

Micro-X Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Micro-X Limited
ABN:	21 153 273 735
Reporting period:	For the year ended 30 June 2016
Previous period:	For the year ended 30 June 2015

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	1138.9% to	892
Loss from ordinary activities after tax attributable to the owners of Micro-X Limited	up	5.7% to	(10,741)
Loss for the year attributable to the owners of Micro-X Limited	up	5.7% to	(10,741)

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the Company after providing for income tax amounted to \$10.7M (30 June 2015: \$10.2M).

Refer to the Director's report in the 2016 Annual Report for additional information in the results during the financial year.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	13.58	(56.09)

4. Control gained over entities

Name of entities (or group of entities)	Not Applicable
Date control gained	Not Applicable

	\$'000
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)	-
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material)	-

5. Loss of control over entities

Name of entities (or group of entities)	Not Applicable
Date control lost	Not Applicable

\$'000

Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)

-

Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) whilst controlled during the whole of the previous period (where material)

-

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
XinRay Systems Inc.	30.00%	-	28	-
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			28	-
Income tax on operating activities			-	-

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unqualified opinion with an emphasis of matter paragraph relating to the Company's ability to continue as a going concern has been issued.

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11. Attachments

Details of attachments (if any):

The Annual Financial Report of Micro-X Limited for the year ended 30 June 2016 is attached.

12. Signed by Patrick O'Brien (Non-executive Chairman)

Signed

A handwritten signature in blue ink, appearing to be 'POB', is written over a horizontal line.

Date: 31 August 2016

Micro-X Limited

ABN 21 153 273 735

Annual Financial Report - 30 June 2016

Micro-X Limited
Corporate directory
30 June 2016

Directors	Peter Robin Rowland (Managing Director) Patrick Gerard O'Brien (Non-Executive Chairman) Richard Nicholas Hannebery (Executive Director) David Peter Neil Symons (Non-Executive Director) Alexander Bennett Gosling (Non-Executive Director)
Company secretary	Justin Mouchacca
Registered office	A14, 6 MAB Eastern Promenade 1284 South Road Tonsley SA 5042 Phone: +61 8 7099 3966 Fax: +61 8 7073 6739
Principal place of business	A14, 6 MAB Eastern Promenade 1284 South Road Tonsley SA 5042
Share register	Computershare Investors Services Pty Ltd Yarra Falls 452 Johnston Street Abbotsford, VIC 3067 Phone: 1300 555 159 (within Australia) Phone: +61 3 9415 4062 (outside Australia)
Auditor	Grant Thornton Audit Pty Ltd The Rialto, Level 30, 525 Collins Street Melbourne, VIC 3000 Phone: +61 3 8320 2222
Stock exchange listing	Micro-X Limited shares are listed on the Australian Securities Exchange (ASX code: MX1)
Website	www.micro-x.com

Micro-X Limited
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Micro-X Limited
Directors' report
30 June 2016

The directors present their report, together with the financial statements, on the Company for the year ended 30 June 2016.

Directors

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

Peter Robin Rowland (Managing Director)

Patrick Gerard O'Brien (Non-Executive Chairman) - appointed 6 August 2015

Richard Nicholas Hannebery (Executive Director)

David Peter Neil Symons (Non-Executive Director) - appointed 27 August 2015

Alexander Bennett Gosling (Non-Executive Director) - appointed 27 August 2015

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal activities

Micro-X's principal activities are focused on the design, development and manufacturing of ultra-lightweight carbon nano tube based X-ray products for the global healthcare and security (improvised explosive device imaging) markets.

No significant changes in the nature of these activities occurred during the year.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The loss for the Company after providing for income tax amounted to \$10.7M (30 June 2015: \$10.2M).

The majority of the loss for the year was due to the \$17.6M expenditure on research and development of the Company's first product, the DRX Revolution Nano, and \$2.8M in relation to notional finance costs on the conversion of Class A, B and C converting preferred shares.

During the year the Company undertook an initial public offering and was successfully admitted to the Australian Securities Exchange ('ASX') on Monday 21 December 2015 and its securities commenced trading on Tuesday 22 December 2015. Costs in relation to the initial public offering have been split between the statement of profit and loss and against equity on the statement of financial position.

During the year the Company agreed in principle to a \$3M loan from the South Australian government to support the establishment of a manufacturing facility and key supplier relationships. On 23 August 2016 the Company announced the execution of the loan facility agreement and drawdown of \$2.6M in accordance with the agreement.

A contract with the Department of Defence was agreed during September 2015 for the Company to perform a \$1.9M capability and technology development program in relation to the Mobile Backscatter Imager (MBI) and the Ruggedised Nano. The Company received \$3.1M from the R&D tax incentive during the period for expenditure incurred during the year ending 30 June 2015.

The key milestone achievements for Micro-X through the course of 2015-2016 financial year were:

July:

The last in a series of Voice-of-Customer trials organised by Carestream of a prototype of the Nano incorporating the latest design innovations was conducted with radiographers at Monash Hospital, Melbourne. The trials confirmed end-user satisfaction and that the design of the Nano meets all the intended product objectives. The product design configuration and performance was finalised.

**Micro-X Limited
Directors' report
30 June 2016**

August:

The cabinet of the South Australian Government approved a \$3M loan facility to help Micro-X relocate its business to South Australia and establish a manufacturing facility in the Tonsley Advanced Manufacturing Precinct. The move is extremely attractive because of the flexibility and future growth options on the same site and also because of the collaboration and networking options associated with co-location with organisations such as Signostics Ltd, Flinders University Biomedical Engineering and the Flinders Medical Device Research Institute.

Micro-X recruited its first employees, a Production Manager and Quality and Supply Chain Manager from GM Holden, introducing world-class manufacturing management expertise and culture into the planning and execution of its final-assembly operations. The automotive industry's manufacturing focus on product quality, reliability and cost has proven to be an ideal culture to establish in a start-up company.

September:

A \$1.9M contract was signed with the Department of Defence for development of a Capability Technology Demonstrator of an ultra-lightweight mobile medical x-ray imager optimised for deployed military field hospitals and also a Mobile Backscatter Imager for use against Improvised Explosive Devices in military or counter-terrorist operations.

October:

Micro-X Pty Ltd became a public company, Micro-X Limited, and commenced a process of due diligence in preparation for an IPO.

Micro-X's Quality Management System was audited by Carestream Health as being compliant with ISO13485.

Micro-X established temporary offices and production facilities at Tonsley pending design and construction of a bespoke, permanent facility on the same site. A shielded x-ray test room was granted a licence for safe emission of x-rays and Micro-X staff were trained and accredited in Radiation Safety by the SA Government authorities.

November:

First showing of Micro-X's first product, the DRX Revolution Nano ultra-lightweight, integrated, digital mobile x-ray unit for diagnostic medical imaging occurred at the 100th Scientific meeting of the Radiological Society of North America (RSNA) in Chicago on the exhibition area of Carestream Health, Micro-X's global distribution partner. The feedback from customers was extremely positive and the product was amongst the top lead generators on the Carestream stand.

December:

MX1 was successfully admitted to the official list of the Australian Securities Exchange (ASX) on Monday 21 December 2015 and its securities commenced trading on Tuesday 22 December 2015. Under its initial public offering the Company successfully raised the maximum subscription monies of \$20M.

January:

First Alpha-prototype Nanos were built and started on the preliminary testing program to confirm that the design meets all the requirements of ISO60601, the specification for safety and effectiveness of all electrical medical equipment.

February:

Micro-X transferred its Nano prototype build operations to its temporary facilities in Tonsley, South Australia.

An electronics re-design of Nano was completed to increase from 10kV to 18kV the unit's ability to withstand high voltage electro-static discharge.

This redesign was undertaken in response to new and increased specification requirements of version 4 of ISO60601, recently released and expected to be introduced in 2018.

**Micro-X Limited
Directors' report
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March:

The first prototype Nano units to be built in Tonsley were completed and joined the preliminary testing program. The build program at Tonsley has also been used to develop and validate the assembly processes and documentation which will be used for production units. The selection of local South Australian supply chain partners was confirmed and agreements made for transition to production including quality management system accreditation to ISO13485 for medical device manufacture.

April:

Micro-X signed with Renewal SA the lease for its new purpose-designed production and engineering facility at Tonsley and construction commenced with move-in anticipated for mid-August. The Tonsley facility is sized to support a production rate of 4 units per day (based on a single working shift) which is the targeted peak rate estimated by its commercialisation partner to be required within 18 months of first customer shipments.

"Design for manufacturing" activities ramped up and design release for tooling fabrication for 92 injection moulded parts was given.

May:

Commissioning started on the reliability and life-testing rigs for the Reliability Growth Program. These will prove the design life of all the moving parts of the cart by testing to failure.

