan is by far the largest.

Australia, the United States, the European Union, India and China are high access markets which demand extensive clinical data and quality management system files before a submission can be made for regulatory clearance. The timeline around the clearance of regulatory submissions also varies between jurisdictions.

Assuring the Protection of MEM's IP

Patents are essential to protecting MEM's unique intellectual property globally as Felix™ is increasingly commercialised across target markets.

MEM was granted two new patents for Felix™ by the Australian Patent Office in the 2023 financial year. Patents have already been granted for Felix™ in several other jurisdictions.

Title of invention	Electrophoresis device
Patent number	2017344755
Date of grant	18 May 2023
Term of patent	20 years from 20 October 2017
Existing patents (by jurisdiction)	China, Japan, the United States; European Union (pending)

Title of invention	Sperm separation by electrophoresis
Patent number	2017344756
Date of grant	20 years from 20 October 2017
Existing patents (by jurisdiction)	China, Japan, the United States; European Union (pending)

MEM has applied for a patent for its ROS assay diagnostic, which is pending.

Directors' Report

30 June 2023

CORE PRODUCT PIPELINE

The Felix™ System

Felix™ is MEM's first commercial product. It is a patented, automated device for quickly separating high quality sperm from semen for use in human IVF procedures without causing damage to DNA. Felix™ has an estimated addressable global market size of around A\$630 million¹.

Growth rates in the assisted human reproduction market are accelerating and one in every six couples having fertility issues.

Current success rates for IVF are relatively low and the treatment is costly. Further, there have been no tangible advancements in sperm processing for IVF procedures in over 40 years.

FEATURES	Felix™	DENSITY GRADIENT CENTRIFUGATION	SWIM-UP (INCL ZYMOT)
Number of steps	One step	Multi steps	Multi steps
Time	Six minutes	30 – 40 minutes	30 – 40 minutes
Process	Automated, desk-top console with disposable, single use cartridges	Laboratory Centrifugation process	Laboratory Swim-up process requires skilled operator
Differentiators	Automation delivers consistent process with less room for error	Multi-step process leads to potential errors	Multi-step process eads to potential errors
	Repeatable high-quality results	Variable results	Variable results
	Capable of processing wide variety of semen samples	Centrifuging potentially causes DNA damage	Underperforms with poor semen samples
	Electrophoretic system identifies and selects sperm with low DNA damage and low oxidative stress	Cannot identify or select sperm with low DNA damage and oxidative stress	Cannot identify or select sperm with low DNA damage and oxidative stress
Pricing	Indicative pricing – mid to premium range Ongoing revenue from disposable cartridges	Indicative labour & equipment pricing A\$100 in Australia / US\$100 in US	Indicative labour & equipment pricing A\$100 in Australia / US\$100 in US

Pathway to Market: Early Access Markets

Japan

Following introduced changes to the regulation of Japan's IVF market in 2022, MEM has been working exclusively with clinics operating in the country's substantial private health market.

In the financial year to June 2023, MEM made multiple sales to the Kobe ART Clinic. As an early access market, MEM doesn't require regulatory approval to sell in Japan.

MEM expects the volume of sales to increase over the coming financial year with its exclusive distribution agreement with Vitrolife now in place to sell to high volume clinics in the privately funded IVF sector. Vitrolife Japan KK has made an initial order of 150 cartridges.

Vitrolife will also work with MEM to build clinical data sets over time to eventual position Felix™ to be granted full insurance coverage in Japan, which would likely further broaden MEM's potential market in Japan into the public sector.

Canada

In the financial year to June 2023, MEM held discussions with prospective distributors who service IVF clinics across Canada. These discussions are ongoing and confidential.

New Zealand

In the financial year to June 2023, MEM initiated discussions with IVF clinics in New Zealand on Felix™. MEM doesn't require regulatory approval to sell Felix™ in New Zealand. These discussions are ongoing and confidential.

¹ Allied Market Research Global IVF Services Market 2019 "The Infertility Trap: Why Life Choices Impact Your Fertility & Why We Must Act Now" – Cambridge University Press 5 May 2022

Directors' Report
30 June 2023

Pathway to Market: High Access Markets

India

The Indian regulator, the Central Drugs Standard Control Organisation ("CDSCO"), continued to introduce changes to the regulation of all ART clinical processes undertaken in India and all medical devices sold in India during the financial year.

Members of MEM's leadership team made several trips to India in the financial year to June 2023 to confer with regulators, KOL partners, consultants, medical device manufacturers, distributors, and other relevant parties on the best approach to market amidst India's evolving regulatory regime. Importantly, MEM's recent preliminary meeting with CDSCO in New Delhi early July 2023 helped to inform and clarify aspects of MEM's India strategy.

While the regulatory environment continues to develop, it's clear from these discussions that all imported medical devices now require home country regulatory clearance before commercial quantities can be sold in India. MEM took some initial steps to address the change starting with the submission of a voluntary product inquiry with CDSCO.

MEM also entered into a formal agreement with a new consultant to obtain detailed regulatory advice. The consultant has several international high-profile IVF providers in the equipment and media markets.

In the financial year to June 2023, MEM's KOL partner, the Coimbatore Womens Hospital announced the first birth of a healthy baby utilising Felix™. The hospital specialises in treating male factor infertility, specifically high sperm DNA fragmentation. Sales to the hospital had been made prior to changes in India's regulatory regime and are now on a temporary hold. The key clinician responsible for the work at the hospital will present a paper on the clinical results at the Asia Pacific Initiative on Reproduction ("ASPIRE") Conference in Adelaide early in the 2024 financial year.

China

In China, MEM works closely with Diagens Biotechnology Company Ltd ("Diagens"). Diagens manufactures and distributes proprietary and other products to its network of more than 500 assisted reproduction centres and 300 prenatal diagnosis centres across China. MEM has been collaborating with Diagens for three years.

As previously reported, the submission to the National Medical Products Administration ("NMPA") at the close of FY22, which was made through Diagens, MEM's partner in China, requested a device classification for Felix™ and for eligibility for Felix™ to be fast-tracked on the 'Green Channel' regulatory pathway for innovative medical products. During the financial year to June 2023, the NMPA requested that MEM provide additional technical and clinical information in relation to its submission, which is pending.

United States of America

In the financial year to June 2023, MEM lodged a pre-submission meeting request with the Food and Drug Administration ("FDA") in the United States. The FDA provided useful feedback, especially on the biocompatibility test program for Felix™, endorsing the proposed test strategy.

Australia

As MEM's home country, Australia is critical to MEM's commercialisation activities from a regulatory perspective. Australia is considered a highly regulated market and the granting of regulatory clearance in Australia is fundamental to the success of its commercialisation efforts in Australia and in other jurisdictions.

The gathering and provision of clinical data is an essential step in the regulatory process in high access markets. MEM's clinical trial collaboration with Monash IVF is fundamental to this purpose.

Initially, participation rates in the clinical trial were lower than anticipated across clinical trial sites due to the trial's stringent entry criteria. During the financial year to June 2023, a series of initiatives were introduced to build awareness of the trial among fertility specialists, increase the number of participating sites and broaden patient entry criteria in a bid to improve participation rates. These initiatives have led to an increase in patient recruitment over the past financial year.

Based on current predictions, Memphasys estimates that the trial will conclude at the end of March 2024, depending on the recruitment rate of the DGC arm of the trial. The swim-up arm is nearing completion.

Directors' Report 30 June 2023

The trial's initial (blinded) results have been positive with respect to overall fertilisation rates and embryo utilisation rates. No adverse effects have been reported to date.

DEVELOPING PRODUCT PIPELINE

Rapid Oxidative Stress Assay ("ROS assay")

This will be a sensitive, accurate and novel 'point-of-care' in vitro diagnostic device with single use cartridges. The assay will be a five-minute test for the level of antioxidants in bodily fluids such as semen, blood, follicular fluid, and urine, which will indicate the level of oxidative stress present.

Oxidative stress is the imbalance between reactive oxygen species and antioxidant protection in the body and is a major cause of many diseases. It is a known pre-cursor to DNA damage in sperm and a major contributor to pre-eclampsia and placental failure. It is also a major underlying factor in many other countless chronic illnesses such as diabetes, Alzheimer's disease, and heart disease.

Current testing practices for oxidative stress is laboratory-based and not easily accessible, time consuming and expensive. As a result, oxidative stress often goes undiagnosed and therefore untreated.

MEM's device fills a diagnostic void starting with the fertility market, where oxidative stress is a known cause of infertility. Further oxidative stress is implicated in many maternal pre-natal diseases. Therefore, this assay is positioned to change the oxidative stress treatment landscape.

Pathway to Market

Year to June 2023, MEM used an early product prototype that utilises a unique reaction to measure the type and concentration of antioxidants in human semen and blood within minutes. It has continued to optimise the reaction conditions over the year.

In the latter part of the financial year, MEM contracted a leading Australian product development company to design the next product iteration. The preliminary product will be tested with MEM's research partners, and the UoN, before a final 'go-to-market' product is built.

MEM has submitted a patent application for the product, which is pending.

MEM's commercialisation strategy for the ROS assay product is in three distinct phases based on the level of regulatory oversight required to bring it to market.

MEM's short-term focus is the reproductive science research market, which has minimal requirements for regulatory clearance and is the shortest pathway to market. It would seek independent testing and publishing by KOLs as part of this process.

Like Felix™, the human fertility clinical market generally requires full regulatory clearance and has a medium to longer-term pathway to market. MEM will be required to undertake clinical trials with KOL partners, followed by registrations and regulatory clearances in initial target markets. The initial focus in the human fertility clinic market will be early access markets such as Japan, which does not require regulatory clearance to make commercial sales.

The ROS assay *in vitro* oxidative stress diagnostic product also has a potential broader and long-term market as a diagnostic for assessing and monitoring disease and wellness in humans and in high value livestock. The assay could also potentially be applied more broadly such as for water supply and food safety assessment.

AI-Port

AI-Port comprises a novel, long-life medium for bull Artificial Insemination ("AI") that enables storage and transport of bull sperm at ambient temperature.

Normally the AI process uses frozen, thawed whole semen. Freezing enables long range transport of semen, however, the freezing process damages sperm cells. Currently, pregnancy rates are approximately 40% or less following a single frozen, thawed AI treatment. This is compared with 50-60% without freezing.

Directors' Report
30 June 2023

The medium enables the isolated sperm to last for at least four days without the need for any freezing, which is anticipated to increase pregnancy rate. Industry sources have stated a 5% increase in pregnancy rates would make a substantial positive difference to breeding economics.

Pathway to Market

In the full year to June 2023, MEM developed a proof-of-concept device in combination with use of a novel proprietary medium.

