
MOLECULAR DISCOVERY SYSTEMS LIMITED

ACN 118 494 492

Financial Report 2014

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Molecular Discovery Systems Limited

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Directors

David Breeze
Greg Gilbert (resigned 11 December 2013)
Bruce Whan (appointed 12 December 2013)
Deborah Ambrosini

Registered Office

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NORTH PERTH WA 6006

Principal Business Address

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Telephone: (08) 9328 8711
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Auditor

Nexia Perth Audit Services Pty Ltd
Level 3, 88 William Street
PERTH WA 6000

Australian Business Number

39 118 494 492

Directors' Report

Molecular Discovery Systems Limited

The directors of Molecular Discovery Systems Limited ("MDS" or the "company") presents the report of the company for the financial year ended 30 June 2014.

Directors

The directors in office at any time during or since the end of the year are:

Name	Date Appointed
David Breeze	23 February 2006
Greg Gilbert (resigned 11 December 2013)	4 September 2009
Deborah Ambrosini	7 September 2009
Bruce Whan	12 December 2013

Company Secretary

Ms Deborah Ambrosini continues in her role of company secretary. She also holds the position of financial controller of the company and has over 15 years experience in corporate accounting roles.

Principal Activities

MDS was established to acquire high content information from large scale sample analysis to create a range of direct and indirect commercial opportunities. Research and development is focused on oncology drug discovery and further validating HLS5 as a novel tumour suppressor gene.

Drug Discovery:

MDSystems has core expertise in high-content imaging and analysis. MDSystems' owned IN Cell Analyser 1000 (GE Healthcare) is a semi-automated cellular imaging and analysis platform that combines high-resolution imaging and high-content analysis and is ideally suited for screening compounds that modulate complex cellular responses. The IN Cell Analyser 1000 is currently utilised for the discovery and development of new cancer drugs.

HLS5 Project:

MDSystems is working with the Harry Perkins Institute of Medical Research (formerly Western Australian Institute for Medical Research) ('Perkins Institute') to develop and validate HLS5 as a novel tumour suppressor gene. A concerted research effort by leading Australian scientists has revealed that HLS5 works through multiple pathways that may target cancer as well as a range of other diseases such as Huntington's, Parkinson's and HIV infection.

MDSystems has an extensive patent portfolio encapsulating the tumour suppressor gene HLS5 both as a potential therapeutic target and also underpinning its involvement in a variety of disease pathways.

Operating Results

The loss of the company after providing for income tax was \$226,207 (2013: \$198,589).

Dividends

The Directors recommend that no dividend be paid in respect of the current period and no dividends have been paid or declared since the commencement of the period.

Directors' Report

Molecular Discovery Systems Limited

Review of Operations

The major activities throughout the period were:

- a) Although MDSystems continued its focus on oncology drug discovery and developed additional screening methods to identify modulators of other key cancer targets, the Company has decided to temporarily suspend its early stage drug discovery program. This change will take effect from July 2014.

Although the Company has suspended its early stage drug discovery program, MDSystems is continuing its work with the Harry Perkins Institute of Medical Research (formerly Western Australian Institute of Medical Research) ("Perkins Institute") in relation to the tumour suppressor gene, HLS5. MDSystems will continue working with the Perkins Institute to develop and validate HLS5 as a tumour suppressor.

Financial Position

The net asset deficiency of the company at 30 June 2014 was \$692,285 (2013: deficiency of \$466,078).

Significant Changes In State Of Affairs

There were no other significant changes in the state of affairs of the company other than that referred to in the financial statements or notes thereto.

After Balance Date Events

Other than referred in note 16 of these financial accounts there have not been any matters or circumstance that have arisen since the end of the period, that have significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Likely Developments

Likely developments which may prejudice the company by disclosure have not been disclosed.

Information on Directors

David Breeze

Managing Director and Executive Chairman – Age 60

David Breeze is a Corporate Finance Specialist with extensive experience in the stock broking industry and capital markets. He has been a corporate consultant to Daiwa Securities; was formerly Manager of Corporate Services for Eyres Reed McIntosh and the State Manager and Associate Director for the stock broking firm BNZ North's.