The Preliminary Design Review milestone for the Department of Defence Capability Technology Demonstrator contract was successfully passed by representatives of the Counter-IED Task Force and Joint Health Command at a technical review at Tonsley. The initial design configurations for both the mobile medical imager and the mobile backscatter imager were approved for detailed design and development to commence.

June:

The alpha prototype versions of the Nano successfully completed the entire range of preliminary verification and validation tests including ISO60601 high and low temperature operation, humidity, altitude, vibration, shock, stability, chemical resistance, electro-magnetic interference, electro-magnetic susceptibility and electro-static discharge. This milestone has allowed a design freeze and the commencement of pre-production unit builds which then will be used for the independent third-party validation and verification testing program for regulatory approval due to start in August.

Significant changes in the state of affairs

On 15 October 2015 the Company converted from a proprietary company to a public company.

The Company converted all previously issued Series A, B and C Converting Preferred Shares and issued 56,553 fully paid ordinary shares (pre-share split) upon their conversion in December 2015;

Following the conversion of the above, the Company completed a share split on a 1:950 basis. Following the share split the Company had 75,495,797 fully paid ordinary shares on issue.

On 17 December 2015, the Company issued 40,000,000 new fully paid shares following the successful raising of \$20M gross proceeds, through its initial public offering prospectus.

The Company listed on the Australian Securities Exchange on 21 December 2015.

The Company acquired 30% of the common stock issued capital of XinRay Systems Inc (XinRay) over a number of investment tranches during the period for a total consideration of US\$5.0M cash investment into XinRay (24.1%) plus the issue of 3,834,375 fully paid ordinary shares in the Company (post-share split) in a share swap of XinRay common stock held by Xintek Inc. (5.9%).

On 23 August 2016 the Company announced that Renewal SA was going to formally hand over the Company's permanent new facility at Tonsley being the Practical Completion of requirements in accordance with the Lease.

On 29 August 2016 the Company announced that it had signed agreements with Carestream Inc. for the exclusive development and OEM supply of a mobile medical X-ray unit which Carestream will market when the product becomes commercially available.

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

Matters subsequent to the end of the financial year

On 23 August 2016 the Company announced that the South Australian Government Financing Authority loan facility agreement had been executed by the South Australian Treasurer. The Loan commitment is \$3.0M with an agreed interest rate of 5.75% per annum paid monthly in arrears. A drawdown notice for \$2.6M has been executed, with funds from the initial drawdown received by Micro-X on 23 August 2016.

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Likely developments and expected results of operations

The Company's main corporate focus in the coming periods is to continue to develop and commercialise a range of highly innovative products applicable to global markets based on proprietary carbon nanotube emitter technologies exclusively licensed and sourced from XinRay Systems Inc., a US based technology developer.

The expected results will be dependent on the Company's ability to carry out its objectives stated above.

Environmental regulation

The Company is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	Patrick O'Brien
Title:	Non-Executive Chairman
Qualifications:	LLB, B.Com, Grad Dip Applied Finance, MBA
Experience and expertise:	Patrick is managing director of Patrick O'Brien & Associates and a director of Red Rock Leisure, The Water & Carbon Group and O'Brien Capital. Patrick has over 25 years' business experience in Australia, the UK, Europe, Asia and the US including as an executive director with Macquarie Group where he led teams in corporate finance (Melbourne 1996-2005) and private equity (London 2005-2009). In this latter role Patrick was responsible for Macquarie's controlling stakes in, and chaired, large unlisted groups European Directories and National Grid Wireless. Prior to Macquarie, Patrick was a strategy consultant with McKinsey & Company and a lawyer with Minter Ellison.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Member of Nomination and Remuneration Committee and Member of Audit and Risk Committee
Interests in shares:	3,887,869 fully paid ordinary shares
Interests in options:	200,000 unlisted options exercisable at \$0.575 (57.5 cents) on or before 31/12/19; 400,000 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 31/12/19
Name:	Peter Rowland
Title:	Managing Director
Qualifications:	BSc., MBA, MIET, CEng, FAICD
Experience and expertise:	Peter worked in the engineering design, development and project management of innovative, high-technology military & scientific equipment in his early career in Scotland. In Australia, he ran an engineering design consultancy group, was director of business development at BAE Systems and then was managing director of ASX-listed Ellex Medical Lasers which designed and manufactured ophthalmic laser equipment. More recently he was vice president of Asia-Pacific operations for Biolase Technology Inc., a NASDAQ listed therapeutic medical device supplier.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Interests in shares:	12,425,000 fully paid ordinary shares
Interests in options:	696,556 unlisted options exercisable at \$0.575 (57.5 cents) on or before 31/12/19; 1,393,114 unlisted options exercisable at \$0.625 (62.5 cents) on or before 31/12/19

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Name: Richard Hannebery
Title: Executive Director
Qualifications: BA (Econ), Grad Dip Econ
Experience and expertise: Richard has over 20 years' experience in commercial and financial advisory services with Merrill Lynch, Credit Suisse and JT Campbell & Co. He has 15 years' experience as a specialist in healthcare technology and intellectual property based companies at a business development and director level. Richard has extensive experience in strategy development and its implementation, as well as commercialisation, including direct negotiation of key sales and distribution agreements in various markets with large multinational medtech and technology companies. Richard is currently a board member and the part-time chief executive of ASX-listed Genera Biosystems Limited and a non-executive director of Australian Continence Solutions Pty Limited and its operating company Nuturecare (Aust) Pty Limited.
Other current directorships: Genera Biosystems Limited (ASX:GBI) appointed 14 May 2013
Former directorships (last 3 years): None
Special responsibilities: Nil
Interests in shares: 3,712,400 fully paid ordinary shares
Interests in options: 696,556 Unlisted Options exercisable at \$0.575 (57.5 cents) on or before 31/12/19; 1,393,114 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 31/12/19

Name: Dr. Alexander Gosling AM
Title: Non-Executive Director
Qualifications: AM, MA, DEng, FTSE
Experience and expertise: Alexander has been working in the field of process and product development and related research and development for 40 years. A founding director of Invetech and was part of the management team that led Invetech to a public listing (as Vision Systems) and then to its acquisition by Danaher Corp for \$800M. He currently works for Capstone Partners, a strategy consultancy specialising in technology commercialisation and the development of start-up companies. Alexander is an engineer, with an Honours degree from Cambridge University. He is a Fellow of the Academy of Technological Sciences and Engineering, a Fellow of the Institute of Engineers Australia and a Governor of the Warren Centre for Advanced Engineering. He was awarded an Honorary Doctorate in Engineering from Swinburne University and made a Member of The Order of Australia for services to engineering.
Other current directorships: Nil
Former directorships (last 3 years): Nil
Special responsibilities: Member of Nomination and Remuneration Committee and Member of Audit and Risk Committee
Interests in shares: 100,000 fully paid ordinary shares
Interests in options: 133,333 Unlisted Options exercisable at \$0.575 (57.5 cents) on or before 31/12/19; 266,668 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 31/12/19

Name: David Symons
Title: Non-Executive Director
Qualifications: LLB, B.Com
Experience and expertise: David has more than 15 years' experience in corporate strategy communications, private equity, investment banking, and corporate management. He has previously held executive roles at ABN AMRO Capital, Macquarie Bank, Merrill Lynch and Promina Group. He is currently a non-executive director of ASX-listed Genera Biosystems Limited.
Other current directorships: Genera Biosystems Limited (ASX:GBI)
Former directorships (last 3 years): None
Special responsibilities: Chair of Audit and Risk Committee and Chair of Nomination and Remuneration Committee
Interests in shares: 2,200,200 fully paid ordinary shares
Interests in options: 133,333 Unlisted Options exercisable at \$0.575 (57.5 cents) on or before 31/12/19; 266,668 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 31/12/19

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

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Directors' report
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'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Justin Mouchacca holds a Bachelor of Business majoring in Accounting. He graduated from RMIT University in 2008, became a Chartered Accountant in 2011 and since July 2013 has been the principal of chartered accounting firm, Leydin Freyer Corp Pty Ltd.

The practice provides outsourced company secretarial and accounting services to public and private companies specialising in the Resources, technology, bioscience and biotechnology sectors.

Justin has over 10 years' experience in the accounting profession and has extensive experience in relation to public company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, reorganisation of Companies and shareholder relations.

