

APPENDIX 4E

Micro-X Ltd Appendix 4E

1. Company details

Name of entity:	Micro-X Ltd
ABN:	21 153 273 735
Reporting period:	For the year ended 30 June 2021
Previous period:	For the year ended 30 June 2020

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	down	11% to	3,771
Loss from ordinary activities after tax attributable to the owners of Micro-X Ltd	up	46% to	(14,731)
Loss for the year attributable to the owners of Micro-X Ltd	up	46% to	(14,731)

Dividends

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

Comments

The loss for the Group after providing for income tax amounted to \$14,731,000 (30 June 2020: \$10,067,000).

Refer to the Director's report in the 2021 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	7.38	2.60

The Group has treated the Right of Use asset as an intangible asset when calculating the Net tangible assets per ordinary security.

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Micro-X Ltd
Appendix 4E

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

Not applicable.

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 unmodified opinion has been issued.

11. Attachments

Details of attachments (if any):

The Annual Financial Report of Micro-X Ltd for the year ended 30 June 2021 is attached.

12. Signed

Signed David Knox

Date: 27 August 2021

David Knox
Non-Executive Chair

MICRO-X

CLEAR VISION
FOCUSED EXECUTION



ANNUAL REPORT 2021

ABOUT MICRO-X

Micro-X Limited (ASX: MX1) is a hi-tech company developing and commercialising a range of innovative x-ray products for global health and security markets, based on proprietary cold cathode, carbon nanotube (CNT) emitter technology.

Our technology revolutionises the potential uses and applications of x-ray technology across the world and will be used as the platform for all our product development.

With a vertically integrated design and production facility in Adelaide, Australia and a growing technical and commercial team based in Seattle, we are rapidly expanding our commercial operations.

CONTENTS

01 Charting Our Own Course

02 FY21 Key Achievements

04 Micro-X Technology

06 Mobile Digital Radiology

08 X-Ray Camera

10 Checkpoints

12 Brain CT

14 Chair's Letter

16 CEO's Report

21 FY22 Milestones

22 Financial Report

23 Director's Report

80 Corporate Directory

MOBILE DR

06



X-RAY CAMERA

08



CHECKPOINTS

10



BRAIN CT

12





CHARTING OUR OWN COURSE

This year has seen us achieve a number of critical strategic building blocks which set the direction for how we will commercialise our world-leading x-ray technology platform in four, high margin product lines for health and security markets:

- Mobile digital radiology machines for diagnostic imaging in global healthcare, military and veterinary applications;
- X-Ray Camera for security imaging of Improvised Explosive Devices;
- A next-generation Airport Checkpoint Portal with self-service x-ray; and
- A miniature brain CT imager for pre-hospital stroke diagnosis in ambulances.

A new, non-exclusive, distribution environment created during the year for our Mobile DR portfolio has ushered in the launch of two, new, fully Micro-X branded Rover products moving us higher in the value chain, expanding profit margins and growing the value proposition which flows from greater control over our paths to market.

Investment in our commercial capabilities has seen us broaden our distributor and dealership networks globally and recruit the highly skilled sales staff and management needed to directly drive rapid sales growth.

Investment in our manufacturing capability by in-sourcing our tube and generator production has strengthened our competitive positioning and gives us better control over the manufacturing process, growing our vertical integration and further developing our technology advantage.

This focus on building up our core capabilities is now supported by a healthy balance sheet and the year's many achievements have set us up for success in our planned endeavours in 2022.



FY21 KEY ACHIEVEMENTS

\$3.6M

Mobile DR
sales

Rover with
Varex detector

510(k) clearance

Establishment
of multiple
distributorships,
non-exclusive
paths to market



Veterinary market
launch and first sale

Rover generator and
high-power tube achieved
120kV, 80mAs

CE Marking and ARTG
inclusion submission made

Up to US\$4M

Selected for funding
by US Department of
Homeland Security



Debt free;
repayment of
all facilities

\$8M

MRFF Stroke
CT scanner
contract

Successful

\$34M

capital raising

X-Ray Camera project
on time, on budget

Established
Seattle office



Increased
employee
engagement

Strengthened
Board leadership
and commercial
expertise

Maintained 100% tube
manufacturing yield

MICRO-X TECHNOLOGY

At Micro-X, we believe in the power of great ideas.

The value proposition to customers in all our products is uniquely enabled by the ideas and the technology embodied in them; technology which we've invented; technology which we own and technology which keeps us ahead of those who would try to follow us. We're constantly looking at things differently so we can find better ways for our customers.

COLD CATHODE X-RAY EMITTERS

Many, many companies both large and small around the world have sought the benefits which electronically controlled x-ray sources can bring to x-ray imaging; small size, lightweight, high efficiency, long life and precise controllability. Micro-X was the first company to achieve this with our patented carbon nanotube emitter technology now bringing these benefits to bedside imaging in hospitals in over 30 countries.

The precise and instantaneous electronic control of Micro-X's x-ray tube opens up a world of opportunities, but the most exciting new applications involve arrays of miniature x-ray sources which can be electronically switched in sequence to produce a moving x-ray beam from stationary components.

Micro-X is the first company to commercialise carbon nanotube emitter technology in x-ray tubes and this technology is the core platform for our 4 product lines.

**Developing
our in-house
capability is
highly strategic
for our future.**





HIGH VOLTAGE POWER SUPPLIES FOR X-RAY TUBES

Every x-ray tube needs a highly sophisticated high voltage power supply, known in the industry as a 'generator', to drive it. With our carbon nanotube technology allowing us to miniaturise x-ray tubes as never before it's important for our products' performance that the generators which power them be similarly reduced in size and weight. We set out a year ago to design our own generator in-house, innovating techniques in the process to miniaturise the high voltage power electronics.

Micro-X's new proprietary generator and up-rated x-ray tube have been successfully operated together and performance tested. Delivering four times the x-ray output of the

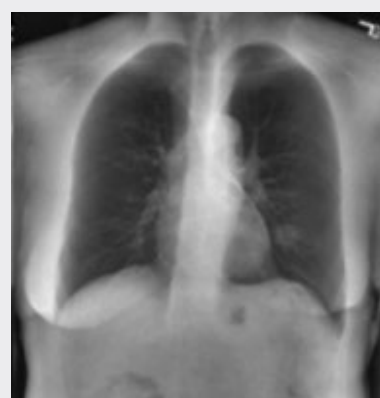
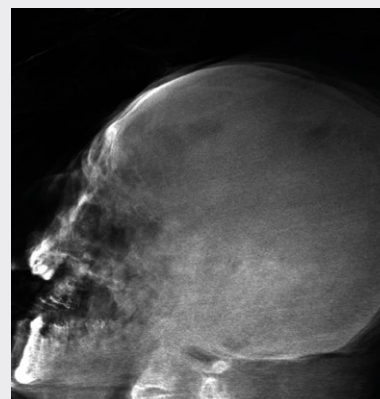
previous product in a similar package and at half the cost, these designs will become the standard for the second generation of Rover to be launched in coming months.

With few companies in the world producing high voltage generators for x-ray systems, none offer such high performance in such a compact and lightweight package as this new design has achieved. The miniaturisation of high voltage power supplies is a critical competitive advantage in the design of all our new products and developing this design and manufacturing capability in-house is highly strategic.

IMAGE RECONSTRUCTION AND ENHANCEMENT

Our team, in developing our four key product lines, is pioneering new imaging modalities in medical, defence and security x-ray imaging, blending backscatter and transmission imaging techniques. At the core of these products is our proprietary imaging software and algorithms which perform three-dimensional image reconstruction, image processing to enhance resolution and, in the case of our airport security checkpoint contract, automated threat detection.

These algorithms and image processing techniques have much in common across all of our product lines and form another platform technology for advancing all our products' capabilities. We have commenced building a Software Center-of-Excellence at our new facility in Seattle and, with a developing relationship with Johns Hopkins University on our Cone Beam CT project for stroke imaging, are confident in pushing the state-of-the-art in image reconstruction techniques.



MOBILE DIGITAL RADIOLOGY

EXTENDING BEDSIDE IMAGING WITH LIGHTWEIGHT AND ULTRA MOBILITY

Micro-X's suite of Mobile DR bedside imaging products was launched in 2018 with the Carestream DRX-Revolution Nano and with strong recent growth in demand for mobile x-ray imaging due to the pandemic, Micro-X now has units operating in 31 countries. Customer feedback on the product has been very positive and we see the strongest current demand coming from repeat orders from countries with the largest installed base.

The Rover is Micro-X's fully integrated, digital x-ray system for bedside imaging in hospitals and temporary medical facilities. More importantly it is Micro-X's first, own-branded, complete x-ray imaging product which we can now sell anywhere around the world, subject to regulatory approvals.

In Rover, Micro-X has integrated a new detector and imaging software suite from Varex Imaging, a major US supplier to the x-ray industry, and this is providing a world-class, highly competitive imaging solution.

Micro-X has now launched multiple options of the Rover, with purpose-designed adaptations for new markets, military deployed medical facilities and veterinary hospitals. The first sales have shown how this unique technology delivers huge improvements in imaging, workflow and efficiency for its users.

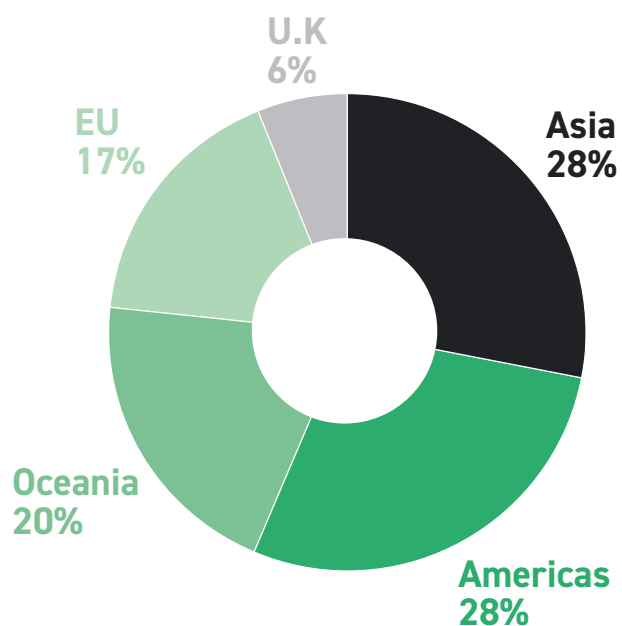
A contract, facilitated by the World Health Organisation, to supply Rover to a number of Pacific Island nations has shown how the light weight, reliability and adaptability of this product can make it an ideal choice for imaging in remote and isolated communities. Micro-X's Mobile DR equipment is also in use in a number of cities pioneering a novel service in door-to-door radiology, offering x-rays in the convenience of patients' homes or in aged care facilities.

POINT OF CARE IMAGING

"The DRX-Revolution Nano is regularly being moved across such surfaces as gravel and even grass in order to be brought into patient's homes. Most importantly, throughout this time, the Nano has been able to produce consistently reproducible x-ray exposures that are of proven quality. Doctor feedback has demonstrated that our image quality with the Nano is of an extremely high standard and has thus prevented patients from unnecessarily attending hospital."

*Leigh Bauer-Nason, Business Manager
at Ultra Mobile Radiology, Adelaide*

**Expansion of imaging
into Point of Care and
Veterinary markets**



**Operating
in 31 countries**



**Micro-X Rover
achieved FDA
clearance
opening up
new markets**

IN THE HOSPITAL

“Due to the tight spaces in the patient rooms and the ante rooms on some of the units, it would be very difficult to manoeuvre a regular portable. It has been such a lifesaver that we ordered a second one.”

Heather Damon-Pannone, Diagnostic Radiology Manager at the University of Maryland Hospital

“We found it significantly faster to sterilise than other mobile units.”

Heather Scoullar, Radiographer in Charge – General x-ray at The Alfred Hospital, Melbourne



X - R A Y C A M E R A

RAPID, UNMANNED, X-RAY ASSESSMENT OF IEDs

A Bomb technician's most valuable asset during counter terrorism operations is an x-ray image; this can reveal vital information about the construction of the suspect device.

To capture the image requires the technician to approach the device wearing a heavy bomb suit carrying an x-ray generator, imaging panel and a ruggedised computer. In the industry this is referred to as a 'manual approach'. The technician is then required to place the generator and the imaging panel on opposing sides of the device. The time spent performing this task is referred to as 'Time Over Target' (TOT).

With the increasing sophistication of Improvised Explosive Devices (IEDs), manual approaches expose the technician to a potential explosive hazard, particularly if the device is radio-controlled or victim-operated. If the image is unsuccessful the process is repeated, further exposing the technician.

Micro-X was asked to solve this problem in a contract from the Australian Defence Force's Counter-IED Task Force and successfully developed and demonstrated proof-of-concept, high resolution x-ray imaging using a self-contained 'X-Ray Camera'.

The technology used in this solution is x-ray backscatter which means that a separate detector is not required.

The X-Ray Camera, thus as a self-contained single unit, can now be picked up and deployed downrange by an Explosive Ordnance Disposal (EOD) robot with the image transmitted to the Incident Command well outside any danger zone.

Removing the need for EOD technicians to approach potentially explosive hazards is a unique proposition for Micro-X's new X-Ray Camera. The same robot which carries the X-Ray Camera downrange can also disrupt the device remotely from the Incident Command, informed by the x-ray image.

"This fantastic new concept might save my life one day"

Australian Police Bomb Disposal Technician.

9 days to declare the area safe following the Boston bombing using manual search techniques

The X-Ray Camera's multi-role configuration also enables it to be easily deployed manually as a carry forward system during dismounted military operations. The search for a secondary explosive threat amongst the debris after an initial explosive attack is a typical scenario. Following the Boston Marathon bombing it took nine days to declare the area safe following extensive and potentially dangerous manual search techniques.





Robotic
deployed,
remotely
viewed, high
resolution
x-ray imaging

'Time Over Target'

is a thing of the past



Rapid
Bomb/No-bomb
assessment

Micro-X's X-Ray Camera has a rapid scan mode which allows bomb/no bomb assessment to be made in seconds, addressing this very scenario. This happens because backscatter x-ray images discriminate explosive and

organic material very easily. This multi-role configuration provides many more applications, opening market opportunities in contraband detection, maritime interdiction and border protection operations.