David has a Bachelor of Economics and a Masters of Business Administration, and is a Fellow the Financial Services Institute of Australasia, and a Fellow of the Institute of company Directors of Australia. He has published in the Journal of Securities Institute of Australia and has also acted as Independent Expert under the Corporations Act. He has worked on the structuring, capital raising and public listing of over 70 companies involving in excess of \$250M. These capital raisings covered a diverse range of areas including oil and gas, gold, food, manufacturing and technology.

David Breeze is Chairman of Grandbridge Limited, a publicly listed investment and advisory company and an Executive Director of MEC Resources Limited and BPH Energy Limited.

Directors' Report

Molecular Discovery Systems Limited

Greg Gilbert

Non - Executive Director – Age 66

Greg is a specialist in strategy and planning and works in the health and aged care sector. He has a Master of Science from Cranfield University in the UK and, in addition, has a Master of Health Administration from La Trobe University, an MBA from Deakin University, a BA from the University of Queensland, and a Dip.App Sc from the Royal Military College Duntroon.

Greg has an extensive background in merchant banking and banking, having held the position Global Head of Strategy and Finance and Project Director Global Credit Review with the National Australia Bank, as well as having worked in executive roles with Capel Court Investment Bank, CIBC Australia Limited and Bentley and Chau.

Greg has also worked with the National Australia Bank as an Internal Consultant on strategic operational reviews with Mckinsey and company and Booz Allen and Hamilton consultants.

A former Lieutenant Colonel in the Australian Defence Force, he has extensive senior management experience in strategic planning, financial management, change management and project management as well as merchant banking and corporate advisory experience in mergers and acquisitions and valuations.

Deborah Ambrosini

Executive Director – Age 40

Deborah is a chartered accountant with over 15 years' experience in accounting and business development spanning the biotechnology, mining, IT communications and financial services sectors. She has extensive experience both nationally and internationally in financial and business planning, compliance and taxation.

Deborah is a member of the Institute of Chartered Accountants and was a state finalist in the 2009 Telstra Business Woman Awards. Deborah was also a recipient of the highly regarded 40 under 40 award held by the WA Business News.

Deborah is also a Director of ASX listed MEC Resources Ltd, Grandbridge Limited and BPH Energy Limited.

Bruce Whan

Non - Executive Director – Age 65

Shares held – nil

Bruce has been actively involved in innovation for some 20 years and is director of Swinburne Knowledge, Swinburne University's commercialisation unit, and CEO of Swinburne Ventures Limited (SVL). Under his management, SVL has established or become involved in 18 start-up companies which have attracted investment of over \$16 million and presently enjoy annual operating revenues exceeding \$3 million. He is also Chairman of INNOVIC (the Victorian Innovation Centre Limited), which evaluates new products and technologies, and then plans and implements commercialisation strategies to attract investment and to optimise the likelihood of market place success. Bruce is also a member of the I&RD Board of Engineering and Manufacturing Committee which administers applications for commercial ready funding.

Meetings of Directors

During the financial year, one meeting of directors (including committees of directors) were held. Attendances by each director during the year were:

Directors' Report

Molecular Discovery Systems Limited

Directors' Meetings

	Number eligible to attend	Number attended
D L Breeze	1	1
G Gilbert	-	-
D Ambrosini	1	1
B Whan	1	1

Options

No options issued over ordinary shares in the company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

Indemnifying Officers and Auditors

During or since the end of the financial year the company has not given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums.

Proceedings on Behalf of Company

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

The company was not a party to any such proceedings during the year.

Non-audit Services

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

There were no fees paid for non-audit services to the external auditors during the year ended 30 June 2014 (2013: Nil).

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2014 has been received and can be found on page 5.

Signed in accordance with a resolution of the Board of Directors



D L Breeze
Director

Dated : 10 September 2014

Lead auditor's independence declaration under section 307C of the Corporations Act 2001

To the directors of Molecular Discovery Systems Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 there have been:

- (i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

NIPAS

Nexia Perth Audit Services Pty Ltd

Amar Nathwani

Amar Nathwani
Director

Perth
10 September 2014

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2014

Molecular Discovery Systems Limited

	Note	2014 \$	2013 \$
Revenue	2	56,000	128,000
Other Income	2	26,282	4,945
Administration expenses		(10,605)	(27,665)
Consulting and legal expenses		(11,886)	(12,341)
Depreciation and amortisation expense		(71,715)	(72,052)
Insurance expense		(1,628)	(1,805)
Research and development expenses		(187,519)	(188,831)
Other expenses from ordinary activities		(25,136)	(28,840)
Loss before income tax		(226,207)	(198,589)
Income tax benefit/(expense)	7	-	-
Loss from continuing operations		(226,207)	(198,589)
Other Comprehensive income			
Items that will never be reclassified to profit or loss		-	-
Items that are or may be reclassified to profit or loss		-	-
Total Comprehensive (loss)/income for the year		(226,207)	(198,589)

The accompanying notes form part of these financial statements.