Chief Financial Officer

Georgina Carpendale was appointed as Chief Financial Officer during the financial year. Georgina has 9 years' experience in the accounting profession, with 3 years' experience in a medical technology company. She joins Micro-X from Signostics, another medical device company in the Tonsley Innovation and Manufacturing Precinct, where she had been Financial Controller and Company Secretary. Georgina is a Chartered Accountant with a First Class Honours Degree in Business specialising in Accounting.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2016, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Patrick O'Brien	11	11	-	-	2	2
Peter Rowland	11	11	-	-	-	-
Richard Hannebery	11	11	-	-	-	-
David Symons	11	11	-	-	2	2
Alexander Gosling	11	11	-	-	2	2

Held: represents the number of meetings held during the time the director held office.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment with shareholders' interests
- transparency

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for directors and executives. The performance of the Company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel and, accordingly, the Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Company.

The remuneration framework is designed to align executive reward to shareholders' interests. The Board is in the process of refining the remuneration framework, and as part of this process will seek to further align shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, via material capital growth, and delivering increasing return on assets and capital employed as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the remuneration framework should seek to align and incentivise executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

Non-executive directors were issued Award Options, as described in the Company's Prospectus dated 25 November 2015, on 17 December 2015, following the completion of the Company's Initial Public Offer. Apart from the Award Options, Non-executive directors do not receive share options or other incentives.

ASX listing rules require the aggregate maximum non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held prior to the Company's ASX listing, where the shareholders approved the Company's Constitution which provides for an aggregate maximum remuneration of \$300,000 per annum.

Executive remuneration

The Company aims to reward executives based on their responsibility and performance, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

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Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is to be reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the Company and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Company and provides additional value to the executive.

The long-term incentives ('LTI') include long service leave and share-based payments. The Executive directors were issued Award Options, as described in the Company's Prospectus dated 25 November 2015, on 17 December 2015, following the completion of the Company's Initial Public Offer.

Company performance and link to remuneration

Remuneration of key management personnel is not currently directly linked to the performance of the Company other than via Award Options the value of which is linked to its share price. The Company will investigate an appropriate mechanism for such linkage.

Use of remuneration consultants

The Company did not engage any remuneration consultants during the financial year ended 30 June 2016.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the Company are set out in the following tables.

The key management personnel of the Company consisted of the following directors of the Company:

- Peter Rowland (Managing Director)
- Patrick O'Brien (Non-Executive Chairman) - appointed 6 August 2015
- Richard Hannebery (Executive Director of Corporate Development)
- David Symons (Non-Executive Director) - appointed 27 August 2015
- Alexander Bennett Gosling (Non-Executive Director) - appointed 27 August 2015

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	Total
2016	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
P O'Brien*	45,000	-	-	-	-	28,220	73,220
A Gosling**	30,000	-	-	2,850	-	18,813	51,663
D Symons**	29,997	-	-	-	-	18,813	48,810
<i>Executive Directors:</i>							
P Rowland	199,154	25,000	-	11,510	-	118,568	354,232
R Hannebery	95,262	-	-	-	-	118,568	213,830
	399,413	25,000	-	14,360	-	302,982	741,755

* Mr O'Brien was appointed as Non-Executive Chairman on 6 August 2015

** Messrs Gosling and Symons were appointed as Non-Executive Directors on 27 August 2015

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	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	
2015	\$	\$	\$	\$	\$	\$	\$
<i>Executive Directors:</i>							
P Rowland	144,000	-	-	-	-	132,542	276,542
R Hannebery*	42,708	-	-	-	-	132,542	175,250
	<u>186,708</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>265,084</u>	<u>451,792</u>

* Mr Hannebery was appointed as Executive Director on 22 August 2014

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2016	2015	2016	2015	2016	2015
<i>Non-Executive Directors:</i>						
P O'Brien	61%	-	-	-	39%	-
A Gosling	64%	-	-	-	36%	-
D Symons	61%	-	-	-	39%	-
<i>Executive Directors:</i>						
P Rowland	59%	52%	7%	-	34%	48%
R Hannebery	45%	24%	-	-	55%	76%

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During the financial year no bonuses were approved to be paid as no key performance indicators ('KPI') had yet been set. The Company is currently in the process of reviewing key performance indicators.

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Peter Rowland
Title:	Managing Director
Agreement commenced:	1 September 2014
Term of agreement:	No fixed term. Micro-X or Mr Rowland may terminate the employment contract at any time provided that either party gives notice as follows: • on or before 1 September 2016 – 3 months' notice; • on or before 1 September 2017 – 4 months' notice; • on or before 1 September 2018 – 5 months' notice; and • on or before 1 September 2019 – 6 months' notice.

Details:	Annual salary was \$156,000 per annum until IPO date of 21 December 2015, thereafter \$250,000 per annum plus compulsory employer superannuation contributions (subject to review in June 2016).
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Mr Rowland received an incentive payment of \$25,000 upon the occurrence of the IPO.

Mr Rowland is entitled to an incentive payment of:

- either 25% of his salary where all KPIs set by the Company are achieved, or
- a relative percentage of his salary where one or more but not all KPIs are achieved.

Mr Rowland has been issued LTI interests, being share options. Details of these options are:

- number of options issued: 2,089,670, in 3 tranches;
- grant date: 1 September 2014;
- vesting terms:
 - 696,556 options vesting upon IPO (Tranche 1);
 - remaining options vest only upon satisfaction of service conditions as follows:
 - 696,556 options vest 1 September 2016, provided he remains employed with the Company on that date (Tranche 2);
 - 696,558 options vest 1 September 2017, provided he remains employed with the Company on that date (Tranche 3);
- exercise prices:
 - Tranche 1 - \$0.575 (57.5 cents) per option;
 - Tranches 2 and 3 - \$0.625 (62.5 cents) per option;
 - expiry date: 31 December 2019.

**Micro-X Limited
Directors' report
30 June 2016**

Name:	Richard Hannebery
Title:	Executive Director
Agreement commenced:	1 September 2014
Term of agreement:	No fixed term. Micro-X or Mr Hannebery may terminate the employment contract at any time provided that either party gives notice as follows: • on or before 1 September 2016 – 3 months' notice; • on or before 1 September 2017 – 4 months' notice; • on or before 1 September 2018 – 5 months' notice; and • on or before 1 September 2019 – 6 months' notice.
Details:	Annual salary was \$62,500 per annum until IPO date of 21 December 2015, thereafter \$125,000 per annum plus compulsory employer superannuation contributions (subject to review in June 2016). Mr Hannebery is entitled to an incentive payment of: • either 25% of his salary where all KPIs set by the Company are achieved, or • a relative percentage of his salary where one or more but not all KPIs are achieved. Mr Hannebery has been issued LTI interests, being share options. Details of these options are: - number of options issued: 2,089,670, in 3 tranches; - grant date: 1 September 2014; - vesting terms: - 696,556 options vesting upon IPO (Tranche 1); - remaining options vest only upon satisfaction of service conditions as follows: - 696,556 options vest 1 September 2016, provided he remains employed with the Company on that date (Tranche 2); - 696,558 options vest 1 September 2017, provided he remains employed with the Company on that date (Tranche 3); - exercise prices: - Tranche 1 - \$0.575 (57.5 cents) per option; - Tranches 2 and 3 - \$0.625 (62.5 cents) per option; - expiry date: 31 December 2019.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2016.

Micro-X Limited
Directors' report
30 June 2016

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
1 September 2014* (1,393,112 options)	21 December 2015	31 December 2019		
			\$0.575	\$0.151
1 September 2014* (1,393,112 options)	1 September 2016	31 December 2019		
			\$0.625	\$0.136
1 September 2014* (1,393,116 options)	1 September 2017	31 December 2019		
			\$0.625	\$0.136
21 December 2015 (466,666 options)	21 December 2016	31 December 2019		
			\$0.575	\$0.151
21 December 2015 (466,666 options)	21 December 2017	31 December 2019		
			\$0.625	\$0.136
21 December 2015 (466,668 options)	21 December 2018	31 December 2019		
			\$0.625	\$0.136

* Options deemed to be granted to key management personnel in FY15 in accordance with AASB 2 and have various vesting dates commencing from the date of IPO.

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2016 are set out below:

Name	Number of options granted during the year 2016	Number of options granted during the year 2015	Number of options vested during the year 2016	Number of options vested during the year 2015
P Rowland	-	2,089,670	696,556	-
R Hannebery	-	2,089,670	696,556	-
P O'Brien	600,000	-	-	-
A Gosling	400,000	-	-	-
D Symons	400,000	-	-	-

No amount was paid or payable by the recipients for these options.