MEM undertook field trials with several studs during the year to compare cattle pregnancies using the prototype and MEM's novel long-life ambient temperature medium versus conventional frozen, thawed semen.

As a result of the trial, which resulted in only one pregnancy using the proof-of-concept device with the novel medium, MEM determined that the technical hurdle to counteract the toxic effect of seminal plasma over four days was too high and that the seminal plasma should be removed. MEM subsequently undertook field tests of the performance of the medium after seminal plasma removal and compared that outcome with no removal. The sperm, without the presence of seminal plasma, survived in the novel medium for at least seven days, whereas none survived when left in seminal plasma. Pleasingly, the test produced a high yield of viable sperm, and in vitro parameters of progressive motility, morphology and vitality were greatly enhanced. AI technicians have advised MEM that a front-end removal of the seminal plasma step is feasible in the field.

Given these highly encouraging results, MEM is preparing to conduct a larger field trial with a substantial stud in the Hunter Valley in the Spring of 2023.

RESEARCH PRODUCT PIPELINE

MEM's aim is to be at the forefront of reproductive biotechnology developments by mitigating the risk of over-reliance on any single product or process.

It continues to develop a novel product portfolio under the globally recognised expertise of Distinguished Emeritus Professor Aitken and his team of researchers at the UoN. Base criteria for each of these potential new products is that they address a major unmet market demand in human and animal reproduction and that they can be cost effectively developed at MEM.

Whilst it is anticipated that some products in the R&D phase will not meet the required technical or commercial criteria along the development pathway, MEM has a rich pipeline of products under development. MEM's approach is to identify projects early in the process and to redeploy its resources to other projects with higher commercial potential.

One such project was Samson, a diagnostic device developed to evaluate the fertility of thoroughbred stallions. MEM decided not to progress the product to commercialisation following successive field trials in the financial years 2022 and 2023.

The past year has been most productive for MEM. The company is confident of achieving several significant milestones over the coming year that should ultimately deliver long-term value for its shareholders.

MEM would also like to thank shareholders for their continued support.

Onboarding Key Talent

A key feature of the commercialisation process is ensuring MEM has the essential skills and experience to deliver its product strategy to market. In the financial year to June 2023, MEM made two highly experienced senior appointments to fill key roles that are fundamental to the commercialisation process of MEM's product pipeline.

Dr David Ali joined MEM in March 2023 as Director Business Development. Dr Ali's key responsibilities will be to lead MEM's business development, sales and marketing activities.

Dr Ali has more than 40 years' experience in medical management, business development, sales and marketing for pharmaceutical, medical device and diagnostic companies in human and animal reproduction. He previously held positions with the CSIRO, Bayer, AstraZeneca, Novo Nordisk and Biogen.

Directors' Report

30 June 2023

In April 2023, MEM appointed Associate Professor Hassan Bakos to the position of Director of Operations. Associate Professor Bakos oversees the implementation of MEM's daily operations and strategic plan, the management of clinical trials, and the planning and supervision of MEM's goods and services production.

Associate Professor Bakos joins MEM from MVF where he most recently held the role of NSW Scientific Director. In his role at MVF, he contributed to the design, execution and coordination of MEM's clinical trial of the Felix™ System in collaboration with MVF and to MEM's KOL study. Prior to MVF, Associate Professor Bakos held roles at Repromed and academic roles at the University of Adelaide and at the University of Sydney. He is currently a Clinical Associate Professor at the UoN.

These additional appointments complement the MEM board and management team's existing matrix of requisite skills ranging from its R&D group led by world-renowned leader in reproductive sciences, Distinguished Emeritus Laureate Professor John Aitken, to product development, strategy and commercialisation in the reproductive science and medical technology sectors.

Financial Performance

In the financial year ended 30 June 2023, MEM incurred a net loss from continuing operations of \$3,402,618 (2022: net loss of \$2,081,964). There were two main reasons causing the difference:

- the one-off revenue of \$650,000 due to the agreement reached with Hydrix for the settlement of the engineering flaw received in the prior financial year, and
- the amortisation of intangible asset related to the Sperm Separation for Humans (Felix) and Membranes projects, which commenced in the current financial year, of \$494,649.

The other material item that contributed to the increase in the net loss was the increased R&D costs. Although the total R&D expenditure slightly decreased by 6% to \$3,306,992 (2022: \$3,511,856), following the tendency from the prior year the composition of this expenditure kept on moving from projects in 'development phase' (capitalised as Intangible Assets in the balance sheet) to projects in 'research phase' (released as R&D expenses to the P&L). The table below shows the variances between projects and the resulting increase of \$379,928 in R&D expenditure released to the P&L:

Breakdown of R&D expenditure	2023	2022
	\$	\$
<i>Projects in "Development phase"</i>		
Sperm separations human (Felix)	1,799,590	2,234,988
Sperm separations animal	-	5,127
Membranes	38,108	182,375
<i>Total capitalised R&D expenditure</i>	1,837,698	2,422,490
	Note 14	
<i>Projects in "Research phase"</i>		
New long-life sperm storage media (human & animal)	528,893	501,843
Rapid equine pregnancy prediction assay (Samson)	-	346,249
Rapid oxidative stress assay (ROS assay)	646,791	241,274
<i>Sub-total R&D projects in "Research phase"</i>	1,175,684	1,089,366
<i>Projects discontinued</i>		
Rapid equine pregnancy prediction assay (Samson)	293,610	-
<i>Sub-total R&D projects discontinued</i>	293,610	-
<i>Total R&D expenditure released to the P&L</i>	1,469,294	1,089,366
Total R&D expenditure	3,306,992	3,511,856

This was offset by an increase in R&D income recognised in the P&L of \$98,068.

The tax refund on R&D activities granted by the Federal Government ("Tax Incentive") continues to be the Group's main source of regular revenue. A Tax Incentive of \$1,315,087 has been approved by AusIndustry for R&D expenditure incurred in the current financial year.

Directors' Report
30 June 2023

MEM finalised the financial year with a deficiency in working capital of \$3,318,560 (2022: excess \$2,510,764) and with net assets of \$7,384,689 (2022: \$7,646,534).

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

The Company announced on 7 August 2023 that it signed an exclusive agreement with Vitrolife Japan KK, a subsidiary of Vitrolife Group, to sell and distribute the Felix™ system in Japan for a term of five years.

No other matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

SHARE OPTIONS

There were 12,668,800 unlisted options on issue at 30 August 2023.

Memphasys Limited and its Controlled Entities

Directors' Report 30 June 2023

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

2023

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:								
30 Jul 2021	30 Jul 2023	30 Jun 2022	\$0.0905	3,462,000	-	-	3,462,000	-
30 Jul 2021	30 Jul 2024	30 Jun 2023	\$0.0965	3,115,800	-	-	540,000	2,575,800
25 Aug 2021	31 Dec 2023	-	\$0.0600	3,000,000	-	-	-	3,000,000
25 Aug 2021	31 Aug 2023	30 Jun 2022	\$0.0884	1,770,000	-	-	1,770,000	-
25 Aug 2021	31 Aug 2024	30 Jun 2023	\$0.0944	1,593,000	-	-	-	1,593,000
14 Sep 2021	13 Sep 2023	-	\$0.1000	3,000,000	-	-	-	3,000,000
6 Dec 2022	5 Dec 2024	-	\$0.0237	-	2,500,000	-	-	2,500,000
Total				15,940,800	2,500,000	-	5,772,000	12,668,800
Weighted average exercise price per share				8.8¢	2.4¢	-	9.0¢	7.4¢
Weighted average remaining contractual life								296 days

No options have been issued or exercised post balance date.

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

Memphasys Limited and its Controlled Entities

Directors' Report
30 June 2023

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

2022

Grant date	Expiry date	Vesting commencement date	Exercise price	Balance at start of year	Issued during the year	Exercised during the year	Lapsed / cancelled during the year	Balance at end of the year
Consolidated and parent entity:								
28 Mar 2019	28 Sep 2021	-	\$0.0332	20,000,000	-	20,000,000	-	-
28 Mar 2019	28 Sep 2021	-	\$0.0332	12,404,457	-	12,404,457	-	-
22 Oct 2019	22 Oct 2021	-	\$0.1142	989,681	-	-	989,681	-
22 Oct 2019	22 Oct 2021	30 Jun 2020	\$0.1142	12,000,000	-	-	12,000,000	-
22 Oct 2019	22 Oct 2021	15 Nov 2019	\$0.1142	1,466,194	-	-	1,466,194	-
22 Oct 2019	22 Oct 2021	30 Jun 2020	\$0.1142	4,800,000	-	-	4,800,000	-
30 Jul 2021	30 Jul 2023	31 Dec 2021	\$0.0905	-	4,962,200	-	4,962,200	-
30 Jul 2021	30 Jul 2023	30 Jun 2022	\$0.0905	-	3,462,000	-	-	3,462,000
30 Jul 2021	30 Jul 2024	30 Jun 2023	\$0.0965	-	3,115,800	-	-	3,115,800
25 Aug 2021	31 Dec 2023	-	\$0.0600	-	3,000,000	-	-	3,000,000
25 Aug 2021	31 Aug 2023	31 Dec 2021	\$0.0884	-	2,537,000	-	2,537,000	-
25 Aug 2021	31 Aug 2023	30 Jun 2022	\$0.0884	-	1,770,000	-	-	1,770,000
25 Aug 2021	31 Aug 2024	30 Jun 2023	\$0.0944	-	1,593,000	-	-	1,593,000
14 Sep 2021	13 Sep 2023	-	\$0.1000	-	3,000,000	-	-	3,000,000
Total				51,660,332	23,440,000	32,404,457	26,755,075	15,940,800
Weighted average exercise price per share				6.3¢	8.9¢	3.3¢	10.7¢	8.8¢
Weighted average remaining contractual life								546 days

No options have been issued or exercised post balance date.

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

Memphasys Limited and its Controlled Entities

Directors' Report 30 June 2023

Set out in the table below are summaries of options issued during the year to directors and executives:

Related party	Grant date	Expiry date	Vesting commence -ment date	Exercise price	Balance at start of year	Issued during the year	Exercised during the year	Lapsed / cancelled during the year	Balance at end of the year	Exercisable	Non-Exercisable
<i>Directors</i>											
Robert Cooke	6/12/22	5/12/24	(a)	\$0.0237	-	2,500,000	-	-	2,500,000	2,500,000	-
Total					-	2,500,000	-	-	2,500,000	2,500,000	-

(a) Options have vested as at issue date and are issued in lieu of a portion director fees.