Statement of Financial Position

as at 30 June 2014

Molecular Discovery Systems Limited

	Note	2014 \$	2013 \$
Current Assets			
Cash and cash equivalents	3	52,926	25,445
Trade and other receivables	4	58,497	131,892
Financial assets	5	-	61,415
Total Current Assets		111,423	218,752
Non-Current Assets			
Property, plant and equipment	8	420	792
Intangibles	9	393,163	464,508
Financial assets	5	61,415	-
Total Non-Current Assets		454,998	465,300
Total Assets		566,421	684,052
Current Liabilities			
Trade and other payables	10	30,061	24,500
Financial Liabilities	11	1,228,645	407,205
Total Current Liabilities		1,258,706	431,705
Non-Current Liabilities			
Financial Liabilities	11	-	718,425
Total Non-Current Liabilities		-	718,425
Total Liabilities		1,258,706	1,150,130
Net Assets		(692,285)	(466,078)
Equity			
Issued Capital	12	2,160,482	2,160,482
Reserves	15	4,270	4,270
Accumulated losses		(2,857,037)	(2,630,830)
Total Equity		(692,285)	(466,078)

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

for the year ended 30 June 2014

Molecular Discovery Systems Limited

	Ordinary Share Capital \$	Accumulated Losses \$	Reserves \$	Total \$
Balance at 1 July 2012	2,160,482	(2,432,241)	21,809	(249,950)
Net loss for the period	-	(198,589)	-	(198,589)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(198,589)	-	(198,589)
Issue of convertible note	-	-	(17,539)	(17,539)
Balance at 30 June 2013	2,160,482	(2,630,830)	4,270	(466,078)

	Ordinary Share Capital \$	Accumulated Losses \$	Reserves \$	Total \$
Balance at 1 July 2013	2,160,482	(2,630,830)	4,270	(466,078)
Net loss for the period	-	(226,207)	-	(226,207)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(226,207)	-	(226,207)
Issue of convertible note	-	-	-	-
Balance at 30 June 2014	2,160,482	(2,857,037)	4,270	(692,285)

The accompanying notes form part of these financial statements.

Statement of Cash Flows

for the year ended 30 June 2014

Molecular Discovery Systems Limited

	Note	2014 \$	2013 \$
Cash Flows From Operating Activities			
Receipts from operations		156,642	37,476
Payments to suppliers		(89,917)	(230,730)
Interest received		756	4,945
Net cash provided by/ (used) in operating activities	13 (b)	67,481	(188,309)
Cash Flows From Investing Activities			
Loan from other entities		-	165,899
Net cash used in investing activities		-	165,899
Cash Flows From Financing Activities			
Loan from other entities		20,000	-
Repayment of borrowings		(60,000)	-
Net cash used in financing activities		(40,000)	-
<i>Net increase / (decrease) in Cash Held</i>			
		27,481	(22,410)
<i>Cash at the Beginning of the Financial Year</i>			
		25,445	47,855
Cash At The End Of The Financial Year	13(a)	52,926	25,445

The accompanying notes form part of these financial statements.

1. Summary of Accounting Policies

Corporate Information

The financial report includes the financial statements and the notes of Molecular Discovery Limited. Molecular Discovery Systems Limited is an unlisted public company, incorporated and domiciled in Australia.

The financial report was authorised for issue on 10 September 2014 by the board of directors.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001. Molecular Discovery Systems Limited is a for-profit entity for the purpose of preparing the financial statements.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Compliance with IFRS

The financial statements of the Molecular Discovery Systems Limited comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Application of new and revised Accounting Standards

(a) Standards and Interpretations adopted in the current year

In the year ended 30 June 2014, the Directors have reviewed all of the new and revised Standards issued by the AASB that are relevant to the Company and effective for the current annual reporting period.