CHECKPOINTS

REIMAGINING AIRPORT SECURITY CHECKPOINTS

MINIATURISED BAGGAGE SCANNER

Micro-X is using its revolutionary x-ray technology to design a miniaturised x-ray CT baggage scanner capable of screening all of a passenger's carry-on luggage simultaneously. The MBS is the core element of a future passenger self-screening portal and a prototype has been selected for funding by the Department of Homeland Security as part of a larger self-screening program.



Conventional three-dimensional x-ray baggage scanners are far too large to make self-service security portals practical. Our unique Miniaturised Baggage Scanner (MBS) technology solves this limitation and enables the realisation of a radically new airport screening process.

The MBS is being designed to be simple, scalable, and modular to enable use in self-service Airport Checkpoints or indeed in any other public venue. MBS provides the 3D images necessary to bring automated screening to checkpoints currently relying on manual assessment of basic 2D x-ray images. MBS will thus provide a tool that could greatly reduce security operating costs while also dramatically improving threat detection in a wide range of applications.

Two contracts for US
Department of Homeland
Security totalling
US **\$4M**

Improves passenger experience



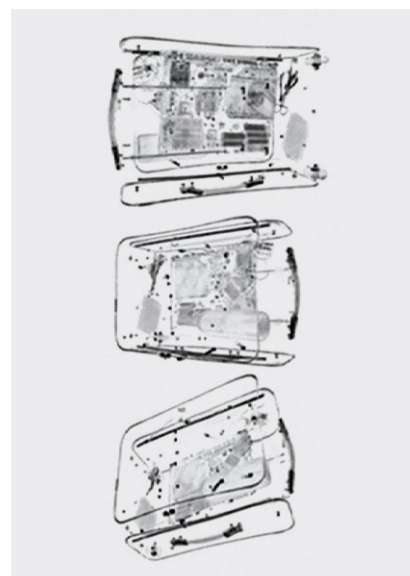
INTEGRATED SELF-SCREENING PORTAL

Micro-X is leading a multi-national team of technology companies to design a fully integrated passenger self-screening portal. The portal combines the traditional, sequential airport checkpoint processes into a single consolidated module which can be proliferated to increase passenger throughput. The portal combines intuitive passenger self-service screening with automated detection technologies to dramatically reduce the number of operators required at the checkpoint. The combination of reduced footprint with screening automation provides a passenger-friendly solution that will increase both security and passenger throughput.

Micro-X is designing the self-screening portal specifically focused on the human factors for people who will use it. This means delivering both the detection standards and workflow the security agencies require while also ensuring the system is intuitive and inviting to passengers. To achieve this, Micro-X has assembled an advisory team of a wide range of stakeholders including representatives of security agencies, airport management and airlines to participate in the design of the portal.

Compact design is scalable, easily deployed and accelerates entry into global airport security market

Rapid three-dimensional x-ray scan of passengers' carry-on baggage and accessories



BRAIN CT

CT IMAGING WITH NO MOVING PARTS IN-AMBULANCE STROKE IMAGING

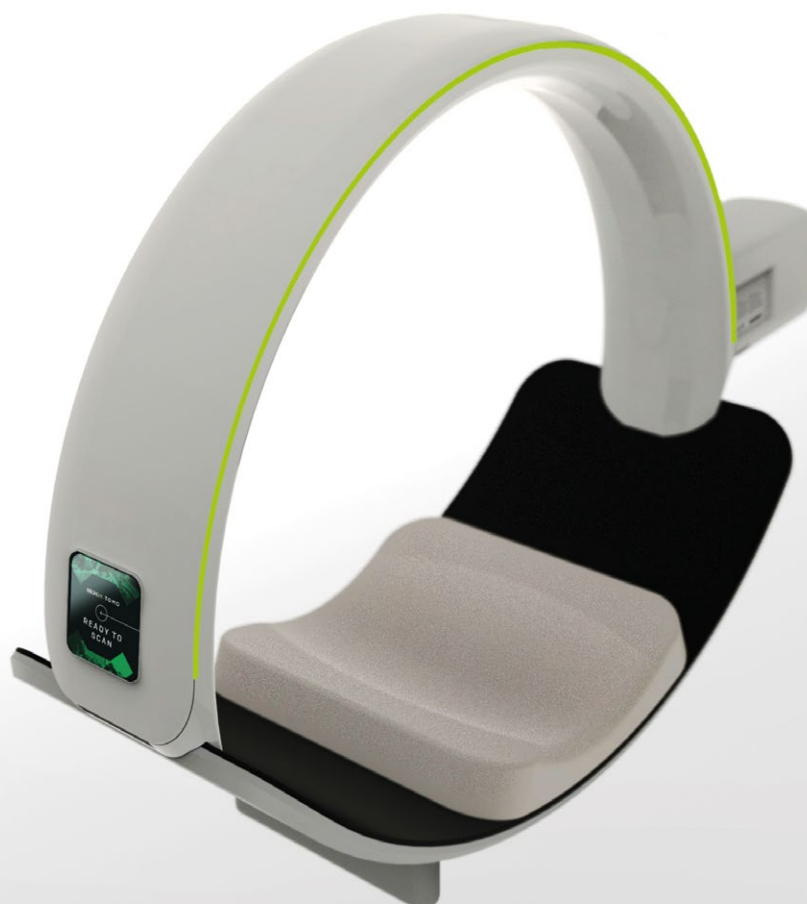
Micro-X's electronic x-ray tube uniquely enables a compact and lightweight miniature CT scanner that extends the capability of any acute ambulance to include stroke diagnosis with simple and effective patient workflow.

A cost-effective design enables widespread adoption, providing affordable stroke diagnosis and pre-hospital treatment in regional and metropolitan areas.

Stroke is one of Australia's leading causes of death and disability incurring an annual financial cost of \$5 billion and a loss of quality of life valued at \$50 billion. It is the second highest cause of death globally. More than 15 million people suffer a stroke each year. 5 million die and another 5 million are permanently disabled. For the best patient outcomes, treatment must be provided within the first "Golden Hour".

"Today there are 35 Mobile Stroke Units operating globally, each providing a remarkable stroke recovery rate. Our hope is that this research will set mobile, pre-hospital, diagnosis and treatment as the new standard of care for stroke management"

*Prof. Stephen Davis AO, MD, FRCP Edin, FAHMS, FRACP
Co-Chair of the Australian Stroke Alliance*



THE STROKE GOLDEN HOUR PROGRAM

Micro-X was awarded \$8 million as a technology partner in the Australian Stroke Alliance (ASA) \$40 million Commonwealth of Australia Medical Research Future Fund program, to develop a commercially viable mobile CT scanner for use in road and air ambulances. This will provide diagnostic stroke imaging for stroke patients where onset of stroke occurs in both rural, remote and urbanised regions.

The development program plans to conduct live patient imaging studies with ASA neurosurgeons providing guidance on clinical diagnostic quality in 3 years.

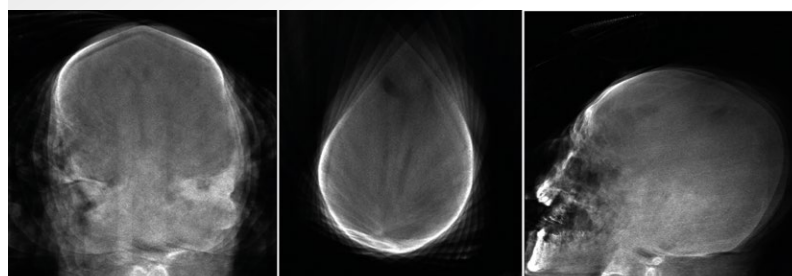
Partners include Johns Hopkins University, Fujifilm, MADA Health Collab and the Melbourne Brain Centre at Royal Melbourne Hospital.

With a targeted launch in 5 years, the stroke imager aims to be the global standard for stroke treatment pathways and the technology will provide a platform for future potential mobile CT imaging across many pathologies.

\$5B
Addressable
market



In Australia, in 2021
a stroke occurs every
9 MINUTES



CHAIR'S LETTER

DAVID KNOX



For the first time as Micro-X Chair, it is my pleasure to report on the excellent commercial and technical achievements that Micro-X has accumulated during this year. These achievements have seen Micro-X establish the key applications for our world leading carbon nanotube technology, advancing our strategic goal of four world class and high margin healthcare and security product lines that are predominantly manufactured in Australia.

- Mobile Digital Radiology
- IED X-Ray Camera
- Airport Checkpoint
- Brain CT Scanning

In taking on the role of chair I was excited by the purpose. Micro-X is re-inventing x-ray technology and will lower the cost and increase usability of x-rays in healthcare, security, and bomb detection. These applications have breakthrough potential and will improve the quality of healthcare and save lives. One of our most important achievements this year was both of our proposals being selected for award from the US Department of Homeland Security for the development of an airport self-service checkpoint.

We have long believed in the potential for the Micro-X carbon nanotube technology in security applications and this is a strong validation by one of the world's most recognised government transportation security bodies. The Micro-X team is working hard to finalise formal contracts for these programmes and we are excited to be funded to develop an airport security checkpoint product that can display Micro-X's advanced technology security capabilities on the world stage.

Also on the security front, the Micro-X team has again proven their world class technical capabilities by fully in-sourcing development of the x-ray tube for our counter-terrorism X-Ray Camera, which can image Improvised Explosive Devices. We made huge strides this year, significantly reducing the cost and complexity of the programme and, more importantly, cutting the time to market by roughly two years. We are targeting our first customer demonstrations early in 2022, with a commercial launch to follow mid-year. We very much believe that these two security products provide a significant growth opportunity for Micro-X beyond the healthcare market.

While we recognise the opportunities available to us in the security market, we are highly focused on commercialising and building revenues from our existing mobile radiology products for the healthcare market. This year saw a key shift towards our own, Micro-X branded, Mobile DR Rover units where we can drive higher margins and better control the paths to market than were previously possible. The important change to our

original distribution arrangements to be non-exclusive has allowed us the freedom to add a number of new distribution arrangements throughout the US and EMEA regions for the Micro-X range of Rover products. These steps continue to build a platform to greatly expand sales activities for a successful 2022.

'Micro-X has delivered both technical and commercial breakthroughs and is well positioned for global growth in the mobile x-ray and security market.'

To strengthen our commercialisation efforts, we also raised \$34 million of new capital earlier this year, primarily to bolster our sales and marketing activities and support the growth of the X-Ray Camera programme. We have broken ties with previous collaboration partners giving us control of our future and already deployed some of the funds to open our new facility in Seattle, where we will run our US Government business and medical sales activities. It is also pleasing to note that the company is now debt free having repaid loans from the South Australian Government and Thales.



Another major achievement this year was the award of \$8 million funding under the Federal Government's Medical Research Future Fund 'Frontier Health Program', which will fund Micro-X to develop an in-ambulance lightweight brain CT scanner in what may prove to be a game changer in modern stroke treatment.

In summary, this year has seen Micro-X broaden the range of applications of our carbon nanotube technology to new, high margin products in the security and healthcare markets. In the near term we remain focused on the commercialisation of our expanded

Mobile DR range and the successful launch of our IED X-Ray Camera during 2022.

Finally, on behalf of my fellow directors I would like to thank shareholders for their support of the capital raising which has provided the company with runway to grow and meet global demand for our products. I would also like to thank Peter Rowland for leading the Micro-X team and acknowledge the hard work and expertise of all staff in delivering remarkable technology and commercial advances. The coming year will be one of consolidation of the position built this year, of further growth and

strengthening of our commercial and sales capability and of continuing to work with our customers to meet their requirements in a fast-changing market.

David Knox

David Knox
Chair



CEO'S REPORT

PETER ROWLAND

This year we have taken control of our destiny with major leaps in the commercial, technical and manufacturing facets of our business. We've secured the plans and the pathways to transform the scale of our business going forward.

I am very pleased to report on another successful year for Micro-X in which we have achieved many important commercial and development milestones across our business.

In our established medical x-ray imaging product line we've achieved the independence to chart our own course with new products and new commercial paths to market. A breathtaking innovation in our X-Ray Camera has yielded a smaller, simpler and commercially highly attractive product with a greatly accelerated launch date. And, more recently, contracts from the US and Australian Governments have brought two new enormous product opportunities in airport security and stroke imaging within our grasp.

MOBILE DIGITAL RADIOLOGY – BUILDING OUR OWN RANGE OF MICRO-X ROVER PRODUCTS

Last year, as the COVID-19 pandemic changed the mobile radiology market we increased production inventory and capacity, drastically reducing order response times to enable us to meet the immediacy required to win orders at that time. Although that initial surge in demand for mobile radiology slowed as market needs were satisfied, we are now seeing repeat orders from countries which have a big installed base of our product which bodes well for future sales expansion.

A key change in our commercialisation strategy in Mobile DR is to build control of our paths to market with a bolstered sales team managing numerous non-exclusive distribution partnerships.

The first step in this strategy saw us amend our worldwide OEM distribution arrangement to become non-exclusive. Whilst we continue to provide the Carestream DRX-Revolution Nano as an OEM product, we are now establishing direct and distributor sales channels for Rover to increase sales volumes and margins.

We had early success in a key enabler to this direct approach to market when our own Micro-X branded Mobile DR

product, the Rover, received FDA clearance in July 2020 just five weeks after submission. We immediately launched the Rover product and in October secured a \$1.3 million contract enabled by the World Health Organisation, to deliver Rover units to a number of Pacific Island nations.

Our overseas sales positioning for the ruggedised, military option of the Rover was greatly helped late in 2020 with the signature of a \$1.3 million supply contract, through SAAB Australia, for Rover Military units to be supplied to the Australian Defence Force's Deployable Health Capability Program. We are building on the credibility established by this first order with other militaries who have deployable medical capabilities and we are advancing sales campaigns particularly with the US and UK armed forces. There is strong interest in the Rover Military product from military forces world-wide because no other product offers such high x-ray performance in such a lightweight package. While we have experienced some delays to sales activities due to COVID-19 related access restrictions, we are working hard to organise on-base demonstrations with the US military before the end of 2021.

The FDA clearance received in July 2020 was for the Rover with a Fujifilm detector, which was targeted at military users in deployed medical facilities and branded the Micro-X Rover Military. Our next FDA clearance achieved was for the Micro-X Rover with a Varex detector, targeted for healthcare users and branded the Micro-X Rover Medical. That clearance allowed us to commence sales and marketing activities in the US and other global healthcare markets where the FDA clearance is accepted.