Options were issued to the Company's Chairman Robert Cooke in lieu of a portion of director fees, with shareholder approval passed at AGM 28 November 2022. The fair value of the attached options was \$20,530 estimated using the Black-Scholes valuation model with the following assumptions:

- Stock price \$0.0177 (5-day VWAP prior to the AGM)
- Exercise price \$0.0237 (34% premium on stock price)
- Risk-free interest rate 2.984%
- Expiry period 2 years
- Volatility 100.16%
- Fair value per option \$0.008

No options were issued to remunerated executives.

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 \$95,468 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 and related entities, 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 GROUP

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2023 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 2023.

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

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

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

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

Employment contracts

Managing Director and CEO

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

Senior Executives

The contracts of the Senior Executives have no duration and stipulate that either party may terminate the employment by providing the other with three months' written notice. The Group may terminate the employment without any period of notice or payment in lieu of notice if the executive engages in serious misconduct.

Non-Executive Directors

The Board has set its remuneration of Non-Executive Directors in line with market-based remuneration in small-listed biotechnology companies. The Managing Director and CEO's fees are determined independently to the fees of Non-Executive Directors based on responsibility of the role and are also in line with how this position is remunerated in the market by small-listed biotechnology companies. Subject to shareholder approval, Non-Executive Directors may opt each year to receive a percentage of their remuneration in Memphasys Limited shares and/or options.

Directors' Fee Pool

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

Memphasys Limited and its Controlled Entities

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.

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 controlled entity with the highest authority levels for the year ended 30 June 2023 are set out in the following tables.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		
	Cash salary and fees	Cash & accrued bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled shares	Equity-settled options	Total
2023	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
Andrew Goodall	50,000	-	-	-	-	-	-	50,000
Paul Wright	45,454	-	-	4,773	-	-	-	50,227
Robert Cooke (Chairman)	90,623	-	-	9,515	-	-	20,530	120,668
<i>Executive Directors:</i>								
Alison Coutts (MD and CEO)	359,552	-	-	25,292	14,738	-	24,338	423,920
<i>Other Key Management Personnel:</i>								
John Aitken	224,615	-	-	24,277	374	-	13,000	262,266
Nick Gorrington #	21,745	-	-	2,389	(1,012)	-	6,500	29,622
Pablo Neyertz	151,323	-	-	15,551	7,618	-	1,203	175,695
David Ali *	54,809	-	-	5,296	15	-	-	60,120
Hassan Bakos **	43,435	-	-	4,197	12	-	-	47,644
	1,041,556	-	-	91,290	21,745	-	65,571	1,220,162

Resigned on 25 August 2022

* Appointed on 27 March 2023

** Appointed on 24 April 2023

Memphasys Limited and its Controlled Entities

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total
	Cash salary and fees	Cash & accrued bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled shares	Equity-settled options	
2022	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
Andrew Goodall	50,000	-	-	-	-	-	-	50,000
Shane Hartwig #	40,750	-	-	-	-	-	-	40,750
Paul Wright	45,472	-	-	4,547	-	-	-	50,019
Robert Cooke * (Chairman)	16,550	-	-	1,655	-	-	-	18,205
<i>Executive Directors:</i>								
Alison Coutts (MD and CEO)	343,654	32,912	-	23,568	7,573	-	15,488	423,195
<i>Other Key Management Personnel:</i>								
John Aitken **	234,248	5,000	-	22,876	-	-	19,250	281,374
Nick Gorrington	136,610	5,000	-	14,610	602	-	9,625	166,447
Pablo Neyertz	143,593	5,000	-	14,100	2,587	-	1,781	167,061
	1,010,877	47,912	-	81,356	10,762	-	46,144	1,197,051

Resigned on 25 April 2022

* Appointed on 26 April 2022

** Appointed on 1 July 2021

Share options granted to Directors and Executives

2,500,000 options were issued to the Company's Chairman Robert Cooke in lieu of a portion of director fees, with shareholder approval passed at EGM 28 November 2022. The fair value of the attached options was \$20,530 estimated using the Black-Scholes valuation model with the following assumptions:

- Stock price \$0.0177 (5-day VWAP prior to the AGM)
- Exercise price \$0.0237 (34% premium on stock price)
- Risk-free interest rate 2.984%
- Expiry period 2 years
- Volatility 100.16%
- Fair value per option \$0.008

No share options were issued to Executives.

Memphasys Limited and its Controlled Entities

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

Directors, Executives and their option holding

2023	Balance at start of year	Granted as remuneration	Lapsed during the year	Balance at end of the year	Exercisable	Non Exercisable
Alison Coutts	3,363,000	-	1,770,000	1,593,000	-	1,593,000
Andrew Goodall	1,350,000	-	-	1,350,000	1,350,000	-
Robert Cooke	-	2,500,000	-	2,500,000	2,500,000	-
Nick Gorrington	1,140,000	-	1,140,000	-	-	-
Pablo Neyertz	210,900	-	111,000	99,900	-	99,900
John Aitken	2,280,000	-	1,200,000	1,080,000	-	1,080,000
Total	8,343,900	2,500,000	4,221,000	6,622,900	3,850,000	2,772,900

No options were exercised during the year by KMP (2022: nil).

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

Directors, Executives and their shareholding

2023	Balance as at 1 July 2022 \$	Net movement \$	Balance as at 30 June 2023 \$
Alison Coutts (a)	79,625,139	5,360,180	84,985,319
Andrew Goodall (b)	171,498,505	400,000	171,898,505
Pablo Neyertz	788,967	87,664	876,631
Total	251,912,611	5,847,844	257,760,455

(a) Alison Coutts' shareholding comprises 77,847,375 shares held directly and 7,137,944 held indirectly.

(b) Andrew Goodall's shareholding comprises 171,206,265 shares held directly, and 692,240 shares held indirectly.

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

Memphasys Limited and its Controlled Entities

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

Transactions with related parties

i) At 30 June 2023, payables to related parties were as follows:

	2023 \$	2022 \$
Andrew Goodall director fees	4,583	4,583
Alison Coutts bonus	-	27,913
	4,583	32,496

ii) Loans payable to related parties - principal:

	2023 \$	2022 \$
Current balances:		
Andrew Goodall #	43,200	43,200
Alison Coutts	-	21,000
Alison Coutts Consulting Pty Ltd	-	54,000
Total	43,200	118,200

free options (classified as liability) attached to convertible note sold in January 2021. Refer to Note 17.

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

	Interest paid		Interest accrued	
	2023 \$	2022 \$	2023 \$	2022 \$
Andrew Goodall	-	-	-	59,436
Alison Coutts	1,463	-	1,463	-
	1,463	-	1,463	59,436

Other transactions with Directors, Executives and their related parties

Transactions between Memphasys Limited and other entities in the wholly owned group during the year ended 30 June 2023 consisted of loans advanced by Memphasys Limited to its controlled entity, Feronia Fertility Pty Ltd.

Memphasys Limited and its Controlled Entities

Directors' Report

REMUNERATION REPORT – AUDITED (continued)

Additional information

The earning of the Group for the five years to 30 June 2023 are summarised below:

	2023	2022	2021	2020	2019
	\$	\$	\$	\$	\$
Sales revenue	15,371	27,148	-	-	-
EBITDA (loss)	(2,379,699)	(2,126,693)	(1,139,974)	(898,891)	(991,201)
EBIT (loss)	(2,992,538)	(2,249,904)	(1,399,461)	(1,095,122)	(1,000,121)
Loss after income tax	(3,402,618)	(2,081,964)	(1,486,432)	(1,133,879)	(1,044,478)

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

	2023	2022	2021	2020	2019
	\$	\$	\$	\$	\$
Share price at financial year end	0.014	0.040	0.064	0.050	0.030
Total dividends declared	-	-	-	-	-
Basic earnings per share (dollar per share)	(0.0018)	(0.0027)	(0.0020)	(0.0008)	(0.0025)

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
Chief Executive Officer



Sydney
30 August 2023

Pitcher Partners Sydney Partnership

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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 2023, 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 2023

Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2023

		2023	2022
	Notes	\$	\$
Continuing operations:			
Revenue	5	15,371	27,148
Grant income	5	587,999	489,931
Settlement of engineering flaw	5	-	650,000
Income on fair value of convertible note options	5	21,000	54,000
Other Income	5	50,398	27,043
Total revenue		674,768	1,248,122
Direct cost		(6,150)	(18,905)
Transport expenses		(1,183)	(4,059)
Employee benefit expenses		(221,243)	(387,791)
Research and development expenses		(1,469,294)	(1,089,366)
Depreciation and amortisation expenses	6	(612,839)	(123,211)
Finance cost expenses	6	(428,197)	(569,677)
Marketing expenses		(150,631)	(107,097)
Director expenses		(208,687)	(153,375)
Corporate consultants' expenses		(362,110)	(286,171)
Compliance, audit, tax and legal expenses		(263,329)	(222,797)
Other expenses		(353,723)	(367,637)
Total expenses		(4,077,386)	(3,330,086)
Loss before income tax expense from continuing operations		(3,402,618)	(2,081,964)
Income tax expense	7	-	-
Loss after income tax expense from continuing operations		(3,402,618)	(2,081,964)
Net loss for the year attributable to members of parent		(3,402,618)	(2,081,964)
Other comprehensive income / (expense):			
Items that will not be reclassified subsequently to profit or loss:			
Net change in fair value of financial assets designated at fair value through other comprehensive income, net of tax		(48,000)	(76,000)
Total other comprehensive income / (expense) for the period		(48,000)	(76,000)
Total comprehensive loss for the period attributable to the owners of Memphasys Limited		(3,450,618)	(2,157,964)
Earnings per share (EPS)	8	Dollar/share	Dollar/share
– basic loss per share		(0.0018)	(0.0027)
– diluted loss per share		(0.0018)	(0.0027)

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 2023

		2023	2022
	Notes	\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	637,832	269,077
Inventories	10	130,786	87,082
Other current assets	11	1,480,113	1,672,391
TOTAL CURRENT ASSETS		2,248,731	2,028,550
NON-CURRENT ASSETS			
Financial assets at fair value through OCI	12	26,000	74,000
Property, plant and equipment	13	428,140	501,408
Intangible assets	14	10,294,734	9,678,774
Right-of-use asset	15	1,670,236	1,838,397
TOTAL NON-CURRENT ASSETS		12,419,110	12,092,579
TOTAL ASSETS		14,667,841	14,121,129
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	16	555,457	559,713
Interest-bearing liabilities	17	4,469,437	3,405,998
Non-interest-bearing liabilities	18	77,330	154,668
Lease liabilities	15	110,913	98,727
Other liabilities	19	47,647	33,762
Provisions for employee benefits	20	306,507	286,446
TOTAL CURRENT LIABILITIES		5,567,291	4,539,314
NON-CURRENT LIABILITIES			
Non-interest-bearing liabilities	18	-	77,330
Lease liabilities	15	1,714,506	1,825,418
Provisions for employee benefits	20	1,355	32,533
TOTAL NON-CURRENT LIABILITIES		1,715,861	1,935,281
TOTAL LIABILITIES		7,283,152	6,474,595
NET ASSETS		7,384,689	7,646,534
EQUITY			
Issued capital	21	53,417,790	50,340,937
Reserves	23	140,129	76,209
Accumulated losses		(46,173,230)	(42,770,612)
TOTAL EQUITY		7,384,689	7,646,534