There are no new and revised Standards adopted in these financial statements affecting the reporting results or financial position.

(b) Standards and Interpretations in issue not yet adopted

A number of new standards, amendments to standards and interpretations are effective for future annual periods, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

(i) AASB 9 Financial Instruments (2010), AASB 9 Financial Instruments (2009)

AASB 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project that may result in limited amendments to the classification and measurement requirements of AASB 9 and

add new requirements to address the impairment of financial assets and hedge accounting. AASB 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2017 with early adoption permitted.

(ii) AASB 1031 Materiality (2013)

The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework for the Preparation and Presentation of Financial Statements (issued December 2013) that contain guidance on materiality. The AASB is progressively removing references to AASB 1031 in all Standards and Interpretations, and once all these references have been removed, AASB 1031 will be withdrawn. The revised AASB 1031 is effective from 1 January 2014 and early adoption is not permitted.

AASB 1031 (2013) is effective for annual periods beginning on or after 1 January 2014 and not available for early adoption.

(iii) AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments

The AASB approved amending Standard AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments on 20 December 2013. AASB 2013-9 incorporates the IASB's Standard IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39).

Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1 Amendments to the Australian Conceptual Framework. Part B mainly makes amendments to particular Australian Accounting Standards to delete references to AASB 1031.

Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 Financial Instruments. The main amendments regarding financial instruments are as follows:

- to add Hedge Accounting and make consequential amendments to AASB 9 and numerous other Standards;
- to permit requirements relating to the 'own credit risk' of financial liabilities measured at fair value to be applied without applying any other requirements of AASB 9 at the same time; and
- to amend the mandatory application date of AASB 9 so that AASB 9 is required to be applied for annual reporting periods beginning on or after 1 January 2017 instead of 1 January 2015.

AASB 2013-9 is effective for annual periods beginning on or after 1 January 2014.

Going Concern

The company has incurred a net loss before tax for the year ended 30 June 2014 of \$226,207 (2013: \$198,589), and has a working capital deficit of (\$1,147,283) (Note 12) (including loans of \$1,228,645 for which letters confirming that \$1,208,645 of these loans will not be called upon for at least 12 months from signing the financial report or until such time the company is financially independent) (2013: surplus \$132,837) and a net asset deficiency position of \$692,285 (2013: deficiency of \$466,078) as at 30 June 2014.

The company has access to a convertible loan facility with BPH Energy Limited (Note 17). As at 30 June 2014, \$425,562 (30 June 2013: \$407,205) had been drawn down under the agreement. A further \$74,438 can be drawn down under this convertible loan agreement.

The directors have prepared cash flow forecasts that indicate that the company will have sufficient cash flows for a period of at least 12 months from the date of signing the financial report.

Notes to the Financial Statements for the year ended 30 June 2014

Molecular Discovery Systems Limited

Based on the cash flow forecasts including the research and development rebate and receipt of funds from BPH Energy Limited, the directors are satisfied that, the going concern basis of preparation is appropriate. The financial report has therefore been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Accounting Policies

The following specific accounting policies, which are consistent with the previous period unless otherwise stated, have been adopted in the preparation of this report:

(a) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the statement of financial position date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is recognised in the statement of profit or loss and other comprehensive income except where it relates to items that may be recognised directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Tax incentives

The company is entitled to claim special tax deductions in relation to qualifying research and development (R&D) expenditure. As the company is not in a position to recognise current income tax payable or current tax expense, the refundable tax offset is refunded through a cash payment and recognised as R&D rebate revenue in the period in which the underlying expenses were incurred.

(b) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the profit or loss unless they are designated as hedges.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the company assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of comprehensive income.

(c) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(d) Impairment of Assets

At each reporting date, the company 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 to the profit or loss.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

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

(e) Cash and Cash Equivalents

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

(f) Revenue

Interest revenue is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Research and development rebates are recognised as income by the company on an annual basis in the period in which the underlying expenses have been incurred and the company has calculated the rebate receivable and is confident it will receive it.

(g) 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 part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST.

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

(h) Property, Plant & Equipment

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

Plant and equipment

Plant and equipment are measured on the cost basis.

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 assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the company includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the economic entity 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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(i) Intangibles

Research and Development

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 have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

Patents and Trademarks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over 10 years.