The integration of the Varex 'Nexus DR' detector and software platform gives us state-of-the-art image quality for the Micro-X Rover Medical and makes us very competitive in the marketplace.

In June 2021 we launched a modified option of the Rover targeting the Veterinary market. Known as the Micro-X Rover Veterinary, this unit utilises the same Varex detector but with software tailored for small animals.

We look forward to launching our next generation Rover Mark II later this year.

This product has now been launched with the first sale to an Australian veterinary clinic and the appointment of an Australian specialist veterinary products distributor on a non-exclusive basis.

We are confident that the Rover Veterinary will be highly competitive for animal hospitals seeking to migrate their practices to high-quality digital radiology and that our product will offer practice owners considerable return on their investment from cost-saving workflow benefits.

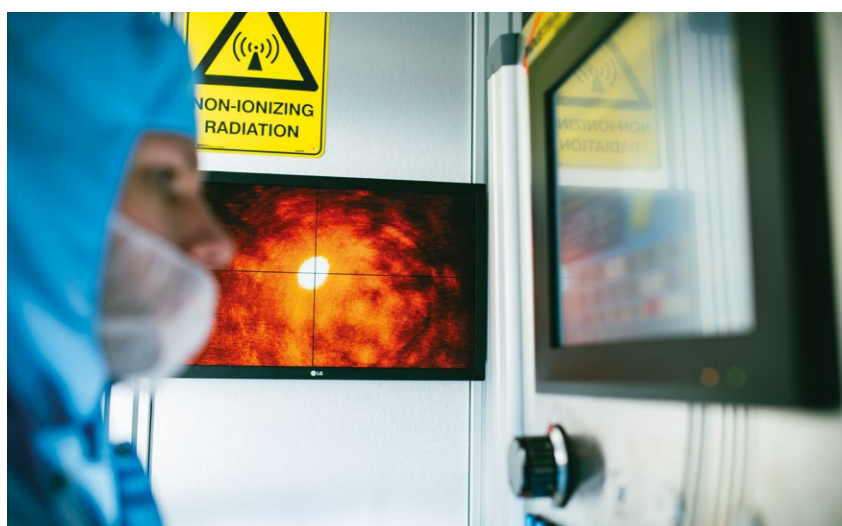
As we look to the next generation of our Mobile DR products, in July 2021 we were delighted to achieve the key milestone of successful testing of our new x-ray tube and generator. Our in-house designed and manufactured high voltage generator delivers four times the x-ray output while maintaining the same system size and weight.

This generator will replace the most expensive externally procured sub-assembly in the Rover build at less than half the cost.

The expanded performance will make the Rover even more competitive by extending imaging into the highly demanding environments of operating theatres and emergency departments.

We look forward to launching this new Rover Mark II range at the end of this year at the Radiological Society of North America's annual meeting in Chicago.

We have therefore ended the year with a range of three Micro-X branded Rover products for Medical, Military and Veterinary users. With the advantages that the Rover Mark II will provide, we feel our Mobile DR range is now very strongly placed.



CREATING ENHANCED SALES CAPABILITIES FOR MOBILE DR AND FUTURE PRODUCTS

Simultaneously with expanding the range of Micro-X Mobile DR products and moving away from exclusive distributor arrangements, we are moving to create multiple paths to market with a number of independent distributors and smaller dealerships in each market, leveraging off their established relationships and providing each of them an opportunity to showcase and sell this revolutionary new technology solution in radiology.

The first steps in this new sales strategy were taken during the year with the appointment of a distributor specialising in the US Veterans Affairs hospital network, one of the largest healthcare networks in America servicing over 9 million US veterans each year. In Europe we appointed a EMEA regional specialist, Roesys, as a distributor; they launched the Micro-X Rover Medical at the Arab Health conference in Dubai attended by 50,000 delegates.

A high performing network of distributors needs a strong internal management team to guide and support the distributors' sales and marketing efforts. I'm pleased that we have been able to add two exceptionally experienced medical capital equipment sales managers to lead our distributor expansion in the United States and Europe.

We knew when we raised capital in February 2021 that a critical priority was to build our sales capabilities and supporting commercial infrastructure.



To that end, we opened a new facility in Seattle in May 2021, our first international expansion, and our presence there in-country sends an important signal to our distributors and customers about our long-term commitment to the US market. The Seattle facility will also be home to the management team for our business with the US Government and a software center-of-excellence for development of the sensitive algorithms and software for image reconstruction and threat detection associated with our up-coming contracts with the Department of Homeland Security.

BRINGING OUR IED X-RAY CAMERA CLOSER TO A COMMERCIAL REALITY

This year we also made huge strides to bring the Micro-X IED X-Ray Camera closer to market, where it will be the first standoff x-ray imager in the world, robot deployable, capable of transmitting high-resolution x-ray images of IEDs for rapid, remote assessment.

We achieved this thanks to a major breakthrough by our engineering team who developed a new imaging architecture which allows us to shrink our proof-of-concept demonstrator to a very compact 15kg unit which is ideal for counter-terrorism missions. While we had originally planned to collaborate on this product with Thales, this technical breakthrough has enabled us to assume full control of the x-ray development project. Not only will this product be easier and much cheaper to manufacture because of this new design, we expect to get to market in 2022, nearly two years sooner than planned, and save millions of dollars in development costs.

“We are very proud that our unique carbon nanotube technology has been recognised by the US government.”

Because of this simpler design, we made the decision to fully in-source the design and manufacturing of the x-ray tube in our Tonsley facility.

Keeping this next major CNT x-ray tube production in-house will introduce economies of scale, reduce costs, and further build our core skills and technology base. We are thrilled to further extend South Australia's manufacturing industry capability and to continue to locally develop the skills and technology to compete on the world stage.

We are well progressed in full-scale engineering design to have a pre-production prototype of the IED X-ray Camera operating by the end of the year and available for customer demonstrations early in the new year. We plan for these customer interactions to provide valuable voice-of-customer engagement and build an early sales pipeline ahead of a planned product launch in 2022.

In April 2021 we were pleased to get our first such feedback from potential customers at the Army Robotics Expo in Brisbane where we showcased the new IED X-Ray Camera design for the first time. The expo delegates, drawn from military and police EOD teams, provided us very positive feedback on the features and potential operational scenarios for use with robots already in service.

To ensure an early start to sales and marketing efforts, we appointed an ex Royal Australian Navy Clearance Diver who has had extensive Australian and international experience, both as an EOD Technician and in sales and business development roles in EOD x-ray and other counter-terrorism technologies.

SELF-SERVICE BAGGAGE SCANNER FOR US AIRPORT SECURITY MARKET

During November we were pleased to be selected by the U.S. Department of Homeland Security (DHS) for two contracts for the development of a new concept for airport passenger Self-Screening.

The first award for our US subsidiary, Micro-X Inc., is for up to US\$1.5 million to design and manufacture a prototype self-service baggage scanner.

The Micro-X CNT x-ray technology enables an array of miniature x-ray tubes to be fitted into a small scanner unit providing a high resolution image to automatically detect explosives and prohibited items with a low false-alarm-rate. The fast switching of the x-ray tubes at the core of this technology allows high-speed imaging and the software developed by Micro-X during its contract with the UK Government's 'Future Aviation Security Solutions' program will be used for three-dimensional image reconstruction.

Our second award was for up to US\$2.5 million to fund the design of the entire integrated security portal system incorporating this self-service x-ray baggage scanner, along with travel document scanning, photometric ID checking and body scanning. This product will revolutionise the passenger experience in airports and improve airport security considerably.

The size of this opportunity is enormous. If each current x-ray lane in the 440 US airports where security is managed by the Transportation Security Agency (TSA) were to be replaced with 4-6 self screening portals, that would be a total potential US market of 8,000 to 12,000 portals. The European and other global airport security markets are each a similar size.



We are of course very proud that our unique carbon nanotubes features and customer-led design approach has enabled us to be successful in being selected for award with the DHS. These funding awards are another strong validation of the work which Micro-X has been doing for many years in airport security and baggage screening, including the early work with the UK Department for Transport.

In anticipation of officially being in contract with DHS for the two proposals, we have ramped up our engineering recruitment across several key disciplines. These staff will work from our recently opened US facility in Seattle, Washington, led by the Company's Chief Scientist and President of Micro-X Inc., Dr Brian Gonzales.



DEVELOPMENT OF NEXT GENERATION BRAIN CT IMAGING

Our most recently conceived product is the fourth pillar of our commercialisation strategy of four high margin, world class product lines.

During March 2021, the Australian Stroke Alliance (ASA) was awarded \$40 million by the Medical Research Future Fund, for their 'Stroke Golden Hour' proposal to transform pre-hospital stroke care using road and air ambulances. Our role in this work is as the ASA's x-ray imaging partner and we will receive \$8 million for our development work on the project, paid on a milestone basis.

Micro-X was selected to join the Australian Stroke Alliance because our unique cold-cathode x-ray technology offered the potential to miniaturise diagnostic brain CT imaging so that a scanner could become small enough and affordable enough to be fitted in every road and air ambulance. This work builds on our success in Stage One of the Frontier Health Program where we performed proof-of-concept 3D x-ray imaging on cadavers at the Melbourne Brain Centre.

The potential for this project and product to enhance care for all stroke patients, especially those in rural and remote regions, is unprecedented and could save many lives. The global market for such an in-ambulance CT scanner is estimated at \$5 billion.

The CT scanner product is expected to take around five years to get to market, including regulatory approvals, and the Micro-X collaboration with the ASA will involve developing and testing a pre-production prototype system in the third year. From there we will undertake clinical studies to verify the diagnostic capability and, once cleared by regulatory agencies, we can proceed to rapid commercialisation.

During the June quarter our work on this exciting project commenced with project planning and hiring of additional technical staff for a fast start after contract signature.

STRENGTHENING THE MICRO-X TEAM

We are very aware that executing on our development plans for our four lines of business is critical to realise the magnitude of the commercial opportunities we have created. We are recruiting staff at every level of the Company, both technical and sales and are re-organising management so as not to lose focus on each of our product opportunities.

During the year David Knox, a highly experienced and respected business leader with senior commercial management, engineering and large ASX board experience, transitioned to the role of Chair.

We were delighted to have Jim McDowell re-join the Micro-X board after his time leading the South Australian Government's Department of Premier and Cabinet.

His experience in operational management is extensive and his background in international defence sales to governments, particularly in the US, is extraordinarily helpful as we accelerate our defence and security product sales.

FUTURE OUTLOOK

Back at our AGM in November 2020 we set ourselves an ambitious commercialisation plan – to have four high margin product lines in production within five years. Since then, we have put the contracts, the staff and the balance sheet in place to make this happen.

Our task in this and coming years is to deliver on these plans and to rapidly build the sales of our existing products now that we have control of our own destiny in this area.

OUR FY2022 PRIORITIES ARE:

- Increasing sales of our Mobile DR range supported by TGA and CE Mark clearances;
- Launch of the Rover Mark II;
- Contract execution and achievement of early milestones for the DHS contracts for airport security and ASA contract for Brain CT scanner; and
- Commercial launch of our IED X-Ray Camera.

Thank you for your ongoing interest and support for the Company. We look forward to engaging with you at our Annual General Meeting and our quarterly investor calls to update you with progress during this exciting year ahead.

Peter Rowland
Managing Director

FY22 MILESTONES



European
market launch
of Mobile DR

Increasing
Rover sales,
establishment of global
distribution network

IED X-Ray Camera
launched

2nd generation
Rover
released to market



Next generation
mini-tube development
and concept prototype



FINANCIAL REPORT



CONTENTS

23	Directors' Report
40	Auditor's Independence Declaration
41	Statement of Profit or Loss and Other Comprehensive Income
42	Statement of Financial Position
43	Statement of Changes in Equity
45	Statement of Cash Flows
46	Notes to the Financial Statements
74	Directors' Declaration
75	Independent Auditor's Report
78	Shareholder Information
80	Corporate Directory

DIRECTORS' REPORT

Micro-X Ltd
Directors' report
For the year ended 30 June 2021

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Micro-X Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2021.

Directors

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

Peter Rowland (Managing Director)
David Knox (Non-Executive Chair) - Appointed Chair 19 January 2021
Alexander Gosling (Non-Executive Director)
Yasmin King (Non-Executive Director)
Patrick O'Brien (Non-Executive Director) - Resigned as Chair 19 January 2021
James McDowell (Non-Executive Director) - Appointed 1 January 2021

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, manufacturing and commercialisation of ultra-lightweight, carbon nanotube x-ray products for the global healthcare and security markets utilising Micro-X's proprietary cold cathode technology.

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.

DIRECTORS' REPORT CONT'D

Micro-X Ltd
Directors' report
For the year ended 30 June 2021

Review of Operations

Micro-X Limited and its wholly owned subsidiary (**Micro-X** or **the Group**) had four core areas of focus in the financial year ended 30 June 2021 (the **Financial Year**):

- Expanding its sales and commercialisation activities with respect to its Mobile Digital Radiology (**Mobile DR**) range of products;
- Advancing and insourcing development of the IED X-Ray Camera tube;
- Expanding manufacturing capacity, infrastructure and technology insourcing to support commercial activities; and
- Advancing future product development of the Airport checkpoint portal and Brain CT products.

Commercialisation – Mobile DR Products

Micro-X adjusted its commercialisation strategy for the Mobile DR range during the Financial Year by amending the distribution arrangement for the OEM product, the Nano, to become a non-exclusive arrangement. Following this, Micro-X ramped up its internal sales capacities with a number of additional sales staff and added a number of new non-exclusive distribution and dealership arrangements in different geographies such as the US and Middle East and in specialist sectors such as the US Departments of Veterans Affairs hospital network. Micro-X also established its first international facility in Seattle, US during the Financial Year, which will support expanded US sales and marketing activities as well as engineering for the US Department of Homeland Security upcoming contract for Airport Checkpoint.

During the Financial Year, Micro-X expanded the Mobile DR product range with FDA clearance in the US for its two new medical products, the Rover Military and the fully branded Rover Medical product. A \$1.3 million sale facilitated by the World Health Organisation was achieved for the Rover and the first military contract was signed with Saab Australia for the future delivery to the Australian Defence Forces of \$1.3 million of Rover Military units. The Company also launched its Rover Veterinary product and recorded its first sale in June 2021.