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

Consolidated statement of changes in equity
For the year ended 30 June 2023

	Notes	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total Equity \$
Balance 1 July 2022		50,340,937	76,209	(42,770,612)	7,646,534
Movement					
Loss for the year		-	-	(3,402,618)	(3,402,618)
Net change in fair value of financial assets designated at fair value through other comprehensive income, net of tax		-	(48,000)	-	(48,000)
Total comprehensive income for the period		-	(48,000)	(3,402,618)	(3,450,618)
Issue of share capital	21	3,360,418	-	-	3,360,418
Transaction costs on share issue	21	(283,565)	-	-	(283,565)
Share options issued	23	-	111,920	-	111,920
Balance 30 June 2023		53,417,790	140,129	(46,173,230)	7,384,689
Balance 1 July 2021		48,884,176	890,237	(41,167,423)	8,606,990
Movement					
Loss for the year		-	-	(2,081,964)	(2,081,964)
Net change in fair value of financial assets designated at fair value through other comprehensive income, net of tax		-	(76,000)	-	(76,000)
Total comprehensive income for the period		-	(76,000)	(2,081,964)	(2,157,964)
Issue of share capital	21	1,075,828	-	-	1,075,828
Transaction costs on share issue	21	(30,529)	-	-	(30,529)
Share options issued	23	-	152,209	-	152,209
Expired share options transferred to equity	21	411,462	(411,462)	-	-
Expired share options transferred to accumulated losses		-	(478,775)	478,775	-
Balance 30 June 2022		50,340,937	76,209	(42,770,612)	7,646,534

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 2023

		2023	2022
	Notes	\$	\$
Cash flows from operating activities			
Receipts from customers		15,371	27,148
Payments to suppliers and employees		(2,838,246)	(2,159,206)
Government grant receipts		1,504,045	1,379,512
Settlement of engineering flaw		-	500,000
Recoupment of legal fees		12,725	-
Interest received		13,093	709
Finance costs		(113,657)	(117,018)
Net cash flows used in operating activities	9 (a)	(1,406,669)	(368,855)
Cash flows from investing activities			
Payment for purchase of property, plant and equipment		(6,197)	(2,864)
Payment for cleanroom setup		(154,668)	(154,668)
Payments for internal development		(1,815,835)	(2,239,576)
Net cash flows used in investing activities		(1,976,700)	(2,397,108)
Cash flows from financing activities			
Proceeds from issue of shares		3,360,416	1,075,828
Share issue costs		(283,565)	(30,529)
Receipts from third-party loans		849,000	-
Receipts from related party loans		-	75,000
Repayment of related party loans		(75,000)	-
Repayment of lease liabilities		(98,727)	(88,174)
Net cash flows provided by financing activities		3,752,124	1,032,125
Net increase / (decrease) in cash and cash equivalents		368,755	(1,733,838)
Cash and cash equivalents at beginning of year		269,077	2,002,915
Cash and cash equivalents at end of year	9	637,832	269,077

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 consolidated financial statements of the Company as at and for the year ended 30 June 2023 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 2023.

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Use of estimates and judgements

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

- Going concern – refer to Note 3(a);
- Useful life for amortisation of intangible assets – refer to Note 3(f)(iii);
- Intangible assets impairment review – refer to Note 14(d); and
- Determining the lease term when recognising the right-of-use asset and lease liability – refer to Note 15.

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 2023 of \$3,402,618 (2022: \$2,081,964).
- For the year ended 30 June 2023 the Group has net cash outflows from operating activities of \$1,406,669 (2022: \$368,855) and net cash outflows from investing activities of \$1,976,700 (2022: \$2,397,108).
- At 30 June 2023, the Group had a deficit in working capital of \$3,318,560 (2022: \$2,510,764).
- At 30 June 2023, the Group had net assets of \$7,384,689 (2022: \$7,646,534).

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

- Build Felix™ commercial sales in Japan through its distribution partnership with Vitrolife KK and achieve initial sales in New Zealand and Canada, the other "early market" jurisdictions;
- Progress the Felix™ clinical trial in Australia to pave the way for TGA registration and to also utilise the trial data to enable an application for CE Mark registration in Europe to be made.
- Develop the portfolio of unique and commercially valuable *in vitro* diagnostic, medical device and media products with Professor John Aitken and his UoN research team for potential use in both the human and animal ART markets. MEM's engineering medical device contractors will continue developing a working prototype of the point of care, *in vitro* oxidative stress diagnostic after which it is to be trialled by a select group of oxidative stress KOLs who are already well known to MEM. MEM also plans to run a larger field trial of MEM's proprietary AI-Port medium at two large beef cattle farms in the Hunter region of NSW.

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 \$1,315,087 which is expected to be received in September 2023. It is noted that the short-term loan of \$849,000 will be repayable on receipt of the R&D tax claim.
- Existing shareholders of the Group have provided funds subsequent to year end and have offered further support to the Group.
- The Group expects to complete capital raising to provide sufficient funds for planned operations for the next twelve months.
- Short term loans will continue to be utilised until the Directors are satisfied that the terms of any capital raising maximise the return to existing shareholders in the current environment.

Based on the above, the Group will continue to access funding to advance the full commercialisation of the Felix™ system and the development of its *in vitro* oxidative stress diagnostic and AI-Port, which is the most advanced of its animal Assisted Reproduction Technology ("ART") programs.

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

3. Significant accounting policies (continued)

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

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 Group 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 Group controls an investee if and only if the Group 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 Group 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 Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the parent entity.

c) Segment reporting

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

d) Financial instruments

i) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group 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 of assets

Financial assets recognised by the group are subsequently measured in their entirety at either amortised cost or fair value, subject to their classification and whether the group irrevocably designates the financial asset on initial recognition at fair value through other comprehensive income (FVOCI) in accordance with the relevant criteria in AASB 9 Financial Instruments (AASB 9).

Financial assets not irrevocably designated on initial recognition at FVOCI are classified as subsequently measured at amortised cost, FVOCI or fair value through profit or loss (FVPL) on the basis of both:

- (a) the Group's business model for managing the financial assets; and
- (b) the contractual cash flow characteristics of the financial asset.

3. Significant accounting policies (continued)

Classification of financial liabilities

Financial liabilities classified as held-for-trading, contingent consideration payable by the Group for the acquisition of a business, and financial liabilities designated at FVPL, are subsequently measured at fair value.

All other financial liabilities recognised by the Group are subsequently measured at amortised cost.

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

Loans and receivables

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

Financial Liabilities

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

Derivatives

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

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

e) Property, plant and equipment

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

i) Plant and equipment

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

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

ii) Depreciation

The depreciable amount of fixed assets is depreciated on a straight-line basis over their useful lives to the 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:

	2023	2022
Plant and equipment	10% - 33%	10% - 33%
Leasehold improvements	14% - 20%	14% - 20%

3. Significant accounting policies (continued)

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 consolidated statement of profit or loss and other comprehensive income.

f) Intangible assets

i) Research and development costs

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

ii) Patents and trademarks

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

iii) Amortisation

Amortisation is based on the cost of the asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. A useful life of 20 years is being used in the calculation of amortisation.

iv) Impairment

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

g) Impairment of non-financial assets

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

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

h) Employee benefits

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

i) Equity-settled Compensation

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

3. Significant accounting policies (continued)

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.

i) Cash and cash equivalents

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

j) Trade and other payables

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

k) Inventories

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

l) Leases

Right-of-use assets

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

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

The consolidated Group 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 Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

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

3. Significant accounting policies (continued)

m) Revenue

Revenue from contracts with customers

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

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

Sale of goods

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

Other revenue

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

n) Government grants

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

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

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

o) Goods and services tax (GST)

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

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

p) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

q) Borrowing costs

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

3. Significant accounting policies (continued)

r) Earnings per Share

Basic earnings per share

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

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing cost associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

s) Lapsed options

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

t) Rounding of amounts

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

u) New Accounting Standards adopted by the Group

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

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2023. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

4. Parent entity disclosures

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

	2023	2022
	\$	\$
Statement of financial position		
Assets:		
Current assets	<u>14,092,428</u>	11,499,430
Total assets	<u>14,118,429</u>	<u>11,573,430</u>
Liabilities:		
Current liabilities	<u>4,925,106</u>	3,833,097
Total liabilities	<u>4,929,461</u>	<u>3,865,629</u>
Equity:		
Issued capital	53,417,790	50,340,937
Accumulated losses	(44,368,952)	(42,638,322)
Options reserve	<u>140,129</u>	<u>5,185</u>
Total equity	<u>9,188,967</u>	<u>7,707,800</u>
Statement of profit or loss and other comprehensive income		
Total loss for the year	<u>(1,631,693)</u>	<u>(963,109)</u>
Total comprehensive expense for the year	<u>(1,631,693)</u>	<u>(963,109)</u>

Investments in subsidiaries are accounted for at cost in the financial statements of the parent entity.

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 2023, Memphasys Limited had no contingent liabilities (2022: Nil).

Contractual commitments

At 30 June 2023, Memphasys Limited had a contractual commitment up to February 2024 to pay \$389,000 to the University of Newcastle to work on the development of reproductive technologies in reproductive health to develop novel products for the Assisted Reproductive Technology (ART) industry.

Contingent assets

At 30 June 2023, Memphasys Limited had no contingent assets.

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2023

5. Revenue / other income

	Note	2023 \$	2022 \$
Revenue from contract with customers			
Revenue from sales at a point in time		15,371	27,148
Total revenue		15,371	27,148
Grant income			
Grant income – R&D Tax Incentive Scheme	14	587,999	460,691
Grant income – Business Growth Grant		-	9,240
Grant income – Innovation Connections Grant		-	20,000
Total grant income		587,999	489,931
Other income			
Finance income		13,253	709
Recoupment of legal fees		37,145	-
Creditor write-off		-	26,334
Total other income		50,398	27,043
Settlement of engineering flaw		-	650,000
Income on fair value of convertible note options		21,000	54,000
Total revenue, grant and other income		674,768	1,248,122

6. Loss for the year

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

	Note	2023 \$	2022 \$
Expenses			
Depreciation and amortisation:			
Depreciation plant and equipment		72,862	77,883
Depreciation right-of-use asset	15	45,328	45,328
Amortisation intangible assets	14	494,649	-
Total depreciation expense		612,839	123,211
Depreciation does not include amounts which have been capitalised under development expenditure.			
Finance costs:			
Interest expense on leases		111,420	117,018
Loan expenses		4,864	83,908
Interest expense on loans with related parties		-	56,436
Interest expense on loans with third parties		311,913	309,315
		428,197	566,677
Staff costs:			
Salaries #		1,195,172	1,310,153
Superannuation #		109,105	120,940
Employee share-based payments		91,390	71,024
Salaries capitalised under development expenditure		(918,877)	(1,103,395)
Superannuation capitalised under development expenditure		(84,115)	(101,535)
Legal fees		60,287	29,475

Includes amounts which have been capitalised under development expenditure.