Critical accounting estimates and judgments

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 company.

Key estimates — Impairment

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined based on the lower of fair value less costs to sell and value-in use.

R&D rebate

The company estimates the amount of R&D rebate receivable for the year. However, the actual amount received by the company is subject to review by AusIndustry at the time of submitting the application.

Notes to the Financial Statements for the year ended 30 June 2014

Molecular Discovery Systems Limited

	2014	2013
	\$	\$
2. Revenue		
Research and Development rebate	56,000	128,000
Total revenue	<u>56,000</u>	<u>128,000</u>
Other income		
Refund from ATO	25,525	-
Interest revenue	757	4,945
	<u>26,282</u>	<u>4,945</u>
3. Cash and cash equivalents		
Cash at bank and in hand	<u>52,926</u>	<u>25,445</u>
4. Trade and Other Receivables		
GST receivable	779	1,801
Research and Development rebate receivable	56,000	128,000
Prepayments	1,718	2,091
Total trade and other receivables	<u>58,497</u>	<u>131,892</u>

	2014	2013
	\$	\$
5. Financial Assets		
Current		
Unsecured loans to other entities:		
BPH Energy Limited	-	61,415
	<u>-</u>	<u>61,415</u>
Non-Current		
Unsecured loans to other entities:		
BPH Energy Limited	61,415	-
	<u>61,415</u>	<u>-</u>

The loan to other entities are non interest bearing and repayable on demand.

6. Key Management Personnel Compensation

Names and positions held of key management personnel in office at any time during the financial year are:

Key Management Personnel

D L Breeze – Executive Director

G Gilbert - Non-Executive Director (resigned 11 December 2013)

B Whan – Non-Executive Director (appointed 12 December 2013)

D Ambrosini- Executive Director and Company Secretary

Notes to the Financial Statements for the year ended 30 June 2014

Molecular Discovery Systems Limited

Remuneration

No key management personnel were paid remuneration by the company (2013: nil).

Other Transactions

There are no other transactions with key management personnel during the year (2013: Nil).

	2014	2013
	\$	\$

7. Income tax expense

(a) The components of tax expense comprise

Current tax	-	-
Deferred tax	-	-
	-	-

b) The prima facie tax on profit from operations before income tax is reconciled to the income tax as follows:

Prima facie tax payable on profit from operations before income tax at 30% (2013: 30%)	(67,862)	(59,577)
Add tax effect of:		
Non deductible expenses	220	426
Temporary differences	67,642	59,151
	-	-
Weighted average rate of tax	-%	-%
Unused carry forward revenue losses	533,426	530,479

8. Plant and Equipment

Plant and Equipment:

At cost	15,021	15,021
Accumulated depreciation	(14,601)	(14,229)
Total plant and equipment	420	792

(a) Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

Plant and Equipment	2014	2013
	\$	\$
Balance at the beginning of the year	792	1,499
Additions	-	-
Disposals	-	-
Depreciation expense	(372)	(707)
Carrying amount at the end of the year	420	792

Notes to the Financial Statements for the year ended 30 June 2014

Molecular Discovery Systems Limited

	2014	2013
	\$	\$
9. Intangibles		
Patent Costs - HLS5	713,442	713,442
Accumulated amortization	(320,279)	(248,934)
	<u>393,163</u>	<u>464,508</u>
Reconciliation		
Opening balance	464,508	535,853
Less amortization in the year	(71,345)	(71,345)
Closing balance	<u>393,163</u>	<u>464,508</u>

Patent costs include all costs associated with the filing and maintenance of the patents for the company's technologies. Patents are amortised over the patents life over 10 years.

	2014	2013
	\$	\$
10. Trade and Other Payables		
Trade and other payables	<u>30,061</u>	<u>24,500</u>

The average credit period on payables is 45 days. The company has financial risk management policies in place to ensure that all payables are paid within the agreed credit terms.