Sales Revenues of Mobile DR products were \$3.6 million for the Financial Year (FY2020: \$3.8 million) due to a reduction in the previous year's COVID surge of sales. Micro-X now has three proprietary Mobile DR options and an OEM version, with a greatly increased installed base including more than 30 countries.

Insourcing of the IED X-Ray Camera Tube

A significant technological development was achieved by the Micro-X Engineering team for the IED X-Ray camera project, significantly reducing the complexity and cost of the tube required for its IED X-Ray Camera. As a result of this development, Micro-X discontinued its collaboration with Thales SA and repaid the \$5.1 million Convertible Loan which had been advanced in July 2019.

The development of the IED X-Ray Camera tube has now been 100% insourced, resulting in significant time and cost savings. The development project is on budget and on time, with prototypes expected in late CY2021 and first customer demonstrations to occur in early CY2022.

Operations and Manufacturing

During the Financial Year, Micro-X completed a significant ramp up in production capacity for its Mobile DR product range, enabling it to reduce delivery times considerably while maintaining a high yield in its tube manufacturing.

Micro-X now produces four options within its Mobile DR product range from its Tonsley, Adelaide facility, including Rover Medical, Rover Military and Rover Veterinary, in addition to its OEM product the Carestream DRX-Revolution Nano.

During the Financial Year, Micro-X continued its development of its own, internally manufactured high power generator for its Micro-X Rover range of products. In July 2021, the generator and a modified x-ray tube successfully passed its initial testing and each will be incorporated into the second generation of Micro-X Rover products, pending regulatory approval in the last quarter of CY2021.

As a result of the COVID-19 pandemic and various government restrictions, Micro-X has adapted its workforce and WHS arrangements to comply with government health and travel restrictions. While there were some supply chain delays, Micro-X put in place arrangements to minimise disruption and ensure it can continue to produce the entire product range to meet orders as they are received.

Future Products in Development

Micro-X has a strategy to develop four, high margin, production lines using its core cold cathode x-ray technology. In addition to the Mobile DR range of commercial products and IED X-Ray Camera technology in late stage development,

Micro-X Ltd
Directors' report
For the year ended 30 June 2021

during the Financial Year, Micro-X made significant advances with its two new development products, for airport checkpoint scanning and mobile stroke imaging.

In November 2020, Micro-X was selected for award of up to US\$4 million in grant funding, to be received over the life of the project, from the US Department of Homeland Security to develop its miniaturised baggage scanner and airport checkpoint portal. This represents a significant new potential market for self-service screening of baggage in US airports and potentially globally, using the Micro-X technology with its advantages of small size and enhanced accuracy.

In March 2021, Micro-X was awarded up to \$8 million, to be received over the life of the project, as part of the Australian Stroke Alliance (**ASA**) consortium's "Golden Hour" programme run by the Australian Government's Medical Research Future Fund. Micro-X will be a technology partner to the ASA with funding applied to develop and test a lightweight, mobile stroke diagnostic imaging technology for use in ambulances, incorporating Micro-X's proprietary CNT x-ray tube technology.

Since the award of these two government funding grants, Micro-X has progressed with formal contract negotiations and recruiting additional Engineering personnel both in Australia and the US in order to be project ready when contracts are executed in the first quarter of the 2022 financial year.

Environment, Social and Corporate Governance

Micro-X is committed to achieving best practice corporate social responsibility and has identified a range of ESG and CSR initiatives which will be undertaken in the coming years. During this Financial Year, Micro-X:

- undertook an external corporate governance review and updated a number practices;
- achieved no reportable workplace accidents and no lost time injuries, with a total of over 30,000 hours worked by the manufacturing teams; and
- achieved no environmental spills or accidents.

At the end of the Financial Year, 21% of total staff and employees were female and 33% of senior executives were female.

Micro-X's corporate governance statement is available on the company's website and may be accessed at:
<https://micro-x.com/investors/corporate-governance/>

Financial Overview

The net loss for the Group for the Financial Year after providing for income tax was \$14.73 million, compared with a loss in the previous year of \$10.07 million. This net loss for the Financial Year included:

- \$3.6 million from the sales of the Mobile DR units and associated spares;
- \$3.0 million of Other Income, including \$1.9 million in R&D tax refund and \$0.9 million related to Government COVID assistance;
- \$3.9 million in Cost of Sales;
- \$4.3 million expenditure on research and development activity, related to development work on the Mobile DR high power generator, research and development related to the IED X-Ray Camera, and pre-contract work related to the Airport Checkpoint security and Brain CT imaging projects;
- \$8.8 million was spent on employee, consulting and director costs. This represented a \$2.4 million increase on the prior period, driven by additional engineering, sales and commercial personnel; and
- \$1.6 million in equity compensation included within Employee Costs as a result of the introduction of the Company's Employee Incentive Plan which comprises an STI and LTI component, subject to achievement of hurdles.

Financial Position

During the Financial Year, the Group raised \$34 million in additional capital via a \$30.5 million Placement of shares together with a \$3.5 million Share Purchase Plan. The Group repaid all of its external debt consisting of a \$5.1 million Convertible Loan owing to Thales SA and a \$3.0 million loan outstanding from the South Australian Government.

Net assets of the Group increased by \$19.3 million from \$14.9 million at 30 June 2020 to \$34.2 million at 30 June 2021. Cash on hand and at the bank increased to \$30.1 million at 30 June 2021 (\$18.3 million at 30 June 2020).

DIRECTORS' REPORT CONT'D

Micro-X Ltd
Directors' report
For the year ended 30 June 2021

Significant changes in the state of affairs

As a result of the \$34 million capital raising undertaken and the repayment of all debt facilities during the Financial Year, the Group's Net Asset position is significantly stronger than in previous years.

There were no other significant changes in the state of affairs of the Group during the Financial Year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The Group's main focus moving forward will be the continued development of its four business lines, notably:

- The continued growth in sales of its Mobile DR product lines through existing and new paths to market;
- The completion of development and introduction to the market of its IED X-Ray Camera;
- The ongoing development of its Airport Checkpoint System and miniaturised baggage scanner; and
- The ongoing development of its Brain CT Scanner for mobile stroke imaging.

There are inherent risks and uncertainties associated with the Group's likely developments and planned future activities. While there are a number of general risks, including the impact of the ongoing COVID-19 pandemic, the key business specific risks include but are not limited to the following:

- Difficulties encountered in the commercialisation of new technology resulting in delayed or reduced revenues;
- Competition risk that other parties, who may be better resourced, develop competing technologies or seek to sell technology in contravention of the Group's intellectual property;
- Development and design risk resulting in delays in the timetable or costs for development;
- Single site for manufacturing of products and single source suppliers for some components, which could be disrupted or halted due to unforeseen circumstances;
- Mobile DR products and other products in development must receive and maintain regulatory clearances to enable them to be sold commercially;
- Reliance on partners and distributors to sell the Group's products.

Environmental regulation

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

Micro-X Ltd
Directors' report
For the year ended 30 June 2021

Information on directors

Name:	David Knox
Title:	Non-Executive Chair
Qualifications:	BSc (Hons) Mechanical Engineering. MBA, FIE Aust, FTSE, GAICD
Experience and expertise:	David is a highly experienced and respected business leader with senior leadership, engineering and public markets expertise gained in multi-national, domestic and Commonwealth companies. David was Managing Director & Chief Executive Officer of Australian Naval Infrastructure, a Government Business Enterprise responsible for the delivery of naval infrastructure required to support the Commonwealth's continuous shipbuilding programme including the \$535 million Osborne South Shipyard. David was previously Managing Director & Chief Executive Officer of Santos from March 2008 through until his retirement in December 2015. Mr Knox is currently Chair of Snowy Hydro Limited and The Australian Centre for Social Innovation (TACSI). He is also a board member of Commonwealth Scientific and Industrial Research Organisation (CSIRO), Redflow Limited (ASX:RFX), Migration Council of Australia, Adelaide Festival (AF) and the Royal Institution of Australia (RiAUS). Mr Knox is originally from Edinburgh, Scotland and has a BSc (Hons) in Mechanical Engineering (Edinburgh) and an MBA (Strathclyde). He is a Fellow of the Australian Institute of Mechanical Engineering and the Australian Academy of Technological Sciences and Engineering.
Other current directorships:	Redflow Ltd (ASX:RFX) - 2 March 2017 to Present
Former directorships (last 3 years):	Nil
Special responsibilities:	Chair of Board, Member of People and Remuneration Committee and Member of Audit and Risk Committee
Interests in shares:	290,279 fully paid ordinary shares
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:	12,995,279 fully paid ordinary shares
Interests in rights:	1,829,396
Name:	Dr. Alexander Gosling AM
Title:	Non-Executive Director
Qualifications:	MA (Hons), DEng, MAICD, FTSE
Experience and expertise:	Alexander has been working in the field of process and product development and related research and development for 50 years. He was 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 \$800 million. He currently works in the area of technology commercialisation, advising universities, mentoring start-ups and sitting on the Boards of early-stage companies. Alexander is an engineer, with an Honours degree from Cambridge University. He is a Fellow of the Academy of Technology 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. He is a Member of the Australian Institute of Company Directors.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Chair of People and Remuneration Committee
Interests in shares:	532,151 fully paid ordinary shares

DIRECTORS' REPORT CONT'D

Micro-X Ltd Directors' report For the year ended 30 June 2021

Name:	Yasmin King
Title:	Non-Executive Director
Qualifications:	BA (Econ)(Honours). MBA, FCPA, FAICD
Experience and expertise:	Yasmin is Chief Executive of SkillsIQ Limited, the organisation that develops the National Occupational Standards for vocational qualifications in the Services and Health and Community services sectors. Yasmin was the inaugural NSW Small Business Commissioner and an Associate Commissioner for the Australian Consumer and Competition Commission, both positions leading to her detailed knowledge and experience in the areas of compliance and regulation. Yasmin has extensive experience in negotiation having run a successful consultancy in this area, including acting as lead negotiator for numerous State and Federal Government procurement contracts. She worked as a principal consultant for an international negotiation organisation coaching major ASX companies and public sector agencies including Department of Defence in contract negotiation. Yasmin has also served on both public and private sector boards. Yasmin is a Director of the Australian Healthcare and Hospitals Association and is also a member of the Adjunct Faculty of the Australian Graduate School of Management, delivering the conflict resolution and negotiation component of the Women in Leadership program. Yasmin holds a Bachelor of Economics (Honours) and a Master of Business Administration. She is a Fellow of the Australian Institute of Company Directors and a Fellow Certified Practising Accountant.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Chair of Audit and Risk Committee
Interests in shares:	228,673 fully paid ordinary shares
Name:	Patrick O'Brien
Title:	Non-Executive Director
Qualifications:	LL.B, B.Com, Grad Dip Applied Finance, MBA, GAICD
Experience and expertise:	Patrick is Managing Director of Patrick O'Brien & Associates, Chairman of Howjack Holdings, and a Director of The Water & Carbon Group, Gateway Attractions 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 Audit and Risk Committee
Interests in shares:	7,806,388

Micro-X Ltd
Directors' report
For the year ended 30 June 2021

Name:	James McDowell
Title:	Non-Executive Director
Qualifications:	LL.B (Hons) D.Univ (honoris causa)
Experience and expertise:	Jim has more than 30 years of experience in international defence and aerospace sectors and has lived and worked in the UK, the US, Korea, Singapore, Hong Kong and Australia. Jim is Chief Executive Officer of Nova Group, a provider of engineering and technology solutions to various international markets including defence. Prior to his appointment at Nova Group in November 2020, Jim was Chief Executive of the South Australian Department of Premier and Cabinet for two years. Jim joined BAE Systems in 1996 and his last executive appointment with the Group was as Chief Executive Officer of their A\$5 billion annual turnover business operations in Saudi Arabia. Prior to this he was Chief Executive Officer of BAE Systems Australia for 10 years. Based in Adelaide, he drove a major expansion program as the Group grew to become Australia's largest defence business. Prior to his time at BAE Systems Jim worked for 18 years at aerospace Group Bombardier Shorts in legal, commercial and marketing positions, making a major contribution to that Group's growth into the US.
Other current directorships:	Nil
Former directorships (last 3 years):	Austal (ASX:ASB) (resigned 31 August 2018) Codan (ASX:CDA) (resigned 31 August 2018)
Special responsibilities:	Member of People and Remuneration Committee
Interests in shares:	218,566 fully paid ordinary shares

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

'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

Kingsley Hall is a member of the Institute of Chartered Accountants and holds a Bachelor of Economics. Kingsley has over 25 years of experience in finance and operations with a diverse background across both private and public companies, private equity, media, tourism and education. His experience includes public markets, equity capital and debt raising activities having led a variety of fundraising initiatives in public and private placements. Kingsley is also the Chief Financial Officer for Micro-X and the Group.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2021, and the number of meetings attended by each director were:

	Full Board		People and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Patrick O'Brien	17	17	2	2	7	7
Peter Rowland	17	17	-	-	-	-
Alexander Gosling	17	17	2	2	7	7
Yasmin King	16	17	2	2	7	7
David Knox	17	17	-	-	7	7
James McDowell	8	9	-	-	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Remuneration report (audited)

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

DIRECTORS' REPORT CONT'D

Micro-X Ltd
Directors' report
For the year ended 30 June 2021

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.

Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for 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') aims to ensure that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness to attract, motivate and retain key talent;
- performance linkage and alignment of executive compensation and corporate objectives;
- transparency and reasonableness; and
- alignment to, and acceptability by, shareholders.

The Group has a People and Remuneration Committee which is responsible for determining and reviewing remuneration arrangements for directors, executives and all staff. The performance of the Group 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 People 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 which has been adopted, is designed to align executive reward to shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- 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; and
- 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 director remuneration

Non-Executive Directors' fees and payments are reviewed annually by the People and Remuneration Committee. The People 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 Chair's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The Chair is not present at any discussions relating to the determination of their own remuneration.

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.

In January 2021, upon the appointment of an additional Non-Executive Director, all Non-Executive Directors agreed to a reduction in remuneration such that the aggregate remuneration to be received would not exceed the maximum as provided for in the Company's Constitution.