Service criteria that must be met before the options vest are as follows:

- issues to Executive Directors (P Rowland and R Hannebery):
 - one third (Tranche 1) vested immediately upon IPO;
 - one third (Tranche 2) vest on 1 September 2016, provided the holder remains employed by the Company on that date;
 - one third (Tranche 3) vest on 1 September 2017, provided the holder remains employed by the Company on that date;
- issues to Non-Executive Directors:
 - one third (Tranche 1) vest on 21 December 2016, provided the holder remains employed by the Company on that date;
 - one third (Tranche 2) vest on 21 December 2017, provided the holder remains employed by the Company on that date;
 - one third (Tranche 3) vest on 21 December 2018, provided the holder remains employed by the Company on that date.

Micro-X Limited
Directors' report
30 June 2016

The granting and vesting of the options is not dependent upon the satisfaction of a performance condition as the Company is of the view that the service criteria, and the contribution by the recipient to the increase in the Company's share price, and therefore the value of their options, is currently a sufficient basis for the granting and vesting of those options.

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2016 are set out below:

Name	Value of options granted during the year \$	Value of options available to be exercised during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
P Rowland	-	296,576	-	29%
R Hannebery	-	296,576	-	58%
P O'Brien	85,155	-	-	41%
A Gosling	56,770	-	-	41%
D Symons	56,770	-	-	38%

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the Company, including their personally related parties, is set out below:

	Balance at the start of the year*	Received as part of remuneration	Additions	Disposals/ Other**	Balance at the end of the year
<i>Ordinary shares</i>					
P Rowland	13,500	-	-	12,411,500	12,425,000
R Hannebery	3,964	-	202,850	3,505,856	3,712,400
P O'Brien	2,166	-	1,355,169	2,529,984	3,887,869
A Gosling	-	-	100,000	-	100,000
D Symons	2,008	-	238,000	1,905,592	2,145,600
	<u>21,368</u>	<u>-</u>	<u>1,896,569</u>	<u>20,352,932</u>	<u>22,270,869</u>

* Balance at the start of the year includes those interests in Series A, B and C converting preference on prior to the 1:950 share split which was completed in December 2015.

** Movements include the issue of shares pursuant to the share split and any other transactions.

Option holding

The number of options over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the Company, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
P Rowland	2,089,670*	-	-	-	2,089,670
R Hannebery	2,089,670*	-	-	-	2,089,670
P O'Brien	-	600,000	-	-	600,000
A Gosling	-	400,000	-	-	400,000
D Symons	-	400,000	-	-	400,000
	<u>4,179,340</u>	<u>1,400,000</u>	<u>-</u>	<u>-</u>	<u>5,579,340</u>

* Options deemed to be granted to key management personnel in FY15 in accordance with AASB 2 and have various vesting dates commencing from the date of IPO.

Micro-X Limited
Directors' report
30 June 2016

	Vested and exercisable	Vested and unexercisable	Balance at the end of the year
<i>Options over ordinary shares</i>			
P Rowland	696,556	-	696,556
R Hannebery	696,556	-	696,556
	<u>1,393,112</u>	<u>-</u>	<u>1,393,112</u>

Other transactions with key management personnel and their related parties

Mr Richard Hannebery became an Executive director of the Company in August 2014. Mr Hannebery is a contractor to and partial beneficiary of Lodge Corporate Pty Ltd. Lodge Corporate Pty Ltd were engaged by the Company to assist in the raising of capital over a number of years including the Company's IPO. Mr Hannebery is engaged by Lodge Corporate Pty Ltd via EG Capital Pty Limited an entity of which he is a director and beneficiary. The following transactions occurred with these related parties:

The Company made payments to Lodge Corporate Pty Limited for capital and fund raising services in the year ended 30 June 2016 totalling to \$1,422,000 (30 June 2015: \$265,000) of which \$564,490 was paid to EG Capital Pty Limited for the year ended 30 June 2016 (2015: \$132,500).

During the previous financial year Patrick O'Brien & Associates Pty Ltd (a director-related entity of Mr Patrick O'Brien), provided advisory services to the value of \$78,000. All transactions were made on normal commercial conditions and at market rates.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
1 September 2014*	31 December 2019	\$0.575	1,393,112
1 September 2014*	31 December 2019	\$0.625	2,786,228
21 December 2015	31 December 2019	\$0.575	2,049,998
21 December 2015	31 December 2019	\$0.625	<u>4,100,002</u>
			<u><u>10,329,340</u></u>

* Options deemed to be granted to key management personnel in FY15 in accordance with AASB 2 and have various vesting dates commencing from the date of IPO.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of the Company issued on the exercise of options during the year ended 30 June 2016 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

Micro-X Limited
Directors' report
30 June 2016

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to 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 part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 19 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 19 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of Grant Thornton Audit Pty Ltd

There are no officers of the Company who are former partners of Grant Thornton Audit Pty Ltd.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (the Rounding Instrument), issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with the Rounding Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Auditor

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Mr Patrick O'Brien
Non-Executive Chairman

31 August 2016

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Auditor's Independence Declaration To the Directors of Micro-X Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Micro-X Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M. A. Cunningham
Partner - Audit & Assurance

Melbourne, 31 August 2016

Grant Thornton Audit Pty Ltd ACN 130 913 594
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Micro-X Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
Revenue	5	892	72
Share of profits of associates accounted for using the equity method	6	28	-
R&D tax incentive refunds		11,305	75
Interest received		68	14
Expenses			
Research & Development		(17,694)	(7,128)
Other Expenses		(969)	(128)
Employment Expenses		(845)	(199)
Depreciation and amortisation expense	7	(30)	(2)
Finance costs		(2,859)	(2,602)
Listing fees		(111)	-
Share based payments		(526)	(265)
Loss before income tax expense		(10,741)	(10,163)
Income tax expense	8	-	-
Loss after income tax expense for the year attributable to the owners of Micro-X Limited		(10,741)	(10,163)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Micro-X Limited		<u>(10,741)</u>	<u>(10,163)</u>
		Cents	Cents
Basic earnings per share	27	(16.75)	(46.51)
Diluted earnings per share	27	(16.75)	(46.51)

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

Micro-X Limited
Statement of financial position
As at 30 June 2016

	Note	2016 \$'000	2015 \$'000
Assets			
Current assets			
Cash and cash equivalents		4,169	2,592
Trade & other receivables	9	8,814	3,253
Other assets - prepayments		26	-
Total current assets		<u>13,009</u>	<u>5,845</u>
Non-current assets			
Investments accounted for using the equity method	10	9,070	-
Plant and equipment	11	165	12
Intangibles	12	2,017	1,980
Total non-current assets		<u>11,252</u>	<u>1,992</u>
Total assets		<u>24,261</u>	<u>7,837</u>
Liabilities			
Current liabilities			
Trade and other payables	13	6,012	2,700
Provisions		21	-
Borrowings	14	-	15,413
Total current liabilities		<u>6,033</u>	<u>18,113</u>
Total liabilities		<u>6,033</u>	<u>18,113</u>
Net assets/(liabilities)		<u><u>18,228</u></u>	<u><u>(10,276)</u></u>
Equity			
Issued capital	15	38,720	1
Share based payments reserve	16	791	265
Accumulated losses		<u>(21,283)</u>	<u>(10,542)</u>
Total equity		<u><u>18,228</u></u>	<u><u>(10,276)</u></u>

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

Micro-X Limited
Statement of changes in equity
For the year ended 30 June 2016

	Issued capital \$'000	Share based payment reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2014	1	-	(379)	(378)
Loss after income tax expense for the year	-	-	(10,163)	(10,163)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(10,163)	(10,163)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (note 28)	-	265	-	265
Balance at 30 June 2015	<u>1</u>	<u>265</u>	<u>(10,542)</u>	<u>(10,276)</u>
	Issued capital \$'000	Share based payment reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2015	1	265	(10,542)	(10,276)
Loss after income tax expense for the year	-	-	(10,741)	(10,741)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(10,741)	(10,741)
<i>Transactions with owners in their capacity as owners:</i>				
Issue of shares through IPO	20,000	-	-	20,000
Conversion of Converting Preferred Shares - Series A, B and C	18,273	-	-	18,273
Purchase of XinRay Systems Inc. investment	1,917	-	-	1,917
Capital raising costs	(1,471)	-	-	(1,471)
Share based payments (note 28)	-	526	-	526
Balance at 30 June 2016	<u>38,720</u>	<u>791</u>	<u>(21,283)</u>	<u>18,228</u>

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

Micro-X Limited
Statement of cash flows
For the year ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		882	-
Payments to suppliers (inclusive of GST)		(17,690)	(5,999)
Interest received		68	14
R&D incentive tax refunds		3,106	147
Interest paid		-	(405)
Net GST receipts		<u>1,111</u>	<u>426</u>
Net cash used in operating activities	25	<u>(12,523)</u>	<u>(5,817)</u>
Cash flows from investing activities			
Payments for property, plant and equipment	11	(184)	(14)
Payments for intangibles	12	(37)	-
Payments for investments in associates		<u>(7,124)</u>	<u>-</u>
Net cash used in investing activities		<u>(7,345)</u>	<u>(14)</u>
Cash flows from financing activities			
Proceeds from issue of shares	15	20,000	-
Capital raising costs		(1,471)	-
Proceeds from the issue of Converting Preferred Shares		-	8,162
Proceeds from borrowings		<u>2,916</u>	<u>220</u>
Net cash from financing activities		<u>21,445</u>	<u>8,382</u>
Net increase in cash and cash equivalents		1,577	2,551
Cash and cash equivalents at the beginning of the financial year		<u>2,592</u>	<u>41</u>
Cash and cash equivalents at the end of the financial year		<u><u>4,169</u></u>	<u><u>2,592</u></u>

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

Note 1. General information

The financial statements cover Micro-X Limited as an individual entity. The financial statements are presented in Australian dollars, which is Micro-X Limited's functional and presentation currency.