7. Income tax expense

a) Income tax expense

	2023	2022
	\$	\$
Income tax reported in the consolidated statement of profit or loss and other comprehensive income	-	-

b) Reconciliation of effective tax rate

	2023	2022
	\$	\$
Accounting loss before tax from continuing operations	(3,402,618)	(2,081,964)
Prima facie tax benefit on loss from ordinary activities before income tax at 25% (2022: 25%)	(850,655)	(520,491)
Less:		
Tax effect of:		
Non-deductible expenditure	362,336	291,394
Research and development tax incentive (non-assessable)	(147,000)	(115,173)
Sundry	-	14,859
Current year tax losses carried forward	635,318	329,411
Income tax expense recorded in the consolidated 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 books at 30 June 2023. The unused tax losses (including capital losses) held in the Australian group of companies as at 30 June 2023 is \$38,270,015. 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:

8. Earnings per share (continued)

	2023 \$	2022 \$
Loss after tax from operations	(3,402,618)	(2,081,964)
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	1,841,679,638	784,355,320
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,841,679,638	784,355,320
Earnings per share	Dollar/share	Dollar/share
Basic loss	(0.0018)	(0.0027)
Diluted loss	(0.0018)	(0.0027)

9. Cash and cash equivalents

	2023 \$	2022 \$
Cash at bank	637,832	269,077

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

	2023 \$	2022 \$
Loss from ordinary activities after income tax expense:	(3,402,618)	(2,081,964)
Depreciation	612,839	123,211
Grant income	(587,999)	(469,931)
Gain on creditor write-off	-	(26,335)
Shares received in lieu of reimbursement of direct costs	-	(150,000)
Unrealised Income on Fair Value of convertible note options	(21,000)	(54,000)
Share option reserve	111,920	152,209
	(3,286,858)	(2,506,810)
Change in operating assets and liabilities:		
(Increase)/decrease in other current assets	192,278	364,612
(Increase)/decrease in inventories	(43,704)	31,712
Increase/(decrease) in trade and other payables	(4,256)	248,676
Increase/(decrease) in accrued interest	314,538	452,659
Increase/(decrease) in other liabilities	13,885	28,712
Increase in provisions	(11,117)	47,587
Increase in intangible assets	1,418,565	963,997
Net cash outflows from operating activities	(1,406,669)	(368,855)

9. Cash and cash equivalents

b) Non-cash transactions on investing and financing activities

	2023 \$	2022 \$
Shared-based payments	111,920	152,209
Movements in convertible notes	283,403	398,659
	395,323	550,868

10. Inventories

	2023 \$	2022 \$
Raw materials – at cost	37,808	43,339
Finished goods – at cost	92,978	43,743
	130,786	87,082

11. Current assets – other assets

	Note	2023 \$	2022 \$
Term deposit – bank guarantee rent Homebush *		42,750	42,750
Security deposits		5,290	5,290
Prepaid expenses		116,986	119,440
Amount receivable under R&D Tax Incentive Scheme	14(c)	1,315,087	1,495,671
Amount receivable under Innovation Connections Grant		-	9,240
		1,480,113	1,672,391

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

12. Financial assets at fair value through OCI

	2023 \$	2022 \$
Investment in Hydrix Limited	26,000	74,000
	26,000	74,000

13. Property, plant and equipment

	Note	Plant & Equipment \$	Leasehold Improvements \$	Total \$
Cost:				
Balance at 1 July 2021		1,427,817	592,357	2,020,174
Additions		2,864	-	2,864
Balance at 30 June 2022		1,430,681	592,357	2,023,038
Balance at 1 July 2022		1,430,681	592,357	2,023,038
Additions		6,197	-	6,197
Balance at 30 June 2023		1,436,878	592,357	2,029,235
Accumulated depreciation:				
Balance at 1 July 2021		833,580	592,357	1,425,937
Depreciation for the year		95,693	-	95,693
Balance at 30 June 2022		929,273	592,357	1,521,630
Balance at 1 July 2022		929,273	592,357	1,521,630
Depreciation for the year		79,465	-	79,465
Balance at 30 June 2023		1,008,738	592,357	1,601,095
Net book value at 30 June 2022		501,408	-	501,408
Net book value at 30 June 2023		428,140	-	428,140

14. Intangible assets

a) Reconciliation of movements in intangible assets

	Note	Internal Development \$	Total \$
Cost:			
Balance at 1 July 2021		13,833,348	13,833,348
Additions		2,422,490	2,422,490
Balance at 30 June 2022		16,255,838	16,255,838
Balance at 1 July 2022		16,255,838	16,255,838
Additions		1,837,698	1,837,698
Balance at 30 June 2023		18,093,536	18,093,536
Less Accumulated grant income:			
Balance at 1 July 2021		5,542,084	5,542,084
Deferred R&D Tax Incentive grant income for the year		1,034,980	1,034,980
Balance at 30 June 2022		6,577,064	6,577,064
Balance at 1 July 2022		6,577,064	6,577,064
Deferred R&D Tax Incentive grant income for the year	14(c)	727,089	727,089
Balance at 30 June 2023		7,304,153	7,304,153
Less Accumulated amortisation:			
Balance at 1 July 2022		-	-
Amortisation		494,649	494,649
Balance at 30 June 2023		494,649	494,649
Net carrying value at 30 June 2022		9,678,774	9,678,774
Net carrying value at 30 June 2023		10,294,734	10,294,734

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 are amortised when they are available for use. A useful life of 20 years is being used in the calculation of amortisation of the *Sperm Separation Humans* and *Membranes for the Felix device* projects.

b) Reconciliation of intangible assets carrying value by project

	2023 \$	2022 \$
<i>Felix Device - sperm separations humans - cost</i>	8,916,240	7,832,244
<i>Less Felix Device - sperm separations humans - accumulated amortisation</i>	(445,812)	-
Felix Device - sperm separations humans	8,470,428	7,832,244
Equus Device - sperm separations animals	896,400	896,400
<i>Membranes for Felix Device - cost</i>	976,743	950,130
<i>Less Membranes for Felix Device - accumulated amortisation</i>	(48,837)	-
Membranes for Felix Device	927,906	950,130
	10,294,734	9,678,774

14. Intangible assets (continued)

c) Reconciliation of grant income receivable

		2023 \$	2022 \$
	Note		
Analysis of grant income receivable:			
Component relating to projects under development	14(a)	727,088	1,034,980
Recognised as grant income in the current year	5	<u>587,999</u>	<u>460,691</u>
Total government grants receivable	11	<u><u>1,315,087</u></u>	<u><u>1,495,671</u></u>

d) Impairment review of intangible assets under development

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

- The contract manufacturers for the Felix cartridges, W&S, the largest plastic moulding manufacturer in the southern hemisphere, and the Felix consoles, SRX a global electronic manufacturer, are positioned to produce commercial Felix devices.
 - Consoles were commercially ready in October 2020.
 - Cartridges were commercially ready in October 2021.
- The performance of the Felix device has been bolstered by testing with global KOL partners, and this testing has shown that the technology behind the Felix device is capable of competing with the existing methods (DGC and swim up) for separating sperm for IVF. This work has now been published.
- One of the key outcomes of the Group's heightened commercialisation strategy throughout the 2023 financial year eventuated early in the 2024 financial year in the signing of an exclusive agreement with Vitrolife Japan KK (Vitrolife), a subsidiary of the global Vitrolife Group, to sell and distribute Felix™ in Japan, for a term of five years. The strategic collaboration enhances the availability of cutting-edge fertility treatment for men in Japan, a major IVF market, where population levels have been on the decline for many years.
- The Vitrolife Group (Vitrolife AB) is a world-leading global provider of medical devices, consumables and genetic testing services dedicated to the human IVF and reproductive health market. It has manufacturing sites in Sweden, Denmark and the United States of America and a direct presence in 25 countries. As part of the agreement, Vitrolife will provide marketing, sales, and training with an initial focus on key clinicians and high-volume clinics in Japan's private health sector.
- Further, the Felix device is being evaluated in an Australian clinical trial with Monash IVF at now 10 of their IVF sites. Achieving the clinical end point (embryo utilisation rate not being inferior to embryo utilisation rates from embryos created by processing of sperm by DGC or swim up) is crucial for achieving TGA certification in Australia. Having TGA certification is expected to open up other markets e.g. in the Middle East and in S E Asia, and will also potentially enable the device to obtain CE Mark certification in Europe. The clinical trial is now anticipated to finish by end of March 2023 depending on recruitment rates.
- The key risk to Felix commercialisation is the regulatory approval timelines in later access, highly regulated markets, most notably Australia (TGA), the USA (FDA) and EU (MDR). The overhaul to the medical device regulations, "MDR" in Europe, may also have flow on effects to other markets such as Australia. However, the Company has determined that the Japanese, Canadian and New Zealand markets could be accessed earlier for commercial sales.
- The Group has assessed those future economic benefits from the intangible assets will be greater than the sum of development costs at the reporting date plus future development costs to commercialise the assets.
- This assessment was based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets and forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 2% (2022: 2%). A discount rate of 16.85% (2022: 13.1%) was used in the value-in-use calculations.
- Memphasys is confident it has sufficient funding for the coming year to advance the commercialisation of the Felix device.

15. Right-of-use asset and lease liability

At 30 June 2023, the Group had the following lease arrangements:

- A non-cancellable lease for its production and commercial property in Homebush, which has a remaining term of 11 months. It includes a further lessee's three (3) options to renew the lease for three (3) years each, being the first term from 1 June 2024 expiring 31 May 2027, the second term from 1 June 2027 expiring 31 May 2030 and the third option term from 1 June 2030 expiring 31 May 2033.
- A lease for the cleanroom to manufacture the Felix disposable cartridges, built in the premises of W&S, in Moorebank. Although the lease agreement has not yet been formalised, it has been agreed that the amount of \$40,000 a year, which has been set at market rates, will give the Group the exclusive rights to use the cleanroom. The duration of the lease is still subject to discussion. In the absence of any better guidance, a 3-year lease (with a remaining term of 12 months at 30 June 2023) 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 Group.