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, or STI (via share-based payments);
- long-term performance incentives, or LTI (via share-based payments); and
- other remuneration such as superannuation and long service leave.

Micro-X Ltd
Directors' report
For the year ended 30 June 2021

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

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually by the People and Remuneration Committee based on individual and business unit performance, the overall performance of the Group 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 Group and provides additional value to the executive.

Shareholders approved at the November 2020 AGM the Micro-X Limited Employee Incentive Plan, the key objectives of which are to:

- assist in the attraction and retention of high-quality employees;
- link the reward of key employees with the achievement of strategic goals and the long-term performance of the Company; and
- align the financial interest of all participants of the Plan with those of Shareholders.

Executives may be invited to participate in the Company's Employee Incentive Plan, where performance rights may be earned subject to the achievement of short-term objectives (Short Term Incentives or STI) and/or subject to the achievement of longer-term objectives (Long Term Incentives or LTI).

Company performance and link to remuneration

Remuneration of key management personnel is currently directly linked to the performance of the Company via the STI and LTI awards available to Executives invited to participate in the Employee Incentive Plan.

Short Term Incentives

STI award achievement is assessed on a Balanced Scorecard approach, where Executive performance is measured against five key criteria, with weighting attached to each of criteria's outcomes. For the year ended 30 June 2021 the five criteria against which Executive performance was assessed were:

Criteria	% of Total STI
Quality and Safety	10%
Financial Performance	30%
Commercial Activities	20%
Project and Development Activities	30%
Culture and Compliance	10%
	100%

Long Term Incentives

There are two types of LTI awards made:

- LTI Service Rights; and
- LTI Performance Rights.

LTI Service Rights vest after a predetermined period of continuous service with the Company. For the initial grant of Service Rights made in December 2020, one third of those rights granted will vest on the twelve month anniversary of the date of grant, a second third will vest on the second anniversary of the date of grant and the final third will vest on the third anniversary of the date of grant.

LTI Performance Rights vest upon the achievement of certain Total Shareholder Return (TSR) targets over the vesting period. For the grant made in December 2020, target achievement will be achieved at a TSR target of 10% Compound Annual Growth Rate, with Executives able to earn up to 200% of target at a TSR of 20%.

The vesting periods for the initial grant are one third of the rights will vest and be assessed on the first anniversary of the grant, a second third will vest and be assessed on the second anniversary of the grant and the final third will vest and be assessed on the third anniversary of the grant.

DIRECTORS' REPORT CONT'D

Micro-X Ltd Directors' report For the year ended 30 June 2021

Use of remuneration consultants

The Group retained the services of an independent, expert, remuneration consultant in February 2020 who provided advice on the structure of the equity compensation framework, including the recommended quantum and the suggested hurdles.

The Company also engaged an independent, expert remuneration consultant in January 2021 to provide a market based assessment of certain KMP remuneration. The engagement included a review of the remuneration of both Non Executive Directors and Executives.

Details of remuneration

Amounts of remuneration

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

The key management personnel of the company consisted of the following directors and management of the Group:

- David Knox (Non-Executive Chair)
- Peter Rowland (Managing Director)
- Alexander Gosling (Non-Executive Director)
- Yasmin King (Non-Executive Director)
- Patrick O'Brien (Non-Executive Director)
- James McDowell (Non-Executive Director)
- Kingsley Hall (Company Secretary & Chief Financial Officer)
- Anthony Skeats – (Engineering Manager)
- Brian Gonzales – (Chief Scientist and President of Micro-X Inc.)
- Alexander Blackburn – (Programs Manager)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments - Rights	
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	****	Total
2021	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
D Knox*	54,795	-	-	5,205	-	-	60,000
A Gosling	58,448	-	-	5,552	-	-	64,000
Y King	62,482	-	-	1,518	-	-	64,000
P O'Brien*	76,500	-	-	-	-	-	76,500
J McDowell**	26,484	-	-	2,516	-	-	29,000
<i>Executive Director:</i>							
P Rowland	308,872	-	-	29,343	12,800	360,249	711,264
<i>Other Key Management Personnel:</i>							
K Hall	267,529	-	-	25,415	7,521	256,979	557,445
B Gonzales***	210,868	66,507	-	20,421	-	172,431	470,227
A Skeats	266,861	-	-	25,352	9,904	229,853	531,970
A Blackburn	182,235	-	-	17,312	8,435	139,391	347,373
	1,515,074	66,507	-	132,634	38,660	1,158,903	2,911,778

Micro-X Ltd
Directors' report
For the year ended 30 June 2021

- * Patrick O'Brien was Chair from 1 July 2020 until 19 January 2021 and he remains a Non-Executive Director. David Knox was a Non-Executive Director until 19 January 2021 when he became Chair of the Board.
- ** Appointed to the Board on 1 January 2021.
- *** Mr Gonzales is employed by Micro-X Inc. His remuneration and compulsory benefits have been translated from US dollars to Australian dollars for the purpose of this Remuneration Report. Performance related cash bonus has been approved by the Board. His Equity Settled Remuneration has not yet been issued but the expense has been recognised.
- **** The Equity settled payments above relate to the amortisation of the fair value of the grant of rights made to the KMP during the year and do not necessarily reflect the cash value that may be realised upon vesting and exercising of the rights.

Subsequent to year end, the Board reviewed the achievement of the Executives' Short Term Incentive for the year ended 30 June 2021 and determined that the Short Term Incentive should be awarded at 85%.

Long Term Performance Rights achievement has been assumed at 50%, consistent with target.

Long Term Service Rights achievement has been assumed at 100%.

These levels of achievement are reflected in the share based payments amortisation in the table above.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments - Options	
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave		Total
2020	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
P O'Brien	77,500	-	-	-	-	-	77,500
A Gosling	50,228	-	-	4,772	-	-	55,000
Y King	53,265	-	-	1,735	-	6,976	61,976
D Knox*	14,155	-	-	1,345	-	-	15,500
<i>Executive Director:</i>							
P Rowland	291,110	28,097	-	30,325	-	-	349,532
<i>Other Key Management Personnel:</i>							
G Carpendale**	192,449	-	-	16,689	-	-	209,138
K Hall***	81,731	-	-	7,764	-	-	89,495
B Gonzales****	220,162	-	-	22,373	-	-	242,535
A Skeats	244,662	-	-	23,789	-	-	268,451
A Blackburn	167,329	-	-	16,577	-	-	183,906
	1,392,591	28,097	-	125,369	-	6,976	1,553,033

- * Appointed 7 April 2020.
- ** Ms Carpendale resigned as Company Secretary on 29 May 2020. Short term salary & Fees includes \$24,779 paid in lieu of unused Annual Leave.
- *** Appointed 24 February 2021
- **** Mr Gonzales is employed by Micro-X Inc. His remuneration and compulsory benefits have been translated to AUD for the purpose of this report

DIRECTORS' REPORT CONT'D

Micro-X Ltd Directors' report For the year ended 30 June 2021

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2021	2020	2021	2020	2021	2020
<i>Non-Executive Directors:</i>						
D Knox	100%	100%	-	-	-	-
A Gosling	100%	100%	-	-	-	-
P O'Brien	100%	100%	-	-	-	-
Y King	100%	89%	-	-	-	11%
J McDowell*	100%	-	-	-	-	-
<i>Executive Director:</i>						
P Rowland	49%	92%	43%	8%	8%	-
<i>Other Key Management Personnel:</i>						
Kingsley Hall**	54%	100%	37%	-	9%	-
B Gonzales	49%	100%	42%	-	9%	-
A Skeats	57%	100%	34%	-	9%	-
A Blackburn	60%	100%	30%	-	10%	-

* Joined 1 January 2021

** Joined 24 February 2020

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 6 months' notice.
Details:	Annual salary is \$328,767.12 per annum plus 10% employer superannuation contributions (subject to annual review).

Mr Rowland is entitled to a Short Term incentive award of:

- either 50% 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 is entitled to a Long Term incentive award of:

- up to 45% of his salary where all service and performance criteria are met, or
- a relative percentage of his salary where some but not all of the service and performance criteria are met.

Micro-X Ltd
Directors' report
For the year ended 30 June 2021

Name: Kingsley Hall
 Title: Chief Financial Officer
 Agreement commenced: 24 February 2020
 Term of agreement: No fixed term. Micro-X or Mr Hall may terminate the employment contract at any time provide that either party gives notice as follows:
 • on or before 24 February 2022 – 1 months' notice; and
 • on or before 24 February 2024 – 2 months' notice.
 Details: Annual salary is \$287,671 per annum plus 10% employer superannuation contributions (subject to annual review).

Mr Hall is entitled to a Short Term Incentive award of:
 • either 40% 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 Hall is entitled to a Long Term incentive award of:
 • up to 45% his salary where all service and performance criteria are met, or
 • a relative percentage of his salary where some but not all of the service and performance criteria are met.

Name: Brian Gonzales
 Title: Chief Imaging Scientist and President of Micro-X, Inc.
 Agreement commenced: 1 January 2018
 Term of agreement: No fixed term. Micro-X or Mr Gonzales may terminate the employment contract at any time provided that either party gives 4 weeks' notice.
 Details: Annual salary is US\$175,689 per annum plus compulsory benefits.

Mr. Gonzales is entitled to a Short Term Incentive award of:
 • either 35% 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. Gonzales is entitled to a Long Term Incentive award of:
 • up to 45% of his salary where all service and performance criteria are met, or
 • a relevant percentage of his salary where some but not all of the service and performance criteria are met.

Name: Anthony Skeats
 Title: Engineering Manager
 Agreement commenced: 8 June 2017
 Term of agreement: No fixed term. Micro-X or Mr Skeats may terminate the employment contract at any time provided that either party gives 2 months' notice.
 Details: Annual salary is \$287,671 per annum plus 10% employer superannuation contributions (subject to annual review).

Mr Skeats is entitled to a Short Term Incentive award of:
 • either 35% 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 Skeats is entitled to a Long Term incentive award of:
 • up to 45% of his salary where all service and performance criteria are met, or
 • a relative percentage of his salary where some but not all of the service and performance criteria are met.

DIRECTORS' REPORT CONT'D

Micro-X Ltd Directors' report For the year ended 30 June 2021

Name: Alexander Blackburn
 Title: Programs Manager
 Agreement commenced: 1 September 2015
 Term of agreement: No fixed term. Micro-X or Mr Blackburn may terminate the employment contract at any time provided either party gives 2 months' notice.
 Details: Annual salary is \$196,347 per annum plus 10% employer superannuation contributions (subject to annual review).

Mr Blackburn is entitled to a Short Term Incentive award of:

- either 30% 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 Blackburn is entitled to a Long Term incentive award of:

- up to 45% of his salary where all service and performance criteria are met, or
- a relevant percentage of his salary where some but not all of the service and performance criteria are met.

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 the directors and other key management personnel as part of compensation during the Financial Year.

Issue of Performance Rights

The following table illustrates the performance rights granted to members of the KMP on 23 December 2020:

	Held at 1 July 2020	Granted as Remuneration	Exercised or Lapsed	Held at 30 June 2021	Average Fair Value per Right at Grant Date
Peter Rowland	-	1,829,396	-	1,829,396	\$0.325
Kingsley Hall	-	1,403,567	-	1,403,567	\$0.325
Anthony Skeats	-	1,314,373	-	1,314,373	\$0.325
Brian Gonzales	-	1,041,450	-	1,041,450	\$0.325
Alex Blackburn	-	841,892	-	841,892	\$0.325
	-	6,430,678	-	6,430,678	

Micro-X Ltd
Directors' report
For the year ended 30 June 2021

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 Group, 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	12,955,000	-	40,279	-	12,995,279
D Knox	250,000	-	40,279	-	290,279
A Gosling	456,429	-	75,722	-	532,151
Y King	63,394	-	165,279	-	228,673
P O'Brien	7,766,109	-	40,279	-	7,806,388
J McDowell*	-	-	158,566	60,000	218,566
K Hall	-	-	-	-	-
A Blackburn	16,500	-	-	-	16,500
A Skeats	-	-	-	-	-
B Gonzales	-	-	-	-	-
	<u>21,507,432</u>	<u>-</u>	<u>520,404</u>	<u>60,000</u>	<u>22,087,836</u>

* J McDowell joined Key Management Personnel 1 January 2021.

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 Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted as remuneration	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Y King*	320,000	-	-	(320,000)	-
B Gonzales*	1,250,000	-	-	(1,250,000)	-
	<u>1,570,000</u>	<u>-</u>	<u>-</u>	<u>(1,570,000)</u>	<u>-</u>

* All options on issue expired during the year.

This concludes the remuneration report, which has been audited.

Shares issued on the exercise of options

There were no ordinary shares of Micro-X Ltd issued on the exercise of options during the year ended 30 June 2021 and up to the date of this report.

Transactions and balances with Key Management Personnel and their Related Parties

Details and terms and conditions of other transactions with KMP and their related parties:

Purchases

During the year, purchases totalling \$70,000 at market prices have been made by the Company for marketing services provided by companies of which A Skeats' wife is a director.

During the year, purchases totalling \$28,000 at market prices have been made by the Company for video and photography services provided by companies of which P Rowland's son is a Trustee or contract photographer.

Y King's son is employed by the Company as an Engineer on a full-time basis at market rates.

DIRECTORS' REPORT CONT'D

Micro-X Ltd
Directors' report
For the year ended 30 June 2021

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.

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 27 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 27 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 Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations 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 immediately after this directors' report.

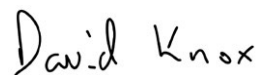
Auditor

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

Micro-X Ltd
Directors' report
For the year ended 30 June 2021

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink that reads "David Knox". The signature is written in a cursive, slightly informal style.

David Knox
Non-Executive Chair

27 August 2021

AUDITOR'S INDEPENDENCE DECLARATION



Level 3, 170 Frome Street
Adelaide SA 5000

Correspondence to:
GPO Box 1270
Adelaide SA 5001

T +61 8 8372 6666

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 2021, 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.