Registered office	Principal place of business
A14, 6 MAB Eastern Promenade 1284 South Road, Tonsley SA 5042	A14, 6 MAB Eastern Promenade 1284 South Road, Tonsley SA 5042

A description of the nature of the Company's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 31 August 2016. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The Company has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Company.

The following Accounting Standards and Interpretations are most relevant to the Company:

Other Income - Government subsidies

Subsidies from the government including R&D tax incentive income, have been recognised as other income at their fair value where there is reasonable assurance that the grant will be received, the Company will comply with attached conditions and the R&D incentive is readily measureable. The consolidated entity had previously accounted for its R&D tax incentive income as an income tax benefit and has now recognised these amounts as other income.

Going concern

The Company incurred a net loss after tax for the financial year ended 30 June 2016 of \$10.7M (year ended June 2015: \$10.2M) and had net cash outflows from operating activities of \$12.5M (year ended June 2015: \$5.8M).

Notwithstanding these results, the directors believe that the company will be able to continue as a going concern, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business and as a result the financial statements have been prepared on a going concern basis. The accounts have been prepared on the assumption that the company is a going concern for the following reasons:

Note 2. Significant accounting policies (continued)

- the operating loss and operating cash flow outcomes for the year ended 30 June 2016 reflect the results of the Company's major activities during that period, including the following, which were not directly revenue-generating nor cash-flow positive:
 - continuation of research and development activities, which the Company is undertaking with the objective that the outcomes of these activities be profitable and generate positive operating cash flows;
 - successfully undertaking a major Initial Public Offering (IPO), and incurring non-recurrent related costs; and
 - undertaking the Company's listing on the Australian Securities Exchange (ASX);
- the Company planning to consolidate its operating activities at a profitable and cash flow-positive level going forward;
- whilst the Company plans to continue to deploy capital for development of new products the quantum is currently anticipated to be materially lower than the level that the Company incurred for the financial year ended 30 June 2016;
- as the Company is an ASX-listed entity, it has the ability to raise additional funds if required.
- the Company expects to receive approximately \$8.2M from the R&D tax incentive scheme in relation to FY2016 and also has a \$3.0M debt drawdown facility with the South Australian government, of which \$2.6M has been drawn down at the date of this report.
- the Board is of the opinion that the Company has sufficient funds to meet the planned corporate activities, research and development activities and working capital requirements; and

The Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recognised in the financial report as at 30 June 2016.

Accordingly, this financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities as might be necessary should the Company not continue as a going concern.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

Note 2. Significant accounting policies (continued)

Contract revenue

Revenue from contracted services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date, and when success milestones have been achieved therefore probable that economic benefits will flow to the Company. The stage of completion is assessed by reference to the completion of key milestones in the contracts.

Stage of completion is measured by reference to total costs incurred to date as a percentage of total estimated total costs for each contract. Where the contract outcome cannot be reliably estimated, revenue is only recognised to the extent of the recoverable costs incurred to date.

Government subsidies

Subsidies from the government including R&D tax incentive income, are recognised as revenue at their fair value where there is reasonable assurance that the grant will be received, the Company will comply with attached conditions and the R&D incentive is readily measurable. As such the Company recognised the R&D tax incentive on a cash basis in prior periods. This period, as the estimate is reliably measurable, the R&D tax incentive is measured on an accruals basis.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

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

Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

Note 2. Significant accounting policies (continued)

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Company's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Company's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables (Note 9)

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Associates (Note 10)

Associates are those entities over which the Company is able to exert significant influence but which are not subsidiaries. The Company assesses its potential voting rights that are currently exercisable or convertible when assessing if it has significant influence.

Investments in associates are accounted for using the equity method. Any goodwill or fair value adjustment attributable to the Company's share in the associate is not recognised separately and is included in the amount recognised as investment. The carrying amount of the investment in associates is increased or decreased to recognise the Company's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Company. Unrealised gains and losses on transactions between the Company and its associates are eliminated to the extent of the Company's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

There are judgements and estimates used in determining the inputs for a value in use calculation which are outlined in Note 23.

Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives as follows:

Plant and equipment	3-7 years
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Note 2. Significant accounting policies (continued)

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

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Company. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Intangible assets (Note 12)

Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Research and development

Costs incurred in research and development activities are expensed as incurred, with the exception of costs that Micro-X can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Given that work is not yet complete on the device and it is not yet available for use, capitalised development costs have not yet commence amortisation.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables (Note 13)

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Note 2. Significant accounting policies (continued)

Share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Company receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Company or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Company or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital

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.

Note 2. Significant accounting policies (continued)

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Micro-X Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial 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 costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (the Rounding Instrument), issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with the Rounding Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 Company for the annual reporting period ended 30 June 2016. The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Company will adopt this standard from 1 January 2018. The impact of its adoption is yet to be assessed in detail by the Company but is not expected to have material impact on the Company.

Note 2. Significant accounting policies (continued)

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Company will adopt this standard from 1 January 2018. The impact of its adoption is yet to be assessed in detail by the Company but is not expected to have material impact on the Company.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019.

This standard:

- replaces AASB 117 Leases and some lease-related Interpretations;
- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases;
- provides new guidance on the application of the definition of lease and on sale and lease back accounting;
- largely retains the existing lessor accounting requirements in AASB 117;
- requires new and different disclosures about leases.

The Company will adopt this standard for the annual reporting period beginning 1 July 2019. The Company is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the Company's preliminary assessment, the likely impacts from the first time adoption of the Standard for the year ending 30 June 2020 include:

- there will be a significant increase in lease assets and financial liabilities recognised on the balance sheet;
- the reported equity will reduce as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities;
- EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off balance sheet leases will be presented as part of finance costs rather than being included in operating expenses; and
- Operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Share-based payment transactions (Note 28)

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets (Note 12)

The Company assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Company and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax (Note 8)

The Company is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax audit issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets (Note 8)

Deferred tax assets are recognised for deductible temporary differences only if the Company considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Note 4. Operating segments

The Company is organised into one operating segment being the design, development and manufacturing of ultra-lightweight carbon nano tube based X-ray products for the global healthcare and counter improvised explosive device imaging security markets. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

Major customers

During the year ended 30 June 2016 approximately 90% (2015: Nil) of the Company's external revenue was derived from sales to Defence Science and Technology Group of the Department of Defence.

Note 5. Revenue

	2016 \$'000	2015 \$'000
Sales of goods	92	-
Contract revenue	800	72
Revenue	<u>892</u>	<u>72</u>

Note 6. Share of profits of associates accounted for using the equity method

	2016 \$'000	2015 \$'000
Share of profit - associates	<u>28</u>	<u>-</u>

Note 7. Expenses

	2016 \$'000	2015 \$'000
Loss before income tax includes the following specific expenses:		
<i>Superannuation expense</i>		
Defined contribution superannuation expense	45	1
<i>Employee benefits expense excluding superannuation</i>		
Employee benefits expense excluding superannuation	800	463

Note 8. Income tax benefit

	2016 \$'000	2015 \$'000
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax expense	(10,741)	(7,826)
Tax at the statutory tax rate of 30%	(3,222)	(2,347)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Other non-deductible expenses	858	-
Share-based payments	158	-
Share of profits from associates	(8)	-
R&D tax incentive income	(3,392)	(23)
Feedstock adjustment	8	-
Net prior year 'true-up' adjustments	74	-
R&D expenditure	5,467	2,069
	(57)	(301)
Current year tax losses not recognised	20	301
Current year temporary differences not recognised	37	-
Income tax benefit	-	-
	2016 \$'000	2015 \$'000
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	1,132	1,065
Potential tax benefit @ 30%	340	320

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

Micro-X Limited
Notes to the financial statements
30 June 2016

Note 9. Current assets - Trade & Other Receivables

	2016 \$'000	2015 \$'000
Trade receivables	10	-
Series C Converting Preferred Shares proceeds outstanding	-	2,916
R&D tax incentive refund	8,201	-
	<u>8,211</u>	<u>2,916</u>
GST receivable	603	337
	<u>8,814</u>	<u>3,253</u>

Note 10. Non-current assets - investments accounted for using the equity method

	2016 \$'000	2015 \$'000
Investment in associate - XinRay Inc.	<u>9,070</u>	<u>-</u>

Refer to note 23 for further information on interests in associates.