	2014	2013
	\$	\$
11. Other Financial Liabilities		
Current		
Unsecured Loans from other entities:		
BPH Energy Limited	575,201	-
Grandbridge Limited	227,882	-
(b) Secured Loans from other entities :		
BPH Energy Limited	<u>425,562</u>	<u>407,205</u>
	<u>1,228,645</u>	<u>407,205</u>

Notes to the Financial Statements for the year ended 30 June 2014

Molecular Discovery Systems Limited

	2014	2013
	\$	\$
Non-current		
(a) Unsecured Loans from other entities:		
BPH Energy Limited	-	461,102
Grandbridge Limited	-	257,323
	<hr/>	<hr/>
	-	718,425

(a) Unsecured loans

These loans are unsecured, non-interest bearing and repayable on demand. Molecular Discovery Systems has received letters from the relevant entities confirming that they will defer payment for all except \$20,000 of the unsecured & secured loans outstanding for at least 12 months from signing the financial report or until such time the company is financially independent.

(b) Secured loans

This loan is secured by a charge over all of the assets and undertakings of MDS and is interest bearing. Subject to the conditions of the agreement BPH Energy Limited has the right to conversion to satisfy the debt on or before the termination date. The loan will terminate on the earlier of 12 months from the extension date being 26 November 2013 and the date falling 6 months after the borrower has been admitted to the Official List.

Subject to MDS being admitted to the Official List this loan is convertible at the election of BPH Energy Limited. The issue price on conversion will be the lower of \$0.20 cents and the volume weighted average price per share in the 5 days prior to the election being made. Interest will be charged annually at a rate of 7.69% per annum. The net proceeds received from the issue of the convertible notes have been split between the financial liability element and an equity component, representing the residual attributable to the option to convert the financial liability into equity of the company, as follows:

Proceeds of issue - \$380,000

Liability component at date of issue – \$375,730

Equity component - \$4,270

The equity component of \$4,270 has been credited to equity – see Note 15.

The liability component is measured at amortised cost. The interest expense for the year \$23,357 (2013: \$ 46,997) is calculated by applying an effective interest rate of 8.83% to the liability component for the year.

Molecular Discovery Systems has received letters from the relevant entities confirming that they will defer payment for all except \$20,000 of the unsecured & secured loans outstanding for at least 12 months from signing the financial report or until such time the company is financially independent.

Notes to the Financial Statements for the year ended 30 June 2014

Molecular Discovery Systems Limited

	2014	2013
	\$	\$
12. Issued Capital		
258,693,330 (2013: 258,693,330) fully paid ordinary shares of no par value	2,160,482	2,160,482
	2,160,482	2,160,482

	2014	2013	2014	2013
	\$.	\$	No.	No.
Fully Paid Ordinary Share Capital				
Balance at beginning of year	2,160,482	2,160,482	258,693,330	258,693,330
In specie distribution	-	-	-	-
Conversion of debt to equity	-	-	-	-
Balance at end of year	2,160,482	2,160,482	258,693,330	258,693,330

Fully Paid Ordinary Share Capital

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Capital risk management

The company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders.

The focus of the company's capital risk management is

- the current working capital position against the requirements of the company to meet corporate overheads; and
- to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required or funding from director-related entities. The working capital position of the company at 30 June 2014 and 30 June 2013 are as follows:

Notes to the Financial Statements for the year ended 30 June 2014

Molecular Discovery Systems Limited

	Company	
	2014	2013
	\$	\$
Cash and cash equivalents	52,926	25,445
Trade and other receivables	58,497	131,892
Trade and other payables*	(1,258,706)	(24,500)
Working capital position	<u>(1,147,283)</u>	<u>132,837</u>

* This includes financial liabilities \$1,228,645. Molecular Discovery Systems has received letters from the relevant entities confirming that they will defer payment for all except \$20,000 of the loans outstanding for at least 12 months from signing the financial report or until such time the company is financially independent.

13. Cash Flow Information

	2014	2013
	\$	\$
a) Reconciliation of Cash		
For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash and cash equivalents	52,926	25,445
b) Reconciliation of Operating Loss After Income Tax to Net Cash Flows From Operating Activities		
Operating loss after income tax	(226,207)	(198,589)
Depreciation and Amortisation	71,717	72,052
Loan account recharges	143,015	48,536
Changes in working capital:		
Decrease/ (Increase) in trade and other receivables	73,395	(90,524)
Increase/ (Decrease) in trade creditors and other payables	5,561	(19,784)
Net cash from operating activities	<u>67,481</u>	<u>(188,309)</u>

14. Remuneration of Auditors

Remuneration of the auditor of the entity for:

- auditing the financial report

Nexia Perth Audit Services	5,480	5,250
	<u>5,480</u>	<u>5,250</u>

15. Reserves

Option premium on convertible notes	4,270	4,270
	<u>4,270</u>	<u>4,270</u>
Reconciliation of movement	4,270	21,809
Opening balance		
Recognition of option premium on convertible notes	-	(17,539)
Closing balance	<u>4,270</u>	<u>4,270</u>

The option premium on convertible notes represents the equity component (conversion rights) of the convertible notes issued during the year. See Note 11 (b).