A stylized blue ink signature of J. L. Humphrey, written over the Grant Thornton logo.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J. L. Humphrey
Partner - Audit & Assurance

Adelaide, 27 August 2021

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

www.granthornton.com.au

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Micro-X Ltd
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2021

	Note	Consolidated 2021 \$'000	2020 \$'000
Revenue	5	3,771	4,251
Total revenue		<u>3,771</u>	<u>4,251</u>
Expenses			
Loss on disposal of assets		-	(3)
Cost of sales		(3,911)	(3,551)
Employee and director costs		(10,493)	(6,426)
Office and administrative expenses		(412)	(398)
Professional fees		(759)	(588)
Corporate expenses		(341)	(487)
Quality and regulatory		(132)	(61)
Project development costs		(1,225)	(2,463)
Depreciation and amortisation expense		(2,329)	(1,966)
Other expenses		(1,232)	(823)
Finance costs		(680)	(856)
Total expenses		<u>(21,514)</u>	<u>(17,622)</u>
Operating loss		(17,743)	(13,371)
Other income	6	<u>3,012</u>	<u>3,304</u>
Loss before income tax expense		(14,731)	(10,067)
Income tax expense	7	<u>-</u>	<u>-</u>
Loss after income tax expense for the year attributable to the owners of Micro-X Ltd		(14,731)	(10,067)
Other comprehensive income for the year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the year attributable to the owners of Micro-X Ltd		<u>(14,731)</u>	<u>(10,067)</u>
		Cents	Cents
Basic earnings per share	34	(3.70)	(4.35)
Diluted earnings per share	34	(3.70)	(4.35)

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

STATEMENT OF FINANCIAL POSITION

Micro-X Ltd
Statement of financial position
As at 30 June 2021

	Note	Consolidated 2021 \$'000	2020 \$'000
Assets			
Current assets			
Cash and cash equivalents		30,135	18,318
Trade and other receivables	8	2,477	5,198
Inventories		2,841	1,815
Other Assets		362	73
Total current assets		<u>35,815</u>	<u>25,404</u>
Non-current assets			
Property, plant and equipment	9	2,738	2,678
Right-of-use assets	10	5,999	4,582
Intangibles	11	129	1,037
Total non-current assets		<u>8,866</u>	<u>8,297</u>
Total assets		<u>44,681</u>	<u>33,701</u>
Liabilities			
Current liabilities			
Trade and other payables	12	2,628	4,081
Contract liabilities	13	501	623
Borrowings	14	-	3,000
Lease liabilities	15	599	581
Provisions	16	579	460
Total current liabilities		<u>4,307</u>	<u>8,745</u>
Non-current liabilities			
Borrowings and other financial liabilities	17	-	4,715
Lease liabilities	18	5,238	4,273
Derivative financial instruments	19	-	811
Provisions	20	923	255
Total non-current liabilities		<u>6,161</u>	<u>10,054</u>
Total liabilities		<u>10,468</u>	<u>18,799</u>
Net assets		<u>34,213</u>	<u>14,902</u>
Equity			
Issued capital	21	116,967	84,297
Convertible notes	22	65	165
Share based payments reserve	23	1,472	417
Accumulated losses		<u>(84,291)</u>	<u>(69,977)</u>
Total equity		<u>34,213</u>	<u>14,902</u>

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

STATEMENT OF CHANGES IN EQUITY

Micro-X Ltd
Statement of changes in equity
For the year ended 30 June 2021

Consolidated	Issued capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Convertible notes \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2019	51,249	1,405	-	5,000	(60,632)	(2,978)
Loss after income tax expense for the year	-	-	-	-	(10,067)	(10,067)
Other comprehensive income for the year, net of tax	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(10,067)	(10,067)
Redemption of convertible notes	-	-	-	(2,812)	-	(2,812)
Conversion of convertible notes	3,523	-	-	(2,023)	-	1,500
Finance costs on conversion of convertible notes	241	-	-	-	-	241
Issue of shares - placement	31,501	-	-	-	-	31,501
Capital raising costs	(2,217)	-	-	-	-	(2,217)
<i>Transactions with owners in their capacity as owners:</i>						
Share-based payments	-	(988)	-	-	722	(266)
Balance at 30 June 2020	84,297	417	-	165	(69,977)	14,902

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

STATEMENT OF CHANGES IN EQUITY CONT'D

Micro-X Ltd
Statement of changes in equity
For the year ended 30 June 2021

Consolidated	Issued capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Convertible notes \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2020	84,297	417	-	165	(69,977)	14,902
Loss after income tax expense for the year	-	-	-	-	(14,731)	(14,731)
Other comprehensive income for the year, net of tax	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(14,731)	(14,731)
Conversion of convertible notes (notes 19 and 22)	600	-	-	(100)	-	500
Issue of shares - placement	30,500	-	-	-	-	30,500
Capital raising costs	(1,971)	-	-	-	-	(1,971)
Issue of shares - share purchase plan	3,500	-	-	-	-	3,500
<i>Transactions with owners in their capacity as owners:</i>						
Share-based payments (note 35)	-	(417)	-	-	417	-
Employee Incentive Plan - Issue of Rights (Note 23)	-	1,472	-	-	-	1,472
Employee Share Plan - Gifted Shares (Note 21)	41	-	-	-	-	41
Balance at 30 June 2021	<u>116,967</u>	<u>1,472</u>	<u>-</u>	<u>65</u>	<u>(84,291)</u>	<u>34,213</u>

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

STATEMENT OF CASH FLOWS

Micro-X Ltd
Statement of cash flows
For the year ended 30 June 2021

	Note	Consolidated 2021 \$'000	2020 \$'000
Cash flows from operating activities			
Receipts from customers		5,251	2,569
Payments to suppliers		(18,298)	(15,261)
Interest received		4	7
R&D incentive tax refunds		1,955	3,153
Interest paid		(195)	(390)
Grant funding received		1,426	466
Net cash used in operating activities	33	(9,857)	(9,456)
Cash flows from investing activities			
Payments for property, plant and equipment		(783)	(2,133)
Payments for intangibles		(118)	(66)
Net cash used in investing activities		(901)	(2,199)
Cash flows from financing activities			
Proceeds from issue of shares		34,000	31,501
Payments for capital raising costs		(1,994)	(2,218)
Proceeds from convertible loan		-	5,000
Repayment of convertible loan		(5,191)	-
Repayment of borrowings		(3,000)	(3,000)
Repayment of lease liabilities		(1,240)	(104)
Repayments of convertible notes		-	(2,812)
Net cash from financing activities		22,575	28,367
Net increase in cash and cash equivalents		11,817	16,712
Cash and cash equivalents at the beginning of the financial year		18,318	1,606
Cash and cash equivalents at the end of the financial year		30,135	18,318

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

NOTES TO THE FINANCIAL STATEMENTS

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 1. General information

The financial statements cover Micro-X Ltd as a Group consisting of Micro-X Ltd and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Micro-X Ltd's functional and presentation currency.

Registered office

A14, 6 MAB Eastern Promenade
 1284 South Road, Tonsley
 SA 5042

Principal place of business

A14, 6 MAB Eastern Promenade
 1284 South Road, Tonsley
 SA 5042

A description of the nature of the Group'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 26 August 2021.

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 or amended Accounting Standards and Interpretations adopted

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

There are no accounting standards that have not been early adopted for the year ended 30 June 2021 but will be applicable to the Group in future reporting periods.

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 financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, 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 Group'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.

Going Concern

The Group incurred a net loss after tax for the financial year ended 30 June 2021 of \$14.7 million (year ended June 2020: \$10.1 million) and had net cash outflows from operating activities of \$9.8 million (year ended June 2020: \$9.5 million). The Group had net assets for the financial year ended 30 June 2021 of \$34.2 million (year ended June 2020: 14.9 million). The increase in net assets was primarily driven by capital raising of \$34 million in February 2021. Given the current financial position of the Group along with the cash flow forecasts prepared the directors believe that the Group 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.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 2. Significant accounting policies (continued)

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Micro-X Ltd ('Company' or 'parent entity') as at 30 June 2021 and the results of all subsidiaries for the year then ended. Micro-X Ltd and its subsidiary together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

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

The Group recognises revenue as follows:

Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally when delivery is organised. The normal credit term is 30-60 days upon delivery.

Warranty obligations

The Group typically provides warranties for general service of defects that existed at the time of sale, as required by law. These assurance-type warranties are accounted for as warranty provisions.

Engineering Consulting

The Group recognises revenue from Engineering Consulting over time. The Group uses an input method in measuring progress of the consulting services because there is a direct relationship between the Group's effort (i.e., based on the labour hours incurred) and the transfer of service to the customer. The Group recognises revenue on the basis of the labour hours expended relative to the total expected labour hours to complete the service.

Government subsidies

Subsidies from the government such as R&D tax incentive income and AMGF Grant income, are recognised as other income at their fair value where there is reasonable assurance that the grant will be received, related expenses have been incurred, the Company will comply with attached conditions and the incentive is readily measurable.

In relation to R&D, as the estimate is reliably measurable, the R&D tax incentive is measured on an accruals basis. AMGF Grants funds paid during the year are also being treated on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS CONT'D

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 2. Significant accounting policies (continued)

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.

Current and non-current classification

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

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group'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 Group'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.

Cash and cash equivalents

Cash and cash equivalents include 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

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30-60 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Inventories

Inventories, which include all raw materials and components, are stated at the lower of cost and net realisable value on a 'weighted average' basis. Cost of finished goods includes cost of direct labour, delivery costs and a proportion of indirect manufacturing costs.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 2. Significant accounting policies (continued)

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Property, plant and equipment

Fixed assets (leasehold improvements, plant & equipment, furniture & fittings and computer equipment) are 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 property, plant and equipment (excluding land) over their expected useful lives as follows:

Leasehold improvements	3-10 years
Plant and equipment	3-7 years
Fixtures and fittings	3-7 years
Computer equipment	3-7 years

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

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

An item of property, 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.

Right-of-use assets

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

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

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

Intangible assets

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 useful life of the DRX Revolution capitalised development costs has been linked to the life of the distribution contract.

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.

NOTES TO THE FINANCIAL STATEMENTS CONT'D

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 2. Significant accounting policies (continued)

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.

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

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

These amounts represent liabilities for goods and services provided to the Group 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.

Contract liabilities

Government grants relating to the purchase of property, plant and equipment are included in liabilities as contract liabilities and they are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

Borrowings and other financial liabilities

Recognition and recognition

Financial liabilities are recognised at the fair value of the consideration received, when the Group becomes a party to the contractual provisions of the financial instrument.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

The Group has designated its convertible note liabilities at FVPL in order to provide the most relevant information to users, and furthermore to keep consistency with initial recognition on inception of these instruments. An assessment will be made at each reporting period in regard to underlying valuation of this liability in regard to share price upon conversion of the convertible notes.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 2. Significant accounting policies (continued)

Lease liabilities

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

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

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

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.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

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

Equity-settled transactions are awards of shares, rights, 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 Monte-Carlo 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.

NOTES TO THE FINANCIAL STATEMENTS CONT'D

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 2. Significant accounting policies (continued)

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 Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group 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.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Micro-X Ltd, 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 consider 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.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 2. Significant accounting policies (continued)

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.

Foreign Currency Translation

Functional and presentation currency:

The financial statements are presented in Australian dollars, which is Micro-X Ltd's functional and presentation currency.

Foreign currency transactions and balances:

Foreign currency transactions are translated into the functional currency of Micro-X Ltd, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Foreign operations:

Assets and liabilities of the foreign entity are translated into \$AUD at the closing rate. Income and expenses have been translated into \$AUD at the average rate over the reporting period. Exchange differences are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2021. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

Amendments to AASB 3: Definition of a Business

The amendment to AASB 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to AASB 7, AASB 9 and AASB 39 Interest Rate Benchmark Reform

The amendments to AASB 9 and AASB 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

NOTES TO THE FINANCIAL STATEMENTS CONT'D

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 2. Significant accounting policies (continued)

Amendments to AASB 1 and AASB 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Amendments to AASB 16 COVID-19 Related Rent Concessions

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to AASB 16 Leases. The amendments provide relief to lessees from applying AASB 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under AASB 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

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.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Share-based payment transactions (Note 35)

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 the Monte-Carlo model considering 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.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group 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 Group 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.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

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

Income tax

The Group 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 Group recognises liabilities for anticipated tax and audit issues based on the Group'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

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

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Research and development (R&D) tax incentive

The Group is entitled to claim R&D tax incentives in Australia. The R&D tax incentive is calculated using the estimated R&D expenditure multiplied by a 43.5% non-refundable tax offset. The Group accounts for this incentive as other income within the Statement of Profit or Loss and Other Comprehensive Income.

Note 4. Operating segments

The Company is organised into one operating segment being the design, development and manufacturing of ultra-lightweight carbon nanotube based x-ray products for the global healthcare and security (improvised explosive device imaging) 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.

The Group has operations in Australia and the US (Micro-X Inc). Given the size of operations in the US, and that all sales were made from Micro-X Ltd. at 30 June 2021 there are no detailed operating segment disclosures.

Major customers

During the year ended 30 June 2021 approximately \$2.2 million or 59% (2020: \$4.16 million or 98%) of the company's external revenue was derived from sales to Carestream.

Note 5. Revenue

	Consolidated	
	2021	2020
	\$'000	\$'000
Sale of Goods	3,642	3,789
Engineering Consulting	129	462
Revenue	<u>3,771</u>	<u>4,251</u>

NOTES TO THE FINANCIAL STATEMENTS CONT'D

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 5. Revenue (continued)

Disaggregation of revenue

The disaggregation of revenue from contracts with customers made by Micro-X Ltd. is as follows:

	Consolidated	
	2021	2020
	\$'000	\$'000
<i>Major product lines</i>		
DRX Revolution Nano	1,862	3,789
Micro-X Rover - Medical and Veterinary	1,410	-
Engineering Consulting	129	462
Spare Parts	370	-
	<u>3,771</u>	<u>4,251</u>
<i>Geographical regions</i>		
United States	747	1,036
Asia-Pacific	2,293	2,605
Europe	731	610
	<u>3,771</u>	<u>4,251</u>
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	3,642	3,789
Services transferred over time	129	462
	<u>3,771</u>	<u>4,251</u>

Note 6. Other income

	Consolidated	
	2021	2020
	\$'000	\$'000
Interest received	6	7
R&D tax incentive refund*	1,885	2,042
Government grants income recognised per AASB 120**	1,121	1,255
	<u>3,012</u>	<u>3,304</u>

*The R&D tax incentive refund is calculated based on combined eligible costs of \$4.3 million (2020: \$4.8 million) which consist of direct development costs and direct employee compensation costs.