Note 11. Non-current assets - plant and equipment

	2016 \$'000	2015 \$'000
Office equipment - at cost	100	-
Less: Accumulated depreciation	<u>(23)</u>	<u>-</u>
	77	-
Plant and equipment - at cost	98	14
Less: Accumulated depreciation	<u>(10)</u>	<u>(2)</u>
	88	12
	<u>165</u>	<u>12</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Plant and equipment \$'000	Office equipment \$'000	Total \$'000
Balance at 1 July 2014	14	-	14
Depreciation expense	<u>(2)</u>	<u>-</u>	<u>(2)</u>
Balance at 30 June 2015	12	-	12
Additions	84	100	184
Depreciation expense	<u>(8)</u>	<u>(23)</u>	<u>(31)</u>
Balance at 30 June 2016	<u>88</u>	<u>77</u>	<u>165</u>

Note 12. Non-current assets - Intangibles

	2016 \$'000	2015 \$'000
Capitalised development costs	1,980	1,980
Patents and trademarks - at cost	37	-
	<u>2,017</u>	<u>1,980</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Capitalised development costs \$'000	Patents & trademarks \$'000	Total \$'000
Balance at 1 July 2014	-	-	-
Additions	1,980	-	1,980
Balance at 30 June 2015	1,980	-	1,980
Additions	-	37	37
Balance at 30 June 2016	<u>1,980</u>	<u>37</u>	<u>2,017</u>

Capitalised development costs

For the purpose of ongoing annual impairment testing, the carrying value of capitalised development costs is allocated to the following cash-generating product(s) (CGU), which is/ are the product(s) expected to benefit from the work, knowledge, intellectual property and other information attributable to the relevant expenditure:

	2016 \$'000	2015 \$'000
DRX Revolution Nano	<u>1,850</u>	<u>1,850</u>

Note 12. Non-current assets - Intangibles (continued)

Recoverability of development costs

The carrying amount of the Company's Development Cost intangible assets, relating to shares issued to Carestream in lieu of development payments for Carestream's development input for the Nano mobile X-ray cart that are yet to be commercialised is reviewed at each reporting date for potential impairment. The review consists of a comparison of the carrying value with the expected recoverable amount of the Development intangible assets as determined under a fair value-in-use method.

Management has utilised a discounted cash flow model. These assumptions, and a description of management's approach to determining the value(s) assigned to them, are as follows:

- the projected revenues and EBITDA margins of comparable ASX listed medical device companies and discussions with customers and suppliers;
- the status of the Nano project with regard to its stage of development;
- the minimal extent of any incremental costs expected to be incurred to commercialise the Nano development asset after development has completed;
- five year forecast revenues from commercialisation of the Nano development asset, including assumptions with respect to sales growth and addressable market penetration rates;
- the risks attached to commercialising the Nano asset, including any industry specific or regulatory risk;
- the number of markets and timeframe in which the Nano is anticipated to be offered for sale via the support of Carestream's direct and VAR dealer network sales support
- anticipated levels of competition; and
- other general economic factors.

The Company uses discounted cash flow projections to measure estimated fair value-in-use and used the following inputs:

- period over which cash flows were projected: 5 years;
- growth rate used to extrapolate cash flow projections: 2.5%; and
- discount rate applied to cash flow projections: 17.1%.

As a result of the impairment assessment at 30 June 2016, the directors and management of the Company determined that the recoverable amount of the Development Cost intangible assets, recorded in the Nano CGU, as estimated from the discounted cash flows and other measurement techniques, was not impaired.

Management and the Board have determined that there was no reasonably possible change in a key assumption on which management has based its determination of the Nano CGU recoverable amount which would cause its carrying amount to exceed its recoverable amount.

Note 13. Current liabilities - trade and other payables

	2016 \$'000	2015 \$'000
Trade payables	4,913	2,700
Other payables	1,099	-
	<u>6,012</u>	<u>2,700</u>

Refer to note 17 for further information on financial instruments.

Note 14. Current liabilities - Borrowings

	2016 \$'000	2015 \$'000
Series A Converting Preferred Shares (9,900 notes)	-	2,481
Series B Converting Preferred Shares (33,500 notes)	-	8,234
Series C Converting Preferred Shares (11,153 notes)	-	4,698
	<u>-</u>	<u>15,413</u>

During the previous financial year, the Company:

- placed 9,900 Series A Converting Preferred Shares at an issue price of \$200 per Converting Preferred Share ('Shares') with Carestream Health Inc. as part of the Commercialisation Agreement executed on 11 November 2014 for development support to date, including technical and market related input throughout the development process for the DRX Revolution Nano. Further, as part of the collaboration, Carestream will provide access and integration of its market-leading imaging software systems. These were entitled to accrue interest at a rate of 40% per annum in the event of redemption.
- placed 30,000 Series B Converting Preferred Shares at an issue price of \$200 per Converting Preferred Share ('Shares') with sophisticated investors. A further 3,500 Series B Converting Preferred Shares were issued at an issue price of \$150 per Converting Preferred Shares ('Shares') in lieu of the redemption of \$445,000 of loans. These were entitled to accrue interest at a rate of 40% per annum in the event of redemption.
- placed 13,153 Series C Converting Preferred Shares at an issue price of \$380 per Converting Preferred Share ('Shares') with sophisticated investors. These were entitled to accrue interest at a rate of 30% per annum in the event of redemption.

All three Series could be easily converted to fully paid ordinary shares at the election of the holder. Each share converted to one ordinary share on the close of an initial public offering, a sale of all shares in the Company, an asset sale or a Company sale.

The Shares also had several protective features being to prevent dilution and provide price protection. These features met the definition of a derivative, however, management assessed that the value of those derivatives was not material.

During the current financial year all converting preferred shares were converted into fully paid ordinary shares as part of the Company's initial public offering and prior to listing on ASX.

Note 15. Equity - Issued capital

	2016 Shares	2015 Shares	2016 \$'000	2015 \$'000
Ordinary shares - fully paid	<u>119,409,725</u>	<u>23,000</u>	<u>38,720</u>	<u>1</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2014	23,000		1
Balance	30 June 2015	23,000		1
Conversion of Series A, B and C to ordinary shares	17 December 2015	56,553	\$0.000	18,273
Share Split 1:950	17 December 2015	75,495,797	\$0.000	-
Issue of shares at initial public offering	17 December 2015	40,000,000	\$0.500	20,000
Purchase of XinRay Inc. investment	17 December 2015	3,834,375	\$0.500	1,917
Capital raising cost		-	-	(1,471)
Balance	30 June 2016	<u>119,409,725</u>		<u>38,720</u>

Note 15. Equity - Issued capital (continued)

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Capital risk management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Note 16. Equity - Share based payments reserve

	2016 \$'000	2015 \$'000
Share-based payments reserve	<u>791</u>	<u>265</u>

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

	Share-based payments reserve \$'000	Total \$'000
Balance at 1 July 2014	-	-
Share option expense	<u>265</u>	<u>265</u>
Balance at 30 June 2015	265	265
Share option expense	<u>526</u>	<u>526</u>
Balance at 30 June 2016	<u>791</u>	<u>791</u>

Note 17. Financial instruments

Financial risk management objectives

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Company and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Company's operating units. Finance reports to the Board on a monthly basis.

Unless otherwise stated, there have been no changes from the previous reporting period in the Company's exposures to risks related to financial instruments, or how those risks arise.

Note 17. Financial instruments (continued)

Market risk

Foreign currency risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar (USD).

Price risk

The Company is not exposed to any significant price risk.

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's cash deposits with floating interest rates. These financial assets with variable rates expose the Company to interest rate risk.

The Converting Preference Shares previously on issue during the current and previous financial years had fixed interest rates and therefore had no interest rate risk.

All other financial assets and liabilities in the form of receivables and payables are non-interest bearing.

The Company does not engage in any hedging or derivative transactions to manage interest rate risk.

In regard to its interest rate risk, the Company continuously analyses its exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative investments and the mix of fixed and variable interest rates.

At the balance date the Company had the following financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

Cash at bank of \$4.1M (2015: \$2.5M).