	2023 \$	2022 \$
Non-current assets – right-of-use assets		
<i>Properties under lease agreements</i>		
<u>Homebush</u>		
At cost	1,637,763	1,637,763
Accumulated depreciation	(284,334)	(147,853)
	1,353,429	1,489,910
<u>Moorebank</u>		
At cost	380,167	380,167
Accumulated depreciation	(63,360)	(31,680)
	316,807	348,487
Total carrying amount of lease assets	1,670,236	1,838,397
Lease liabilities - current		
Property lease liabilities – Homebush	89,587	79,416
Property lease liabilities - Moorebank	21,326	19,311
Total current lease liabilities	110,913	98,727
Lease liabilities – non-current		
Property lease liabilities – Homebush	1,393,168	1,482,755
Property lease liabilities - Moorebank	321,338	342,663
Total non-current lease liabilities	1,714,506	1,825,418
Net carrying value at 30 June	1,825,419	1,924,145
	2023 \$	2022 \$
AASB 16 related amounts recognised in the Statement of Profit and Loss		
Depreciation Charge related to Right of Use Assets	45,328	45,328
Interest Expense on Lease Liabilities (under Finance Costs)	111,430	117,018
Total expenses recognised in the Statement of Profit and Loss	156,758	162,346

16. Trade and other payables

		2023 \$	2022 \$
	Note		
Trade payables		115,434	131,669
Payable to related parties	25(g)(i)	4,583	32,496
Other creditors and accruals (details in table below)		435,440	395,548
		555,457	559,713
Other creditors and accruals			
		2023 \$	2022 \$
University of Newcastle – unbilled research fees		133,000	214,354
Monash IVF – unbilled collaboration fees		240,000	120,000
Others		62,440	61,194
		435,440	395,548

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

17. Interest-bearing liabilities

		2023 \$	2022 \$
	Note		
Current:			
Convertible note unsecured - Related party liability	25(g)(ii)	43,200	43,200
Convertible note unsecured - Third-party debt		3,571,200	3,287,798
Third-party loan - secured		855,037	-
Alison Coutts		-	21,000
Alison Coutts Consulting Pty Ltd		-	54,000
Total current interest-bearing liabilities		4,469,437	3,405,998

2023 Analysis of convertible note unsecured	Curr- ency	Interest rate	Maturity	Face value	Carrying value
Related party liability—Andrew Goodall					
Convertible notes attached options (iii)	AUD			-	43,200
Subtotal related party liability Andrew Goodall				-	43,200
Third-party debt—Peters Investments Pty Ltd					
Convertible notes principal (i)	AUD	8%	Dec '23	3,000,000	2,738,325
Convertible notes facilitation fees (i)					85,855
Convertible notes interest (i)					694,220
Convertible notes attached options (iii)					52,800
Subtotal third-party debt Peters Investments Pty Ltd				3,000,000	3,571,200

17. Interest-bearing liabilities (continued)

2023 Analysis of third-party debt	Currency	Interest rate	Year of maturity	Face value	Carrying value
Third party loan - secured	AUD	16%	2023	849,000	855,037

Short-term loan secured against the amount receivable under the R&D Tax Incentive Scheme.

Total current interest-bearing liabilities	3,849,000	4,469,437
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2022 Analysis of convertible note unsecured	Currency	Interest rate	Maturity	Face value	Carrying value
Related party liability—Andrew Goodall					
Convertible notes attached options (iii)	AUD			-	43,200
Subtotal related party liability Andrew Goodall				-	43,200
Third-party debt—Peters Investments Pty Ltd					
Convertible notes principal (i)	AUD	8%	Dec '22	3,000,000	2,738,325
Convertible notes facilitation fees (i)					83,908
Convertible notes interest (i)					391,765
Convertible notes conversion derivative (ii)					21,000
Convertible notes attached options (iii)					52,800
Subtotal third-party debt Peters Investments Pty Ltd				3,000,000	3,287,798
Alison Coutts	AUD	8%	At call	21,000	21,000
Alison Coutts Consulting Pty Ltd	AUD	8%	At call	54,000	54,000
Total current interest-bearing liabilities				3,075,000	3,405,998

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

- Interest rate of 8% per annum, payable in cash or shares at the Lender's election.
- Facilitation Fee of 3% of gross value of Convertible Notes, added to the gross value of the Convertible Notes.
- Repayment Date: 31 December 2023 (originally 31 December 2022)
- Conversion Price: the lower of:
 - \$0.06; and
 - a 20% discount to the issue price of shares and/or the exercise price of any options offered under any capital raising(s) completed by the Company of greater than \$1,000,000 prior to the Repayment Date.
- Shareholder approval was obtained at the EGM held on 24 August 2021.

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

In the AGM held on 24 November 2022, approval was given by shareholders for the Company to extend the maturity date of the 3,000,000 convertible notes held by Peters Investments Pty Ltd to 31 December 2023.

17. Interest-bearing liabilities (continued)

(ii) The conversion feature has been classified as an embedded derivative and fair value determined based on applying probabilities to Black-Scholes valuation models. The extension to the convertible notes maturity date to 31 December 2023 required remeasurement of the interest-bearing liability and derivatives component. The fair value of the derivative liability amounted to nil (2022: \$21,000).

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

18. Non-interest-bearing liabilities

	2023 \$	2022 \$
Current:		
Third-party debt – unsecured *	77,330	154,668
Total current non-interest-bearing liabilities	77,330	154,668
Non-current:		
Third-party debt – unsecured **	-	77,330
Total non-current non-interest-bearing liabilities	-	77,330

* 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 the Group from W&S. In March 2021, the Group rearranged with W&S for the debt to be paid for in three years, in quarterly instalments of \$38,667.

** Non-current portion of debt for building the cleanroom facility in the premises of W&S.

19. Other liabilities

	2023 \$	2022 \$
Office of State Revenue NSW – payroll tax	23,771	18,918
Australian Taxation Office – GST	(20,871)	(19,422)
Australian Taxation Office – PAYG	44,747	34,266
	47,647	33,762

20. Provisions

	2023 \$	2022 \$
Current:		
Provision for employee benefits	306,507	286,446
Non-current:		
Provision for employee benefits	1,355	32,533

21. Share capital

a) Share capital

	2023 Shares	2022 Shares	2023 \$	2022 \$
Ordinary Shares – fully paid	959,520,382	792,178,337	53,417,790	50,340,937

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

	2023 Shares	2022 Shares	2023 \$	2022 \$
Balance at beginning of year	792,178,337	759,773,880	50,340,937	48,884,176
Shares issued under share placement	80,000,000	-	1,600,000	-
Shares issued under non-renounceable entitlement offer	88,020,892	-	1,760,418	-
Exercise of options	-	32,404,457	-	1,075,828
Selective reduction of capital #	(678,847)	-	-	-
Transfer of expired option reserve	-	-	-	411,462
	959,520,382	792,178,337	53,701,355	50,371,466
Less issue costs			283,565	30,529
Balance at end of year	959,520,382	792,178,337	53,417,790	50,340,937

Selective reduction of capital by cancelling shares held by Goh Thee Woon, as per Resolution 2 of Notice of Annual General Meeting approved by shareholders on 24 November 2022.

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 2023 financial year (2022: nil).

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 Group's strategy for capital management.

23. Reserves

	2023	2022
	\$	\$
Share options reserve (i)	264,129	152,209
Asset revaluation reserve (ii)	(124,000)	(76,000)
	140,129	76,209

(i) The share option reserve is used to record increases in equity arising from equity-settled share-based payment arrangements.

(ii) The asset revaluation reserve is used to record changes in the fair value of financial assets classified or designated at fair value through other comprehensive income.

(a) Share options reserve

	2023	2022
	\$	\$
Balance at the beginning of the year	152,209	-
Net share-based payment expense	111,920	152,209
Balance at the end of the year	264,129	152,209

(b) Asset revaluation reserve

	2023	2022
	\$	\$
Balance at the beginning of the year	(76,000)	-
Net changes in the fair value of financial assets classified or designated at fair value through other comprehensive income	(48,000)	(76,000)
Balance at the end of the year	(124,000)	(76,000)

24. Auditors' remuneration

	2023	2022
	\$	\$
Audit & Assurance services		
Review of interim report	23,200	21,475
Audit of financial report – year end	42,800	40,000
Total remuneration for services	66,000	61,475

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

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

ii. Executives

John Aitken	Scientific Director
Nick Goring	Operations Manager (resigned 25 August 2022)
Pablo Neyertz	Director of Finance
David Ali	Director of Business Development (appointed 27 March 2023)
Hassan Bakos	Director of Operations (appointed 24 April 2023)

c) Key management personnel compensation

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

	2023	2022
	\$	\$
Short-term employee benefits	1,041,556	1,058,789
Long-term employee benefits	21,745	10,762
Post-employment benefits	91,290	81,356
Share-based payments	65,571	46,144
	1,220,162	1,197,051

d) Share based compensation - Options

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

2,500,000 options were issued to the Company's Chairman Robert Cooke in lieu of a portion director fees, with shareholder approval passed at EGM 28 November 2022. The fair value of the attached options was \$20,530 estimated using the Black-Scholes valuation model with the following assumptions:

• Stock price	\$0.0177 (5-day VWAP prior to the AGM)
• Exercise price	\$0.0237 (34% premium on stock price)
• Risk-free interest rate	2.984%
• Expiry period	2 years
• Volatility	100.16%
• Fair value per option	\$0.008

No share options were issued to Executives in the financial year ended 30 June 2023.

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.

25. Related parties (continued)

2023	Balance as at 1 July 2022 \$	Net movement \$	Balance as at 30 June 2023 \$
Alison Coutts (a)	79,625,139	5,360,180	84,985,319
Andrew Goodall (b)	171,498,505	400,000	171,898,505
Pablo Neyertz	788,967	87,664	876,631
Total	251,912,611	5,847,844	257,760,455

(a) Alison Coutts' shareholding comprises 77,847,375 shares held directly and 7,137,944 held indirectly.

(b) Andrew Goodall's shareholding comprises 171,206,265 shares held directly, and 692,240 shares held indirectly.

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

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. 2,500,000 options were granted to Robert Cooke during the reporting period as director compensation.

2023	Balance at start of year	Granted as remuneration	Lapsed during the year	Balance at end of the year	Exercisable	Non Exercisable
Alison Coutts	3,363,000	-	1,770,000	1,593,000	-	1,593,000
Andrew Goodall	1,350,000	-	-	1,350,000	1,350,000	-
Robert Cooke	-	2,500,000	-	2,500,000	2,500,000	-
Nick Gorrington	1,140,000	-	1,140,000	-	-	-
Pablo Neyertz	210,900	-	111,000	99,900	-	99,900
John Aitken	2,280,000	-	1,200,000	1,080,000	-	1,080,000
Total	8,343,900	2,500,000	4,221,000	6,622,900	3,850,000	2,772,900

No options were exercised during the year by KMP (2022: nil).