**The Government grants income recognised per AASB 120 includes \$0.9 million of COVID-19 related relief payments received during the year.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 7. Income tax

	Consolidated	
	2021	2020
	\$'000	\$'000
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(14,731)	(10,067)
Tax at the statutory tax rate of 26% (30% at 30 June 2020)	(3,830)	(3,020)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	1	1
Share-based payments	426	(80)
R&D tax incentive income	(490)	(613)
Other non-deductible expenses	-	9
R&D expenditure	1,125	1,420
Finance costs	-	72
	(2,768)	(2,211)
Current year tax losses not recognised	2,913	1,683
Current year temporary differences not recognised	(145)	528
Income tax expense	-	-

The Group has tax losses that arose of \$28.5 million (2020: \$17.5 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the tax losses arose.

Deferred tax assets have not been recognised in respect of these losses as the Group has been loss-making for some time, and there is no evidence of recoverability in the near future.

Note 8. Current assets - trade and other receivables

	Consolidated	
	2021	2020
	\$'000	\$'000
Trade receivables	332	2,350
R&D tax incentive refund	1,895	1,965
Other receivables	21	417
	2,248	4,732
GST receivable	229	466
	2,477	5,198

NOTES TO THE FINANCIAL STATEMENTS CONT'D

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 9. Non-current assets - property, plant and equipment

	Consolidated	
	2021	2020
	\$'000	\$'000
Leasehold improvements - at cost	1,696	1,642
Less: Accumulated depreciation	(362)	(199)
	<u>1,334</u>	<u>1,443</u>
Plant and equipment - at cost	2,030	1,681
Less: Accumulated depreciation	(885)	(608)
	<u>1,145</u>	<u>1,073</u>
Fixtures and fittings - at cost	128	94
Less: Accumulated depreciation	(52)	(77)
	<u>76</u>	<u>17</u>
Computer equipment - at cost	296	388
Less: Accumulated depreciation	(113)	(243)
	<u>183</u>	<u>145</u>
	<u><u>2,738</u></u>	<u><u>2,678</u></u>

Reconciliations

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

Consolidated	Leasehold improvements \$'000	Plant & equipment \$'000	Fixtures & fittings \$'000	Computer Equipment \$'000	Motor vehicles \$'000	Work in progress \$'000	Total \$'000
Balance at 1 July 2019	174	924	21	52	7	570	1,748
Additions	828	571	12	170	-	-	1,581
Disposals	-	-	-	-	(7)	-	(7)
Transfers in/(out)	570	-	-	-	-	(570)	-
Depreciation expense	(129)	(422)	(16)	(77)	-	-	(644)
Balance at 30 June 2020	1,443	1,073	17	145	-	-	2,678
Additions	55	534	70	105	-	-	764
Depreciation expense	(164)	(462)	(11)	(67)	-	-	(704)
Balance at 30 June 2021	<u><u>1,334</u></u>	<u><u>1,145</u></u>	<u><u>76</u></u>	<u><u>183</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>2,738</u></u>

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 10. Non-current assets - right-of-use assets

The Group leases land and buildings for its offices and production facilities under agreements of between 5 to 10 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The Group also leases machinery under agreements of between 1 to 5 years.

	Consolidated	
	2021	2020
	\$'000	\$'000
Right-of-use	6,434	5,071
Less: Accumulated depreciation	(435)	(489)
	<u>5,999</u>	<u>4,582</u>

Micro-X Ltd renegotiated the lease of its Tonsley premises on 30 September 2020. As a result, the right of use asset and lease liability were disposed and recalculated in line with AASB 16.

	Consolidated	
	2021	2020
	\$'000	\$'000
As at 1 July	4,582	1,205
Additions	646	3,866
Modification to Lease Agreement	695	-
Recognition of Make Good Provision	505	-
CY Depreciation	(429)	(489)
As at 30 June	<u>5,999</u>	<u>4,582</u>

Set out below are the carrying amounts of lease liabilities (disclosed as current and non-current lease liabilities) and the movements during the period:

	2021	2020
	\$'000	\$'000
As at 1 July	4,854	1,335
Additions	646	3,917
Modification of lease terms	816	-
Accretion of interest	265	188
Payments	(744)	(586)
As at 30 June	<u>5,837</u>	<u>4,854</u>
Current (Note 15)	599	581
Non-Current (Note 18)	<u>5,238</u>	<u>4,273</u>

Factors considered in determining the life of lease liabilities is discussed at Note 3.

The following are the amounts recognised in profit & loss:

	2021	2020
	\$'000	\$'000
Depreciation expense on Right of use assets	602	489
Interest expense on lease liability	265	188
	<u>867</u>	<u>677</u>

NOTES TO THE FINANCIAL STATEMENTS CONT'D

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 11. Non-current assets - intangibles

	Consolidated	
	2021 \$'000	2020 \$'000
Development - at amortised value	-	840
Patents and trademarks - at amortised value	129	197
	<u>129</u>	<u>1,037</u>

Reconciliations

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

Consolidated	Capitalised development costs \$'000	Patents & Trademarks \$'000	Total \$'000
Balance at 1 July 2019	1,560	268	1,828
Additions	-	43	43
Amortisation expense	(720)	(114)	(834)
Balance at 30 June 2020	840	197	1,037
Additions	-	115	115
Amortisation expense	(840)	(183)	(1,023)
Balance at 30 June 2021	<u>-</u>	<u>129</u>	<u>129</u>

Capitalised development costs

Capitalised development costs relating to the DRX Revolution Nano were amortised to nil during the year ended 30 June 2021.

Note 12. Current liabilities - trade and other payables

	Consolidated	
	2021 \$'000	2020 \$'000
Trade payables	691	1,543
Other payables and accrued expenses	1,937	2,538
	<u>2,628</u>	<u>4,081</u>

Note 13. Current liabilities - contract liabilities

	Consolidated	
	2021 \$'000	2020 \$'000
Grant funding received in advance (AMGF)	<u>501</u>	<u>623</u>

Contract liabilities were disclosed at Unearned Income - Other Payables (Note 12) at 30 June 2020.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 14. Current liabilities - borrowings

	Consolidated	
	2021	2020
	\$'000	\$'000
South Australian Government Financing Authority (SAFA)	-	3,000

South Australian Government Financing Authority (SAFA) loan repaid in full on 30 April 2021 prior to maturity date of 31 December 2021.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2021	2020
	\$'000	\$'000
Total facilities		
South Australian Financing Authority (SAFA) Loan	-	3,000
Used at the reporting date		
South Australian Financing Authority (SAFA) Loan	-	3,000
Unused at the reporting date		
South Australian Financing Authority (SAFA) Loan	-	-

Note 15. Current liabilities - lease liabilities

	Consolidated	
	2021	2020
	\$'000	\$'000
Lease liability	599	581

Refer to note 10 for further information on lease liabilities.

Note 16. Current liabilities - provisions

	Consolidated	
	2021	2020
	\$'000	\$'000
Employee Entitlements	579	460

NOTES TO THE FINANCIAL STATEMENTS CONT'D

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 17. Non-current liabilities - borrowings and other financial liabilities

	Consolidated	
	2021	2020
	\$'000	\$'000
Thales Convertible Loan – Host Debt	-	4,715

The Group drew down a \$5 million loan with Thales in July 2019. This loan was repaid in full on 16 March 2021.

The loan was previously recognised as a liability due to the obligation to deliver a variable, and not fixed, number of shares to Thales on conversion.

Due to the uncertain nature of the conversion at the expiration of the convertible loan, the instrument was split into two components, being the host debt disclosed above and the conversion factor which is disclosed in Note 19.

Note 18. Non-current liabilities - lease liabilities

	Consolidated	
	2021	2020
	\$'000	\$'000
Lease liability	5,238	4,273

Refer to note 10 for further information on lease liabilities.

Note 19. Non-current liabilities - derivative financial instruments

	Consolidated	
	2021	2020
	\$'000	\$'000
Convertible notes payable*	-	500
Thales Convertible Loan – Conversion feature**	-	311
	-	811

*October 2018 Convertible Note:

During the year ended 30 June 2021, \$0.5 million of notes (**Notes**) were converted (equalling 2,173,914 new ordinary shares) as per Note 21.

The fair value of the Notes at 30 June 2020 was the sum of consideration paid as at time of completion of the Note capital raising being \$3.0 million, less amounts previously converted into shares.

**The Thales loan was repaid in full on 16 March 2021.

As at 30 June 2020 the fair value of the conversion feature of the Convertible Loan was calculated under the Black-Scholes valuation principle using a Monte-Carlo simulation model and reflected a \$0.3M finance gain relating to the implied cost of finance.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 20. Non-current liabilities - provisions

	Consolidated	
	2021	2020
	\$'000	\$'000
Long service leave	201	111
Lease make good	505	-
Warranties	217	144
	<u>923</u>	<u>255</u>

Note 21. Equity - Issued capital

	2021	2020	Consolidated	2020
	Shares	Shares	2021	2020
			\$'000	\$'000
Ordinary shares - fully paid	<u>459,701,740</u>	<u>357,167,839</u>	<u>116,967</u>	<u>84,297</u>

NOTES TO THE FINANCIAL STATEMENTS CONT'D

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 21. Equity - Issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2019	156,093,707		51,249
Issue of shares - conversion of convertible notes (\$0.23 represents conversion at floor price per terms of security)	10 July 2019	2,173,913	\$0.230	500
Finance cost on conversion of convertible notes	10 July 2019	-	\$0.000	8
Issue of shares - conversion of convertible notes (\$0.40 represents conversion per terms of security)	29 July 2019	2,500,000	\$0.400	1,000
Issue of shares - conversion of convertible notes (\$0.23 represents conversion at floor price per terms of security)	30 July 2019	1,956,521	\$0.230	450
Finance cost on conversion of convertible notes	30 July 2019	-	\$0.000	95
Issue of shares - conversion of convertible notes (\$0.239 represents conversion at 20% discount to 20-day VWAP prior to conversion date per terms of security)	1 August 2019	1,463,823	\$0.239	350
Finance cost on conversion of convertible notes	1 August 2019	-	\$0.000	88
Issue of shares - conversion of convertible notes (\$0.40 represents conversion per terms of security)	3 September 2019	57,500	\$0.400	23
Issue of shares - conversion of convertible notes (\$0.258 represents conversion at 20% discount to 20-day VWAP prior to conversion date per terms of security)	3 September 2019	774,893	\$0.258	200
Finance cost on conversion of convertible notes		-	\$0.000	50
Issue of shares - placement	25 November 2019	12,473,406	\$0.200	2,495
Issue of shares - placement	24 December 2019	70,026,694	\$0.200	14,005
Capital Raising Costs	24 December 2019	-	\$0.000	(995)
Issue of shares - conversion of convertible notes (\$0.40 represents conversion per terms of security)	2 January 2020	2,500,000	\$0.400	1,000
Issue of shares - placement	17 April 2020	107,147,382	\$0.140	15,001
Capital Raising Costs	17 April 2020	-	\$0.000	(1,222)
Balance	30 June 2020	357,167,839		84,297
Issue of shares - conversion of convertible notes - (\$0.23 represents conversion at floor price per terms of security)	16 Nov 2020	2,173,914	\$0.230	500
Grant to Employees - Gifted Shares	23 Dec 2020	110,003	\$0.370	41
Issue of Shares - Placement	05 Feb 2021	89,705,883	\$0.340	30,500
Capital Raising Costs	05 Feb 2021	-	\$0.000	(1,971)
Issue of shares - Share Purchase Plan	24 Feb 2021	10,294,101	\$0.340	3,500
Issue of shares - conversion of convertible notes - (\$0.40 represents conversion per terms of security)	05 Mar 2021	125,000	\$0.400	50
Issue of shares - conversion of convertible notes - (\$0.40 represents conversion per terms of security)	10 Mar 2021	125,000	\$0.400	50
Balance	30 June 2021	<u>459,701,740</u>		<u>116,967</u>

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.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 21. Equity - Issued capital (continued)

Capital risk management

The Group'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 22. Equity - Convertible notes

	Consolidated	
	2021	2020
	\$'000	\$'000
Convertible notes	65	165

In order to classify this note, granted in April 2018, the Group assessed AASB9 and made assessment that the Notes were derivative in nature as all characteristics under this section were met.

The 'fixed for fixed' test per AASB9 was then consequently assessed to determine whether the notes were of an equity or liability nature. Per the terms of the note, as a qualifying capital raise did not occur before 30 September 2018, on maturity conversion the notes will convert into ordinary shares at a fixed price, indicating that this test is now passed. The Notes are recognised as equity.

In relation to the fair value of these Notes, the Group has made the assessment to recognise the Notes at the sum of consideration paid as at time of completion of convertible note capital raising. No fair value adjustments have been made to this instrument during the current reporting period.

During the financial year ended 30 June 2021 \$100,000 of Notes were converted, equating to 250,000 new ordinary shares during the year (per note 21.)

Note 23. Equity - Share based payments reserve

	Consolidated	
	2021	2020
	\$'000	\$'000
Share-based payments reserve	1,472	417

Micro-X issued service rights to all staff and service rights and performance rights, inclusive of short term incentives (**STI**) and long term incentives (**LTI**) to Leadership staff under its Employee Incentive Plan, effective on 23 December 2020. The rights hold various service and performance conditions which vest over 3 years to 23 December 2023.

STI award achievement is assessed on a Balanced Scorecard approach, where Executive performance is measured against five key criteria, with weighting attached to each of criteria's outcomes.

LTI Service Rights vest after a predetermined period of continuous service with the Company. For the initial grant of Service Rights made in December 2020, one third of those rights granted will vest on the twelve month anniversary of the date of grant, a second third will vest on the second anniversary of the date of grant and the final third will vest on the third anniversary of the date of grant.

LTI Performance Rights vest upon the achievement of certain Total Shareholder Return (TSR) targets over the vesting period. For the grant made in December 2020, target achievement will be achieved at a TSR target of 10% Compound Annual Growth Rate, with Executives able to earn up to 200% of target at a TSR of 20%.