The sensitivity of the cash at bank balance to changes in interest rate (of +/-1%) equates to +/- \$41,690 (2015: +/- \$25,920). The sensitivity of 1% is based on reasonable, possible changes, over a financial year, using the observed range of actual historical short term deposit rate movements and management's expectation of future movements.

Credit risk

Credit risk arises from cash and cash equivalents and outstanding trade and other receivables.

The cash balances are held in financial institutions with high ratings and the trade and other receivables relate to:

- (i) amounts receivable from a substantial trade debtor with a strong credit standing;
- (ii) goods and services tax receivable from the Australian Tax Office (ATO);
- (iii) estimated R&D tax incentive receivable from the ATO.

The Company has assessed that there is minimal risk that the cash and trade and other receivables balances are impaired.

Liquidity risk

Vigilant liquidity risk management requires the Company to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

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

The Company did not have a short term financing facility as at 30 June 2016.

Trade payables are generally payable on 30 day terms.

Note 17. Financial instruments (continued)

Remaining contractual maturities

The following tables detail the Company's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

2016	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	4,913	-	-	-	4,913
Other payables	-	493	-	-	-	493
Total non-derivatives		5,406	-	-	-	5,406
2015	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	2,700	-	-	-	2,700
<i>Interest-bearing - fixed rate</i>						
Converting preferred shares - Series A	40.00%	2,481	-	-	-	2,481
Converting preferred shares - Series B	40.00%	8,234	-	-	-	8,234
Converting preferred shares - Series C	30.00%	4,698	-	-	-	4,698
Total non-derivatives		18,113	-	-	-	18,113

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 18. Key management personnel disclosures

Compensation

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

	2016 \$	2015 \$
Short-term employee benefits	424,413	186,708
Post-employment benefits	14,360	-
Share-based payments	302,982	265,084
	<u>741,755</u>	<u>451,792</u>

Micro-X Limited
Notes to the financial statements
30 June 2016

Note 19. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the Company:

	2016 \$	2015 \$
<i>Audit services - Grant Thornton Audit Pty Ltd</i>		
Audit or review of the financial statements	50,000	15,000
<i>Other services - Grant Thornton Audit Pty Ltd</i>		
Investigating Accountant's Report and due diligence review	58,000	-
Tax consulting	10,000	-
	68,000	-
	<u>118,000</u>	<u>15,000</u>

Note 20. Contingent liabilities

The Company had no contingent liabilities at 30 June 2016 and 30 June 2015.

Note 21. Commitments

	2016 \$'000	2015 \$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	168	-
One to five years	672	-
More than five years	784	-
	<u>1,624</u>	<u>-</u>

Operating lease commitments includes contracted amounts for a non-cancellable operating commercial property lease of a purpose-designed facility at Tonsley, South Australia. The lease, which will commence once Practical Completion of all of the Landlord's works are reached will have a term of 10 years, with a 10 year option to renew. Annual lease payments are approximately \$168,000 at commencement and there is a 3.5% annual rent increase.

The Company holds an option to purchase an additional 10% of XinRay for approximately US\$246 per share.

Note 22. Related party transactions

Associates

Interests in associates are set out in note 23.

Key management personnel

Disclosures relating to key management personnel are set out in note 18 and the remuneration report included in the directors' report.

Note 22. Related party transactions (continued)

Transactions with related parties

Mr Richard Hannebery became an Executive director of the Company in August 2014. Mr Hannebery is a contractor to and partial beneficiary of Lodge Corporate Pty Ltd. Lodge Corporate Pty Ltd were engaged by the Company to assist in the raising of capital over a number of years including the Company's IPO. Mr Hannebery is engaged by Lodge Corporate Pty Ltd via EG Capital Pty Limited an entity of which he is a director and beneficiary.

The following transactions occurred with related parties:

	2016 \$	2015 \$
Purchases of goods and services		
Purchases of project development services from associate, XinRay Systems Inc.	775,880	-
Purchases of advisory services from Lodge Partners Pty Ltd (director-related entity of Mr Richard Hannebery)*	1,422,000	265,000
Purchases of advisory services from Patrick O'Brien & Associated Pty Ltd (director-related entity of Mr Patrick O'Brien)	-	78,000

* EG Capital Pty Ltd, an entity associated with Mr Richard Hannebery, was paid \$564,490 in relation to these amounts from Lodge Partners Pty Ltd during the year (2015: \$132,500)

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 23. Interests in associates

Interests in associates are accounted for using the equity method of accounting. Information relating to associates that are material to the Company are set out below:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2016 %	2015 %
XinRay Systems Inc	United States of America	30.00%	-

The Company has made the following significant judgements and assumptions in determining that it has significant influence over XinRay Systems Inc ("XinRay"): - it has a 30% shareholding in XinRay, and is one of 2 shareholders the other bring Xintek Inc. - its Managing Director, Mr Peter Rowland, has been appointed to the Board of XinRay will continue to represent the Company's interests on that Board; - Whilst XinRay has contractual work with multiple customers during the previous 12 month period Micro-X contract payments accounted for more than half of XinRay's contractual revenues - XinRay's dependence upon Micro-X contractual revenues is likely to significantly diminish going forward particularly in the event that XinRay is successful in securing a current Broad Agency Announcement (BAA) funding grant from the US Transport Security Administration (TSA) in 2016/17 for its 3D - CT baggage screening imaging system for airport security check points.

Note 23. Interests in associates (continued)

The nature of the risks associated with the Company's investment in XinRay are:

- XinRay is still at an early stage of development and relies upon the funding support of its shareholders or access to funding from other corporate partners and government agencies such as the US TSA; - Should XinRay be successful in securing BAA grant funding it does not guarantee successful TSA certification of XinRay system and as such there is no guarantee of commercial success for the system; - The Company believes that the investment reduces risk for access to XinRay manufactured products it exclusively accesses under its Strategic Supplier Agreement for the development and commercialisation of the Company's new product pipeline;
- The investment may provide significant financial return to the Company should XinRay's other business activities be commercially successful.

There has been no change in these risks during the current reporting period.

Summarised financial information

	XinRay* 2016 \$'000
<i>Summarised statement of financial position</i>	
Current assets	5,531
Non-current assets	5,338
Total assets	10,869
Current liabilities	3,369
Non-current liabilities	79
Total liabilities	3,448
Net assets	7,421
<i>Summarised statement of profit or loss and other comprehensive income</i>	
Revenue	2,145
Expenses	(2,051)
Profit before income tax	94
Other comprehensive income	-
Total comprehensive income	94
<i>Reconciliation of the Company's carrying amount</i>	
Opening carrying amount	-
Share of profit after income tax	28
Investment by Company	66
Closing carrying amount	94

* - The Company's investment in XinRay was made during the year ended 30 June 2016 and it had no investment as at 30 June 2015. Accordingly, comparative financial information is not applicable nor required to be disclosed.

Note 24. Events after the reporting period

On 23 August 2016 the Company announced that the South Australian Government Financing Authority loan facility agreement had been executed by the South Australian Treasurer. The Loan commitment is \$3.0M with an agreed interest rate of 5.75% per annum paid monthly in arrears. A drawdown notice for \$2.6M has been executed, with funds from the initial drawdown received by Micro-X on 23 August 2016.

On 23 August 2016 the Company announced that Renewal SA was going to formally hand over the Company's permanent new facility at Tonsley being the Practical Completion of requirements in accordance with the Lease.

On 29 August 2016 the Company announced that it had signed agreements with Carestream Inc. for the exclusive development and OEM supply of a mobile medical X-ray unit which Carestream will market when the product becomes commercially available.

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Note 25. Reconciliation of loss after income tax to net cash used in operating activities

	2016 \$'000	2015 \$'000
Loss after income tax expense for the year	(10,741)	(10,163)
Adjustments for:		
Depreciation and amortisation	30	-
Share of profit - associates	(28)	-
Share-based payments	526	265
Non-cash finance costs	2,859	2,211
Change in operating assets and liabilities:		
Increase in trade & other receivables	(8,502)	(332)
Increase in trade and other payables	3,312	2,202
Increase in employee benefits	21	-
Net cash used in operating activities	<u>(12,523)</u>	<u>(5,817)</u>

Note 26. Non-cash investing and financing activities

	2016 \$'000	2015 \$'000
Shares issued as consideration for acquisition of interest in associate	1,917	-
Conversion of converting preferred shares and accrued interest to fully paid ordinary shares	<u>18,273</u>	<u>-</u>
	<u>20,190</u>	<u>-</u>

The Company issued 3,834,375 fully paid ordinary shares at a deemed issue price of \$0.50 (50 cents) per share pursuant to a Share Subscription Agreement to purchase 7.3% of XinRay shares.