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

Memphasys Limited and its Controlled Entities
Notes to Financial Statements
For the year ended 30 June 2023

25. Related parties (continued)

g) Other transactions with key management personnel and related parties

i) At 30 June 2023, payables to related parties were as follows:

	2023 \$	2022 \$
Andrew Goodall director fees	4,583	4,583
Alison Coutts bonus	-	27,913
	<u>4,583</u>	<u>32,496</u>

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

		2023 \$	2022 \$
Current balances:			
	Note		
Andrew Goodall	17	43,200	43,200
Alison Coutts		-	21,000
Alison Coutts Consulting Pty Ltd		-	54,000
Total		<u>43,200</u>	<u>118,200</u>

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

	Interest paid 2023 \$	2022 \$	Interest accrued 2023 \$	2022 \$
Andrew Goodall	-	-	-	59,436
Alison Coutts	1,463	-	1,463	-
	<u>1,463</u>	<u>-</u>	<u>1,463</u>	<u>59,436</u>

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

Transactions between Memphasys Limited and other entities in the wholly owned group during the year ended 30 June 2023 consisted of loans advanced by Memphasys Limited to its controlled entity Feronia Fertility Pty Ltd.

26. Controlled entities

Name of entity	Country of Incorporation	Class of share	Equity Holding		
			2023 %	2022 %	
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. Share-based payments

a) Description of share-based payment arrangements

(i) Employee Share Option Plan (equity settled)

On 30 July 2021, the Group established a share option program (performance options) that entitled personnel and consultants to purchase shares in the Company. The options will be exercisable as follows:

- Tranche 1 and 2 options: exercisable at a price set at a 34% premium above the 30-day variable weighted average price ("VWAP") on or before 2 years after their issue date, and
- Tranche 3 Options: exercisable at a price set at a 43% premium above the 30-day VWAP on or before 3 years after their issue date.

Employees / consultants entitled	Number of options			
	Tranche 1	Tranche 2	Tranche 3	Total
KMP	2,739,100	1,911,000	1,719,900	6,370,000
Consultants	1,462,000	1,020,000	918,000	3,400,000
Employees	761,100	531,000	477,900	1,770,000
Total	4,962,200	3,462,000	3,115,800	11,540,000

Proposed performance option hurdle terms

The same performance hurdles applied for all employee and consultant options. The performance options will vest as set out in the table below according to the levels of performance achieved in the requisite performance period for their achievement. Options lapse if the performance hurdles are not met at the end of the performance period.

	Tranche 1	Tranche 2	Tranche 3
Performance hurdle	MEM receives material sales orders from at least two KOL IVF clinics in two (low reg) geographic markets (or at Board's discretion other commercial sales) with the first commercial sale to be on or prior to 31 December 2021, and the second on or prior to 31 March 2022.	MEM receives first material commercial sales order of Stallion Dismount Diagnostic device (Sampson) from a commercial user, including an equine breeding stud, a commercial equine semen processing facility or a veterinary clinic servicing the equine breeding industry, by 31 December 2022.	Proprietary whole semen ambient temperature medium developed, and a proof concept trial successfully completed, for human semen diagnostic applications by 31 December 2022, or Successful proof of concept trial in another product in the portfolio of reproductive biotechnology products currently being worked on by the Company by 30 June 2023.
Option period	2 years from granting		3 years from granting
Performance period	"Performance period 1": 1 July 2021 to 31 December 2022.		"Performance period 2": 1 July 2021 to 30 June 2023.

All tranches of the options did not meet the hurdles.

(ii) Incentive Share Option Plan (equity settled)

On 1 September 2021, the Group established an incentive option program that entitled Alison Coutts to purchase shares in the Company. The terms of the options were identical to the Employee Shares Option Plan above. 5,900,000 options were issued (2,537,000 under Tranche 1; 1,770,000 under Tranche 2 and 1,593,000 under Tranche 3).

All tranches of the options did not meet the hurdles.

27. Share-based payments (continued)

(iii) Other options

(1) Convertible notes

On 25 August 2021, 3,000,000 free attaching options were issued (1,650,000 to Peters Investments Pty Ltd and 1,350,000 to the director Andrew Goodall) with shareholder approval passed at EGM 24 August 2021, for every dollar of convertible note subscribed, exercisable at \$0.06 on or before 31 December 2023. Please refer to Note 17.

(2) Hydrix settlement

On 14 September 2021, 3,000,000 unlisted options were issued to Hydrix Limited, as part of the settlement of the engineering flaw, exercisable at \$0.067 on or before 13 September 2023.

(3) Director fees - Robert Cooke

On 6 December 2022, 2,500,000 unlisted options were issued to the Company's Chairman Robert Cooke in lieu of a portion of director fees, with shareholder approval passed at EGM 28 November 2022, exercisable at \$0.0237 on or before 5 December 2024.

b) Measurement of fair values

The fair value of all the options outlined in a) have been measured using the Black-Scholes formula. Service and not market performance conditions attached to the arrangements were not taken into account when measuring fair value.

The inputs used in the measurements of the fair values at grant date of the equity-settle share-based payment plans were as follows:

	Employee Share Option Plan a) (i)		Incentive Share Option Plan a) (ii)		Convertible Notes a) (iii)_(1)		Hydrix Limited a) (iii)_(2)		Robert Cooke a) (iii)_(3)
	2023	2022	2023	2022	2023	2022	2023	2022	2023
Exercise price @ grant date	T1 \$0.0892 T2 \$0.0884 T3 \$0.0952	T1 \$0.0892 T2 \$0.0884 T3 \$0.0952	T1 \$0.0884 T2 \$0.0884 T3 \$0.0944	T1 \$0.0884 T2 \$0.0884 T3 \$0.0944	\$0.060	\$0.060	\$0.10	\$0.10	\$0.0237
Fair value @ grant date	T1 \$0.028 T2 \$0.020 T3 \$0.025	T1 \$0.028 T2 \$0.020 T3 \$0.025	T1 \$0.028 T2 \$0.012 T3 \$0.015	T1 \$0.028 T2 \$0.012 T3 \$0.015	\$0.007	\$0.007	\$0.027	\$0.027	\$0.008
Share price @ grant date	\$0.0666	\$0.0666	\$0.0666	\$0.0666	\$0.04	\$0.04	\$0.0666	\$0.0666	\$0.0177
Expected volatility (weighted average)	72.14%	72.14%	49.37%	49.37%	108%	108%	95%	95%	100.2%
Expected option life	T1 cancelled T2 2 yrs T3 3 yrs	T1 cancelled T2 2 yrs T3 3 yrs	T1 cancelled T2 2 yrs T3 3 yrs	T1 cancelled T2 2 yrs T3 3 yrs	2.5 yrs	1.5 yrs	2 yrs	2 yrs	2 yrs
Expected dividends	0%	0%	0%	0%	0%	0%	0%	0%	0%
Risk-free interest rate (based on government bonds)	T1 0.04% T1 0.04% T1 0.16%	T1 0.04% T1 0.04% T1 0.16%	T1 0.02% T1 0.02% T1 0.15%	T1 0.02% T1 0.02% T1 0.15%	3.84%	3.29%	1.28%	1.23%	2.984%

Expected volatility has been based on evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term.

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For the year ended 30 June 2023

27. Share-based payments (continued)

c) Reconciliation of outstanding share options

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

2023

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	Exercisable	Non-exercisable
Consolidated and parent entity:										
30 Jul 2021	30 Jul 2023	30 Jun 2022	\$0.0905	3,462,000	-	-	3,462,000	-	-	-
30 Jul 2021	30 Jul 2024	30 Jun 2023	\$0.0965	3,115,800	-	-	540,000	2,575,800	-	2,575,800
25 Aug 2021	31 Dec 2023	-	\$0.0600	3,000,000	-	-	-	3,000,000	3,000,000	-
25 Aug 2021	31 Aug 2023	30 Jun 2022	\$0.0884	1,770,000	-	-	1,770,000	-	-	-
25 Aug 2021	31 Aug 2024	30 Jun 2023	\$0.0944	1,593,000	-	-	-	1,593,000	-	1,593,000
14 Sep 2021	13 Sep 2023	-	\$0.1000	3,000,000	-	-	-	3,000,000	3,000,000	-
6 Dec 2022	5 Dec 2024	-	\$0.0237	-	2,500,000	-	-	2,500,000	2,500,000	-
Total				15,940,800	2,500,000	-	5,772,000	12,668,800	8,500,000	4,168,800
Weighted average exercise price per share				8.8¢	2.4¢	-	9.0¢	7.4¢		
Weighted average remaining contractual life								296 days		

No options have been issued or exercised post balance date.

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

Memphasys Limited and its Controlled Entities
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27. Share-based payments (continued)

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

2022

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	Exercisable	Non-exercisable
Consolidated and parent entity:										
28 Mar 2019	28 Sep 2021	-	\$0.0332	20,000,000	-	20,000,000	-	-	-	-
28 Mar 2019	28 Sep 2021	-	\$0.0332	12,404,457	-	12,404,457	-	-	-	-
22 Oct 2019	22 Oct 2021	-	\$0.1142	989,681	-	-	989,681	-	-	-
22 Oct 2019	22 Oct 2021	30 Jun 2020	\$0.1142	12,000,000	-	-	12,000,000	-	-	-
22 Oct 2019	22 Oct 2021	15 Nov 2019	\$0.1142	1,466,194	-	-	1,466,194	-	-	-
22 Oct 2019	22 Oct 2021	30 Jun 2020	\$0.1142	4,800,000	-	-	4,800,000	-	-	-
30 Jul 2021	30 Jul 2023	31 Dec 2021	\$0.0905	-	4,962,200	-	4,962,200	-	-	-
30 Jul 2021	30 Jul 2023	30 Jun 2022	\$0.0905	-	3,462,000	-	-	3,462,000	3,462,000	-
30 Jul 2021	30 Jul 2024	30 Jun 2023	\$0.0965	-	3,115,800	-	-	3,115,800	-	3,115,800
25 Aug 2021	31 Dec 2023	-	\$0.0600	-	3,000,000	-	-	3,000,000	3,000,000	-
25 Aug 2021	31 Aug 2023	31 Dec 2021	\$0.0884	-	2,537,000	-	2,537,000	-	-	-
25 Aug 2021	31 Aug 2023	30 Jun 2022	\$0.0884	-	1,770,000	-	-	1,770,000	1,770,000	-
25 Aug 2021	31 Aug 2024	30 Jun 2023	\$0.0944	-	1,593,000	-	-	1,593,000	-	1,593,000
14 Sep 2021	13 Sep 2023	-	\$0.1000	-	3,000,000	-	-	3,000,000	3,000,000	-
Total				51,660,332	23,440,000	32,404,457	26,755,075	15,940,800	11,232,000	4,708,800
Weighted average exercise price per share				6.3¢	8.9¢	3.3¢	10.7¢	8.8¢		
Weighted average remaining contractual life								546 days		

No options have been issued or exercised post balance date.