16. Subsequent Events

There have not been any matters or circumstances that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

17. Commitments

The company has entered into a convertible loan agreement with BPH Energy Limited. The facility is to a maximum of \$500,000 and interest is to be charged at 7.69% per annum. A fixed and floating charge over the assets of MDS has been granted to BPH Energy Limited as security for the loan. The facility has been drawn down by an amount of \$425,562 (2013: \$407,205) at reporting date. Refer to note 11 for further details.

18. Financial Risk Management

a) Financial Risk Management

The company's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, and loans to and from director related entities. The main purpose of non-derivative financial instruments is to raise finance for company operations policies.

i. Financial Risk Exposures and Management

The main risks the company is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

Interest rate risk

Interest rate risk is managed with a mixture of fixed and floating rate debt.

Liquidity risk

The company manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Notes to the Financial Statements for the year ended 30 June 2014

Molecular Discovery Systems Limited

Credit risk for derivative financial instruments arises from the potential failure by counter-parties to the contract to meet their obligations.

The economic entity does not have any material credit risk exposure to any single receivable or company of receivables under financial instruments entered into by the economic entity.

b) Financial Instruments

i. Interest rate risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

2014	Weighted Effective Interest Rate %	Floating Interest Rate \$	Fixed Interest Rate 1 Year of less	Fixed Interest Rate 1 to 5 Years	Non-Interest Bearing \$	Total \$
Financial Assets						
Cash and cash equivalents	0.05	52,926	-	-	-	52,926
Trade and other receivables			-	-	58,497	58,497
Other financial assets		-	-	-	61,415	61,415
Total Financial Assets		52,926	-	-	119,912	172,838
Financial Liabilities						
Trade and sundry payables		-	-	-	30,061	30,061
Financial liabilities*	7.69	-	-	425,562	803,083	1,228,645
Total Financial Liabilities		-	-	425,562	833,144	1,258,706

* The company has received letters from the holder of the loan note deferring payment of all but \$20,000 of the note for at least a period of 12 months for the date of the authorisation of the financial report.

2013	Weighted Effective Interest Rate %	Floating Interest Rate \$	Fixed Interest Rate 1 Year of less	Fixed Interest Rate 1 to 5 Years	Non-Interest Bearing \$	Total \$
Financial Assets						
Cash and cash equivalents	0.05	25,445	-	-	-	25,445
Trade and other receivables			-	-	131,892	131,892
Other financial assets		-	-	-	61,415	61,415
Total Financial Assets		25,445	-	-	193,307	218,752
Financial Liabilities						
Trade and sundry payables		-	-	-	24,500	24,500
Financial liabilities	7.69	-	407,205	-	718,425	1,125,630
Total Financial Liabilities		-	407,205	-	742,925	1,150,130

Notes to the Financial Statements for the year ended 30 June 2014

Molecular Discovery Systems Limited

ii. Fair Values

The fair values of:

- Other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings to their present value.
- Other assets and liabilities approximate their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments.

Aggregate fair values and carrying amounts of financial assets and financial liabilities at balance date:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables	61,415	61,415	61,415	61,415
	61,415	61,415	61,415	61,415
Financial Liabilities				
Other loans and amounts due	1,228,645	1,228,645	1,125,630	1,125,630
Trade payables	30,061	30,061	24,500	24,500
	1,258,706	1,258,706	1,150,130	1,150,130

iii. Sensitivity Analysis

Interest Rate Risk

The company has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks

Interest Rate Sensitivity Analysis

The effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2014	2013
Change in profit		
— Increase in interest rate 1%	530	14
— Decrease in interest rate by 0.5%	(265)	(7)

Liquidity Risk Management

The company manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

iv. Liquidity risk

Liquidity is the risk that the company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The following are the contractual maturities at the end of the reporting period of financial liabilities.