Note 27. Earnings per share

	2016 \$'000	2015 \$'000
Loss after income tax attributable to the owners of Micro-X Limited	<u>(10,741)</u>	<u>(10,163)</u>

Note 27. Earnings per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	64,132,036	21,850,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>64,132,036</u>	<u>21,850,000</u>
	Cents	Cents
Basic earnings per share	(16.75)	(46.51)
Diluted earnings per share	(16.75)	(46.51)

The weighted average number of ordinary shares for the year ended 30 June 2015 has been restated for the effect of the 1 to 950 share split completed in December 2015, in accordance with AASB 133 'Earnings per share'.

	Number
Weighted average number of ordinary shares used in calculating basic earnings per share (before restatement)	23,000
Adjustment required by AASB 133 'Earnings per share'	<u>21,827,000</u>
Weighted average number of ordinary shares used in calculating basic earnings per share (after restatement)	<u>21,850,000</u>

Note 28. Share-based payments

Share based payments relate to Award Options as outlined in the Company's Prospectus dated 25 November 2015. These options were issued to directors and nominated employees and consultants of the Company.

The general terms and conditions of the Award Options are:

- basis for issues of options:
 - issues to Executive Directors (Peter Rowland and Richard Hannebery) - in accordance with respective executive contracts with the Company;
 - issues to Non-Executive Directors and other employees - to incentivise performance and further align interests with shareholders;
 - issues to consultants - award for contribution to product development of the DRX Revolution Nano;
- no amount was payable by the holders on the issues of the options;
- vesting arrangements:
 - issues to Executive Directors:
 - one third (Tranche 1) vested immediately upon IPO;
 - one third (Tranche 2) vest on 1 September 2016, provided the holder remains employed by the Company on that date;
 - one third (Tranche 3) vest on 1 September 2017, provided the holder remains employed by the Company on that date;
 - issues to Non-Executive Directors and other employees:
 - one third (Tranche 1) vest on 21 December 2016, provided the holder remains employed by the Company on that date;
 - one third (Tranche 2) vest on 21 December 2017, provided the holder remains employed by the Company on that date;
 - one third (Tranche 3) vest on 21 December 2018, provided the holder remains employed by the Company on that date;
 - issues to consultants:
 - one third (Tranche 1) vest on 21 December 2016;
 - one third (Tranche 2) vest on 21 December 2017;
 - one third (Tranche 3) vest on 21 December 2018;

Micro-X Limited
Notes to the financial statements
30 June 2016

Note 28. Share-based payments (continued)

- exercise prices:
 - Tranche 1: \$0.575 (57.5 cents) per option;
 - Tranches 2 and 3: \$0.625 (62.5 cents) per option;
- all options expire on 31 December 2019;
- all options will be settled by issues of fully paid ordinary shares in the Company.

Set out below are the options outstanding at the end of the financial year (the options shown on the first and second lines are those issued to the Executive Directors, and the options on the third and fourth lines are those issued to Non-Executive Directors, other employees and consultants):

2016

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/09/2014	31/12/2019	\$0.575	1,393,112	-	-	-	1,393,112
01/09/2014	31/12/2019	\$0.625	2,786,228	-	-	-	2,786,228
21/12/2015	31/12/2019	\$0.575	-	2,050,000	-	-	2,050,000
21/12/2015	31/12/2019	\$0.625	-	4,100,000	-	-	4,100,000
			<u>4,179,340</u>	<u>6,150,000</u>	<u>-</u>	<u>-</u>	<u>10,329,340</u>
Weighted average exercise price			\$0.608	\$0.608	\$0.000	\$0.000	\$0.608

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2016 Number	2015 Number
01/09/2014	31/12/2019	<u>1,393,112</u>	-
		<u>1,393,112</u>	-

The weighted average remaining contractual life of options outstanding at the end of the financial year was 3.27 years (2015: 4.5 years).

For the options granted, the valuation model inputs used to determine the fair value at the grant date, using the Black Scholes Model, are as follows (the options shown on the first and second lines are those issued to the Executive Directors, and the options on the third and fourth lines are those issued to Non-Executive Directors, other employees and consultants):

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
01/09/2014	31/12/2019	\$0.500	\$0.575	33.00%	-	3.58%	\$0.066
01/09/2014	31/12/2019	\$0.500	\$0.625	33.00%	-	3.58%	\$0.060
21/12/2015	31/12/2019	\$0.500	\$0.575	31.00%	-	3.41%	\$0.115
21/12/2015	31/12/2019	\$0.500	\$0.625	31.00%	-	3.41%	\$0.101

The fair values of the Award Options will be recognised as an expense by the Company over the following periods:

- options issued to the Executive Directors: from 1 September 2014, being the commencement date of their executive contracts with the Company, to the respective vesting dates; and
- all other options: from grant date in December 2015 to the respective vesting dates.

Micro-X Limited
Directors' declaration
30 June 2016

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Company's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



Mr Patrick O'Brien
Non-Executive Chairman

31 August 2016

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Independent Auditor's Report To the Members of Micro-X Limited

Report on the financial report

We have audited the accompanying financial report of Micro-X Limited (the “Company”), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors’ declaration of the Company.

Directors’ responsibility 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. The Directors’ responsibility also includes 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. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

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 us to 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.

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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, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view 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 Company's internal control. 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.

Auditor's opinion

In our opinion:

- a the financial report of Micro-X Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the Company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 in the financial report which indicates that the company entity incurred a net loss of \$10,741,000 during the year ended 30 June 2016 and, as of that date, the company's cash outflows from operating activities equates to \$12,523,000. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in pages 8 to 16 of the directors' report for the year ended 30 June 2016. 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.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Micro-X Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M. A Cunningham
Partner - Audit & Assurance

Melbourne, 31 August 2016

Micro-X Limited
Shareholder information
30 June 2016

The shareholder information set out below was applicable as at 26 August 2016.

Distribution of equity securities

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

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	8	-
1,001 to 5,000	90	-
5,001 to 10,000	93	-
10,001 to 100,000	254	-
100,001 and over	119	10
	564	10
Holding less than a marketable parcel	13	-

Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares Number held	% of total shares issued
Mr Peter Robin Rowland	11,950,000	10.01
UBS Nominees Pty Ltd	11,133,629	9.32
Carestream Health Inc	9,405,000	7.88
HSBC Custody Nominees (Australia) Limited	5,601,303	4.69
Xintek Inc	4,834,375	4.05
Lonsdale Nominees Pty Ltd (The Lonsdale Fund A/C)	3,887,869	3.25
Harman Nominees Pty Ltd (Harmanis Investment)	3,000,000	2.51
Ms Alison Coutts	2,850,000	2.39
OBrien PF Pty Ltd (OBrien Pension A/C)	2,670,635	2.24
Hammond Royce Corporation Pty Ltd (Len David Super Fund A/C)	2,648,442	2.22
Wales Riding Pty Ltd	2,481,400	2.08
Ms Robyn Gould	2,394,250	2.01
Meddiscope Pty Ltd	2,375,000	1.99
BT Portfolio Services Limited (The Vaben S/F A/C)	1,987,500	1.66
Mr David Symons	1,955,600	1.64
Titanium Holdings (VIC) Pty Ltd	1,873,450	1.57
Anglesea Investments Pty Limited (Damien OBrien Family A/C)	1,822,817	1.53
SY Group Investments Pty Ltd	1,472,419	1.35
Bluetide Investments Pty Ltd (Parade A/C)	1,276,623	1.07
Carina Management Pty Ltd <Brydon Family A/C>	1,275,000	1.07
	76,895,312	64.41

Micro-X Limited
Shareholder information
30 June 2016

Unquoted equity securities

	Number on issue	Number of holders
Shares - ASX Escrowed 24 Months to 17 December 2017	28,154,570	13
Unquoted options - Award options issued to Directors and Employees	10,329,340	10

Substantial holders

Substantial holders in the Company, as disclosed in substantial holding notices given to the Company, are set out below:

	Ordinary shares % of total shares issued
Number held	
TIGA Trading Pty Ltd and associates	7,749,100 6.49
Peter Robin Rowland and associates	12,425,000 10.41

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Shares subject to escrow (Restricted Securities)

Voting rights relating to shares subject to escrow are the same as for ordinary shares except that, during a breach of the ASX Listing Rules relating to Shares which are Restricted Securities, or a breach of a restriction agreement, the holder of the relevant Restricted Securities is not entitled to any voting rights in respect of those Restricted Securities.

Options

Options do not have voting rights attached.

There are no other classes of equity securities.

Restricted securities

Class	Expiry date	Number of shares
Fully paid ordinary shares: ASX escrowed	24 December 2017	28,154,570