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

27. Share-based payments (continued)

d) Expense recognised from share-based payment transactions

The expense in relation to the share-based payment transactions was recognised within employee benefits expense within profit or loss amounted to \$111,920 (2022: \$152,209).

Number of options	Granted to	Granted on	Options value
6,577,800	Personnel & consultants	ESOP Jul'21 – tranches 2&3	55,536
3,363,000	Alison Coutts	Performance options Aug'21–tranches 2&3	15,488
3,000,000	Hydrix Limited	Settlement of engineering flaw Sep'21	81,185
Total value of options expense in the financial year ended 30 June 2022			152,209
2,500,000	Robert Cooke	In lieu of a portion of director fees	20,530
4,126,800	Personnel & consultants	ESOP Jul'21–tranches 2&3–unexpired FY23	36,974
1,593,000	Alison Coutts	Performance options Aug'21–tranches 2&3 unexpired FY23	11,948
2,451,000	Personnel & consultants	ESOP Jul'21–tranches 2&3–cancelled FY23	30,078
1,770,000	Alison Coutts	Performance options Aug'21–tranches 2&3 cancelled FY23	12,390
Total value of options expense in the financial year ended 30 June 2023			111,920

28. Financial risk management policies

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

a) Credit risk exposures

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

b) Liquidity risk

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

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

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.

28. Financial risk management policies (continued)

	Within one year		One to five years		Total	
	2023	2022	2023	2022	2023	2022
	\$	\$	\$	\$	\$	\$
Financial liabilities:						
Trade & other payables	555,457	559,713	-	-	555,457	559,713
Interest bearing liabilities	4,469,437	3,405,998	-	-	4,469,437	3,405,998
Non-interest-bearing liabilities	77,330	154,668	-	77,330	77,330	231,998
Lease liabilities	216,051	210,147	2,231,881	2,447,932	2,447,932	2,658,079
Other liabilities	47,647	33,762	-	-	47,647	33,762
Expected outflows	5,365,922	4,364,288	2,231,881	2,525,262	7,597,803	6,889,550
Financial assets:						
Cash & cash equivalents	637,832	269,077	-	-	637,832	269,077
Other assets	165,026	176,719	-	-	165,026	176,719
Grant receivable	1,315,087	1,495,672	-	-	1,315,087	1,495,672
Expected inflows	2,117,945	1,941,468	-	-	2,117,945	1,941,468
Net expected cash flow	(3,247,977)	(2,422,820)	(2,231,881)	(2,525,262)	(5,479,858)	(4,948,082)

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 2023 the Group has no interest-bearing liabilities subject to future change in interest rates, therefore the Group is not exposed to interest rate risk.

ii) Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group. In the current financial year, the Group has operated internationally in low volumes and has no assets and liabilities in foreign currencies at the end of the period. Therefore, there was no exposure to foreign exchange risk.

d) Financial instruments carried at fair value

The Group's financial instruments are measured at fair value at the end of the reporting period on a recurring basis, categorised into three-level fair value hierarchy as defined in AASB 13, *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 shares in Hydrix Limited, included under Financial assets, are classified as Level 1 asset.

28. Financial risk management policies (continued)

The options held in Hydrix Limited are classified as Level 3 asset. Refer to Note 27 a) (iii) (2) for further details.

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 106% (2022: 106%), (ii) risk free interest rate of 3.84% (2022: 3.84%) and (iii) exercise price (\$0.06 or lower price for conversion derivative). Refer to Note 17 for further details.

29. Capital Commitments

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

30. Events after Balance Date

The Company announced on 7 August 2023 that it signed an exclusive agreement with Vitrolife Japan KK, a subsidiary of Vitrolife Group, to sell and distribute the Felix™ system in Japan for a term of five years.

No other matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

31. Company Details

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

Memphasys Limited and its Controlled Entities
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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 26 to 61 and the Remuneration Report on pages 19 to 24 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 2023 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 Group 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 Officer and Finance Director for the financial year ended 30 June 2023.
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
Chief Executive Officer

Sydney
30 August 2023

Pitcher Partners Sydney Partnership

Level 16, Tower 2 Darling Park
201 Sussex Street
Sydney NSW 2000

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Sydney NSW 2001

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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 2023, 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 2023 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 2023 of \$3,402,618, had net cash flows outflows from operating activities of \$1,406,669 and net cash outflows from investing activities of \$1,976,700, had a deficit in working capital of \$3,318,560 and a net assets of \$7,384,689. In Note 3(a) it is stated that the Group is dependent on the raising of additional funds for working capital purposes. 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 of intangible assets <i>Refer to Note 14 in the Notes to the Financial Statements</i> At 30 June 2023 the statement of financial position includes intangible assets amounting to \$10,294,734 that primarily relates to the Felix technology. Given the significance of the carrying value of the intangible assets to the financial position of the Group and the judgements and assumptions required in the value-in-use model (including forecast cash flows and discount rate), the recoverability of these assets was a key audit matter.	Our procedures included amongst others: • Obtaining an understanding and evaluating the design and implementation of controls in place in respect of cashflow forecasts and value in use calculations; • Evaluating the value-in-use model for the Felix technology and the key assumptions in the model; • Evaluating the forecast cash flows used in the value-in-use model were consistent with most up-to-date budgets prepared by management and provided to the Board; • Evaluating the appropriateness of the discount rate used in the value-in-use model; • Assessing whether any other indicators of impairment exist; • Considering other qualitative considerations (e.g. market valuation of the company compared to its net assets, recent clinical trial results, capital raising activities, other public information available or press releases); and • Assessing the adequacy of financial statements disclosures.

Recognition of R&D tax incentive receivables

Refer to Note 11 in the Notes to the Financial Statements.

At 30 June 2023, the statement of financial position includes R&D tax incentive receivable amounting to \$1,315,087.

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

Our procedures included, amongst others:

- Obtaining the AusIndustry approval letter to ensure that the R&D tax incentive receivable can be recognised;
 - Comparing the estimates made in prior periods to the amount of rebates received after lodgement of the R&D tax claim;
 - Obtaining R&D tax incentive calculations completed by management and performing the following audit procedures:
 - Developing an understanding of the model, identifying and assessing key assumptions in the calculations;
 - Testing the mathematical accuracy of the R&D tax incentive receivable;
 - Testing a sample of claimed expenditure to source documentation and reviewing the source documentation to verify the expenses are eligible; and
 - For labour costs included in the calculation, reviewing the percentage included for appropriateness;
 - 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 2023 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 19 to 24 of the directors' report for the year ended 30 June 2023. In our opinion, the Remuneration Report of Memphasys Limited, for the year ended 30 June 2023, 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 2023



PITCHER PARTNERS
Sydney

Shareholder information

The shareholder information set out below was applicable as 24 August 2023.

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	444	77,649	0.010
1,001-5,000	196	631,667	0.070
5,001-10,000	218	1,777,226	0.190
10,001-100,000	752	30,715,454	3.200
100,001-999,999,999	532	926,318,386	96.540
Totals	2,142	959,520,382	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	261,564,791	27.260%
MR ANDREW ERNEST GOODALL	171,206,265	17.843%
MS ALISON COUTTS	77,847,375	8.113%
MR ADAM STUART DAVEY <THE DAVEY INVESTMENT A/C>	18,809,000	1.960%
MR ALLAN GRAHAM JENZEN & MRS ELIZABETH JENZEN <AG & E JENZEN P/L NO2 SF A/C>	17,530,000	1.827%
NUTSVILLE PTY LTD <INDUST ELECTRIC CO S/F A/C>	12,940,308	1.349%
ASSERT CORPORATE & INVESTOR RELATIONS PTY LTD	10,000,000	1.042%
MRS VIVIANA INES MESSINA	7,577,777	0.790%
MR JOHN AITKEN	7,527,840	0.785%
DR RUSSELL KAY HANCOCK	7,000,000	0.730%
ALISON COUTTS CONSULTING PTY LTD <ALISON COUTTS SUPER FUND A/C>	6,723,220	0.701%
CROSSBAY PTY LTD	6,626,055	0.691%
SAVOY CAPITAL PARTNERS PTY LTD <SAVOY CAPITAL PARTNERS A/C>	5,466,434	0.570%
WINDAMURAH PTY LTD <ATKINS SUPER FUND A/C>	5,373,928	0.560%
BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	5,048,279	0.526%
MR ADAM STUART DAVEY & MRS MARISA DAVEY <THE DAVEY SUPER FUND A/C>	4,842,217	0.505%
MIKEL ENTERPRISES PTY LTD <NOTRE MAISON SUPER FUND A/C>	4,082,125	0.425%
MR MICHAEL WILLIAM ATKINS	4,080,000	0.425%
MIHAILOVSKI PTY LTD <MIHAILOVSKI FAMILY A/C>	4,000,000	0.417%
MR JIM HRONAKIS	4,000,000	0.417%
MONASH IVF GROUP LIMITED	4,000,000	0.417%
Total Securities of Top 20 Holdings	646,245,614	67.351%
Total of Securities	959,520,382	

Shareholder information

C. Substantial Shareholders as at 24 August 2023

Ordinary shares

Holder Name	Number Held	Percentage
PETERS INVESTMENTS PTY LTD	261,564,791	27.260%
MR ANDREW ERNEST GOODALL	171,206,265	17.843%
MS ALISON COUTTS	77,847,375	8.113%

D. Unquoted Equity Securities

Security Class	Number of Holders	Number on Issue
Free Attaching Option - Exercise \$0.06 Expiry 31 December 2023	2	3,000,000.
Incentive Options - Tranche 3 - Ex price \$0.094 Exp 31 Aug 2024	1	1,593,000.
Unlisted Options \$0.10 Expiry 13/09/2023	1	3,000,000.
Unlisted Options Tranche 3 Expiry 30 July 2024	6	2,575,800.
Unlisted Options \$0.0237 Expiry 5 December 2024	1	2,500,000.
Total:	11	12,668,800

E. Voting Rights

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

a) Ordinary Shares

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

b) Options

No voting rights.

Corporate Directory

Memphasys Limited
ABN 33 120 047 556

Directors

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

Company Secretary

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

Share Registry

Boardroom Pty Limited
Level 8, 210 George 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