Notes to the Financial Statements for the year ended 30 June 2014

Molecular Discovery Systems Limited

30 June 2014

	Carrying amount	Total	Contractual cash flows		
			2 mths or less	2-12 mths	1-2 years
Financial liabilities					
Trade and other payables	30,061	(30,061)	(30,061)	-	-
Unsecured loan*	803,083	(803,083)	-	-	(803,083)
Convertible note*	425,562	(425,562)	-	(20,000)	(405,562)
	<u>1,258,706</u>	<u>(1,258,706)</u>	<u>(30,061)</u>	<u>(20,000)</u>	<u>(1,208,645)</u>

30 June 2013

	Carrying amount	Total	Contractual cash flows		
			2 mths or less	2-12 mths	1-2 years
Financial liabilities					
Trade and other payables	24,500	(24,500)	(24,500)	-	-
Unsecured loan	718,425	(718,425)	-	-	(718,425)
Convertible note	407,205	(407,205)	-	(407,205)	-
	<u>1,150,130</u>	<u>(1,150,130)</u>	<u>(24,500)</u>	<u>(407,205)</u>	<u>(718,425)</u>

* Unsecured Loans & Convertible Notes: Molecular Discovery Systems has received letters from the relevant entities confirming that they will defer payment for all except \$20,000 of the loans outstanding for at least 12 months from signing the financial report or until such time the company is financially independent.

19. Related Party Transactions

(a) Key Management Personnel Remuneration

Details of key management personnel remuneration and retirement benefits are disclosed in note 7 to the financial statements.

(b) Directors' Equity Holdings

	2014 \$	2013 \$
<i>Ordinary Shares</i>		
Held as at the date of this report by directors and their director-related entities in:		
Molecular Discovery Systems Limited	13,019,621	13,981,159

Shareholdings - Molecular Discovery Systems Limited Number of Shares Held by Key Management Personnel

2014

Key Management Person	Balance 1.7.2013	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.6.2014

Notes to the Financial Statements for the year ended 30 June 2014

Molecular Discovery Systems Limited

D L Breeze	13,019,621	-	-	-	13,019,621
D Ambrosini	-	-	-	-	-
B Whan	-	-	-	-	-
Greg Gilbert	961,538	-	-	(961,538)	-

* The Net Change Other reflected above includes those options that have been held by directors that have resigned during the year.

2013

Key Management Person	Balance 1.7.2012	Received as Compensation	Options Exercised	Net Change Other	Balance 30.6.2013
D L Breeze	13,019,621	-	-	-	13,019,621
D Ambrosini	-	-	-	-	-
Greg Gilbert	961,538	-	-	-	961,538

(c) Related entities

The company has entered into a convertible loan agreement with BPH Energy Limited. The loan is for a maximum amount of \$500,000 and is to be used for short term working capital requirements. Subject to MDS being admitted to the Official list BPH Energy Limited has a right of conversion to satisfy the debt on or before the termination date. As at reporting date the loan has been drawn down by an amount of \$425,562 (2013:\$ 407,205).

A loan payable exists between MDS and BPH Energy Limited \$575,201 (2013:\$ 461,102). This amount is unsecured, non interest bearing and repayable on demand.

Molecular Discovery Systems has received letters from the relevant entities confirming that they will *defer payment for all except \$20,000* of the loans outstanding for at least 12 months from signing the financial report or until such time the company is financially independent.

Refer to note 11 for further details.

During the year, BPH Energy Limited provided consultancy services to Molecular Discovery Systems of \$114,100 (2013: \$114,100).

Directors' Declaration

Molecular Discovery Systems Limited

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 6 to 26, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the entity;
2. the Financial Statements and Notes comply with International Financial Reporting Standards as disclosed in Note 1;
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to S295(5) of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors.



.....
D L Breeze
Director

10 September 2014

Independent auditor's report to the members of Molecular Discovery Systems Limited

Report on the financial report

We have audited the accompanying financial report of Molecular Discovery Systems Limited, which comprises the statement of financial position as at 30 June 2014, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the company.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Molecular Discovery Systems Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report Molecular Discovery Systems Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the company as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

NPAS

Nexia Perth Audit Services Pty Ltd

Amar Nathwani

Amar Nathwani
Director

Perth, 10 September 2014