The vesting periods for the initial grant are one third of the rights will vest and be assessed on the first anniversary of the grant, a second third will vest and be assessed on the second anniversary of the grant and the final third will vest and be assessed on the third anniversary of the grant.

The rights have been valued by an independent third party using a Monte Carlo simulation model.

NOTES TO THE FINANCIAL STATEMENTS CONT'D

Micro-X Ltd Notes to the financial statements For the year ended 30 June 2021

Note 23. Equity - Share based payments reserve (continued)

The following assumptions have been used:

Valuation Inputs & Conclusions

Description	STI Performance Rights	LTI Service Rights	LTI Performance Rights Tranche 1	LTI Performance Rights Tranche 2	LTI Performance Rights Tranche 3
Valuation Date	23 Dec 2020	23 Dec 2020	23 Dec 2020	23 Dec 2020	23 Dec 2020
Number of instruments issued	3,148,054	3,431,835	1,033,024	1,033,024	1,033,024
Spot Price	\$0.370	\$0.370	\$0.370	\$0.370	\$0.370
Exercise Price	Nil	Nil	Nil	Nil	Nil
Life (Years)	1	1 to 3	1	2	3
Volatility*	75%	75%	75%	75%	75%
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
Risk Free Rate	0.04%	0.11%	0.04%	0.09%	0.11%
Assessed Value	\$0.370	\$0.370	\$0.219	\$0.231	\$0.243

*Based on historical volatility of Micro-X shares and comparable companies.

The fair value of the rights expensed for the year ended June 2021 was \$1.472 million.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and the 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 payment reserve \$'000	Total \$'000
Consolidated		
Balance at 1 July 2019	1,405	1,405
Share options expense*	(266)	(266)
Share options equity movement**	(722)	(722)
Balance at 30 June 2020	417	417
Share rights expense*	1,472	1,472
Share option equity movement**	(417)	(417)
Balance at 30 June 2021	<u>1,472</u>	<u>1,472</u>

* Employee Incentive Plan - amortisation expense of options vested (discontinued plan) and rights granted.

** Expiry of options for ex employees & Directors transferred to retained earnings due to lapse.

Note 24. Equity - dividends

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

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 25. 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 Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group'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.

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 Group 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.

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 \$30.1 million (2020: \$18.3 million). The sensitivity of the cash at bank balance to changes in interest rate (of +/-1%) equates to +/- \$301,350 (2020: +/- \$183,176). 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

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

NOTES TO THE FINANCIAL STATEMENTS CONT'D

Micro-X Ltd Notes to the financial statements For the year ended 30 June 2021

Note 25. Financial instruments (continued)

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 amounts receivable from a trade debtor with a strong credit standing;

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 Group 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 Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Trade payables are generally payable on 30-day terms.

Remaining contractual maturities

The following tables detail the Group'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.

Consolidated - 2021	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						
Trade payables	-	691	-	-	-	691
<i>Interest-bearing - variable</i>						
Lease liabilities	5.00%	599	639	1,990	2,609	5,837
Total non-derivatives		1,290	639	1,990	2,609	6,528
Derivatives						
Convertible notes payable*	-	65	-	-	-	65
Total derivatives		65	-	-	-	65

* There is no contractual cashflow for the mandatorily convertible notes, there is no cash redemption for the convertible notes.

Consolidated - 2020	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>Interest-bearing - variable</i>						
Thales Convertible Loan*	2.03%	105	107	5,335	-	5,547
<i>Interest-bearing - fixed rate</i>						
SAFA Loan**	7.75%	3,117	-	-	-	3,117
Total non-derivatives		3,222	107	5,335	-	8,664
Derivatives						
Convertible notes payable***	-	665	-	-	-	665
Total derivatives		665	-	-	-	665

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 25. Financial instruments (continued)

- * Repaid 16 March 2021. Debt to Equity ratio covenant existed in relation to this facility and was met at all times. Lender held security over Intellectual Property relevant to the Partnership present and after-acquired of the Group. Refer Note 17 for further disclosure of facility.
- ** Repaid 30 April 2021. Lender held security over all present and after-acquired property of the Group. Refer Note 14 for further disclosure of facility.
- *** There is no contractual cashflow for the mandatorily convertible notes, there is no cash redemption for the convertible notes.

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 26. Key management personnel disclosures

Compensation

The aggregate compensation made to Directors and other members of Key Management Personnel of the Group is set out below:

	Consolidated	
	2021	2020
	\$	\$
Short-term employee benefits	1,581,580	1,420,689
Post-employment benefits	171,296	125,368
Share-based payments	1,158,902	6,976
	<u>2,911,778</u>	<u>1,553,033</u>

Key Management Personnel were granted rights under the Employee Incentive Plan in December 2020.

The Share-based payments above relate to the amortisation of the fair value of the grant of rights made to the KMP during the year and do not necessarily reflect the cash value that may be realised upon vesting and exercising of the rights.

Note 27. Remuneration of auditors

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

	Consolidated	
	2021	2020
	\$	\$
<i>Audit services - Grant Thornton</i>		
Audit or review of the financial statements	101,847	89,656
<i>Other services - Grant Thornton</i>		
Other services	29,402	24,409
	<u>131,249</u>	<u>114,065</u>

Note 28. Contingent liabilities

The Group has no contingent liabilities as at 30 June 2021.

NOTES TO THE FINANCIAL STATEMENTS CONT'D

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 29. Related party transactions

Subsidiaries

Interests in subsidiaries are set out in note 31.

Key management personnel

Disclosures relating to key management personnel are set out in note 26 and the remuneration report included in the directors' report.

Transactions with related parties

There were no other transactions with related parties during the current and previous financial year.

Receivable from and payable to related parties

Noted as at the reporting date, a \$124,000 payable to Patrick O'Brien is included within trade payables for director fees invoiced by Mr O'Brien to the Company at 30 June 2021, for the last two financial years.

There were no other 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.

Note 30. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2021 \$'000	2020 \$'000
Loss after income tax	(14,731)	(10,067)
Total comprehensive income	(14,731)	(10,067)

Statement of financial position

	Parent	
	2021 \$'000	2020 \$'000
Total current assets	35,931	25,404
Total assets	43,805	33,701
Total current liabilities	3,759	8,745
Total liabilities	9,396	18,799
Equity		
Issued capital	116,967	84,297
Convertible notes	65	165
Share-based payments reserve	1,472	417
Accumulated losses	(84,095)	(69,977)
Total equity	34,409	14,902

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 2021.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 30. Parent entity information (continued)

Contingent liabilities

The parent entity had no contingent liabilities as at 2021 and 2020.

Capital commitments – Property, plant and equipment

The parent entity has no capital commitments for property, plant and equipment as at 2021.

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2.

Note 31. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2021 %	2020 %
Micro-X, Inc.	USA	100%	100%

Note 32. Events after the reporting period

No matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 33. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2021 \$'000	2020 \$'000
Loss after income tax expense for the year	(14,731)	(10,067)
Adjustments for:		
Depreciation and amortisation	2,294	1,966
Share-based payments	1,678	(265)
Non-cash finance costs	420	428
Lease Incentive	-	165
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	2,433	(1,852)
Increase/(decrease) in trade and other payables	(1,585)	896
Increase in employee benefits	782	301
Increase in inventories	(1,026)	(543)
Increase in unearned income	(122)	(485)
Net cash used in operating activities	<u>(9,857)</u>	<u>(9,456)</u>

Note 34. Earnings per share

	Consolidated	
	2021 \$'000	2020 \$'000
Loss after income tax attributable to the owners of Micro-X Ltd	<u>(14,731)</u>	<u>(10,067)</u>

NOTES TO THE FINANCIAL STATEMENTS CONT'D

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 34. Earnings per share (continued)

	Cents	Cents
Basic earnings per share	(3.70)	(4.35)
Diluted earnings per share	(3.70)	(4.35)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	398,120,343	231,566,308
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>398,120,343</u>	<u>231,566,308</u>

The weighted average number of shares does not include the potential number of ordinary shares upon take-up of rights, options and the conversion of the mandatorily convertible notes.

The potential number of shares on conversion of the April 2018 mandatorily convertible notes which are unconverted is 162,500 ordinary shares based on conversion prices of \$0.40 (Ceiling Cap).

The potential number of shares on exercise of the performance and service rights which are unvested is 9,678,962 ordinary shares. For further information on the rights please refer to Note 23 and Note 35.

Basic EPS is calculated by dividing the loss for the year attributable to ordinary equity holders of the group by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the loss attributable to ordinary equity holders of the group by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. It is noted that diluted EPS cannot be calculated on the loss for the year and accordingly the diluted EPS equals the basic EPS.

Note 35. Share-based payments

Set out below are the rights granted to Non-Executive Directors and Key Management Personnel during the financial year:

Grant Date	Held at 1 July 2020	Granted as Remuneration	Exercised or Lapsed	Held at 30 June 2021	Average fair value per right at Grant Date
14 December 2020	-	6,430,678	-	6,430,678	\$0.325

Share based payments relate to Rights granted under the Employee Incentive Plan subject to terms detailed in Note 23.

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 lines below are those issued to Non-Executive Directors, other employees and consultants):

2021

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
05/12/2016	01/12/2020	\$0.000	320,000	-	-	(320,000)	-
01/04/2017	01/04/2021	\$0.000	2,500,000	-	-	(2,500,000)	-
			<u>2,820,000</u>	<u>-</u>	<u>-</u>	<u>(2,820,000)</u>	<u>-</u>

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2021

Note 35. Share-based payments (continued)

2020

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	\$0.000	1,393,112	-	-	(1,393,112)	-
01/09/2014	31/12/2019	\$0.000	2,786,228	-	-	(2,786,228)	-
21/12/2015	31/12/2019	\$0.000	1,000,001	-	-	(1,000,001)	-
21/12/2015	31/12/2019	\$0.000	1,999,999	-	-	(1,999,999)	-
05/12/2016	01/12/2020	\$0.000	320,000	-	-	-	320,000
01/04/2017	01/04/2021	\$0.000	2,500,000	-	-	-	2,500,000
			<u>9,999,340</u>	<u>-</u>	<u>-</u>	<u>(7,179,340)</u>	<u>2,820,000</u>
Weighted average exercise price			\$0.613	\$0.000	\$0.000	\$0.254	\$0.625

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

Grant date	Expiry date	2021 Number	2020 Number
05/12/2016	01/12/2020	-	320,000
01/04/2017	01/04/2021	-	2,500,000
		<u>-</u>	<u>2,820,000</u>

The remaining options expired during the year 2021.

DIRECTORS' DECLARATION

Micro-X Ltd
Directors' declaration
For the year ended 30 June 2021

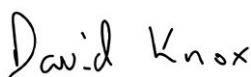
In the directors' opinion:

- 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 Group's financial position as at 30 June 2021 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



David Knox
Non-Executive Chair

27 August 2021

INDEPENDENT AUDITOR'S REPORT



Level 3, 170 Frome Street
Adelaide SA 5000

Correspondence to:
GPO Box 1270
Adelaide SA 5001

T +61 8 8372 6666

Independent Auditor's Report

To the Members of Micro-X Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Micro-X Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

www.grantthornton.com.au

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation.

INDEPENDENT AUDITOR'S REPORT CONT'D



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter

How our audit addressed the key audit matter

Recognition of research and development tax incentive – Notes 2, 3, 6 and 8

Under the research and development (R&D) tax incentive scheme, the Group receives a 43.5% refundable tax offset for eligible expenditure if its turnover is less than \$20 million per annum, provided it is not controlled by income tax exempt entities. An R&D plan is filed with AusIndustry in the following financial year and, based on this filing, the Group receives the incentive in cash.

Management have performed a detailed review of the Group's total R&D expenditure to determine the potential claim under the R&D tax incentive legislation.

The receivable at year-end for the incentive was \$1.89 million. This represents an estimated claim for the period 1 July 2020 to 30 June 2021.

We have placed audit focus on the R&D tax incentive given the significant degree of judgement and interpretation of the R&D tax legislation required by management to assess the eligibility of the R&D expenditure under the scheme.

This area is a key audit matter due to the inherent complexities and judgement required of management to determine their receivable reimbursement.

Our procedures included, amongst others:

- enquired management to obtain and document an understanding of the process to estimate the claim;
- engaged an internal R&D tax expert to consider the nature of the expenses against the eligibility criteria of the R&D tax incentive scheme to form a view about whether the expenses included in the estimate were likely to meet the eligibility criteria;
- compared the nature of the R&D expenditure included in the current year estimate to the prior year claim;
- compared the eligible expenditure used in the receivable calculation to the expenditure recorded in the general ledger;
- considered the Group's history of successful claims;
- agreed a sample of individual expenditure items included in the estimate to underlying supporting documentation to ensure that they have been appropriately recognised in the accounting records and that they are eligible expenditures;
- inspected copies of relevant correspondence with AusIndustry and the Australian Tax Office related to the claims; and
- assessed the adequacy of disclosures in the financial statements.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the financial report

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



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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included within the Directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Micro-X Limited, for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A stylized blue ink signature of Grant Thornton.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A stylized blue ink signature of J. L. Humphrey.

J. L. Humphrey
Partner – Audit & Assurance

Adelaide, 27 August 2021

SHAREHOLDER INFORMATION

Micro-X Ltd Shareholder information For the year ended 30 June 2021

The shareholder information set out below was applicable as at 17 August 2021.

The total number of shareholders is 4,037 and there are 459,701,740 ordinary fully paid shares on issue. There are a further 9,678,963 unlisted rights over fully paid ordinary shares issued as follows:

Rights Grant Date	Exercise Price	Number of Holders	Number on Issue	Number of Restricted Securities	Release Date (If Applicable)
23 December 2020	\$0.000	51	9,678,962	-	-

As part of the Employee Incentive Plan including both Short Term Incentives and Long Term Incentives for employees, 9,678,962 rights (including Performance Rights and Service Rights) were issued on 23 December 2020 following shareholder approval on 18 November 2020. These Rights will vest progressively over a three year period through until 23 December 2023, subject to the relevant employee or executive meeting the vesting conditions which includes their continued employment with the Company.

There are 650 unlisted convertible notes of face value \$100 per Note as follows:

Convertible Notes Maturity Date	Note Conversion Price	Number of Holders	Number on Issue	Number of Restricted Securities	Release Date (If Applicable)
Perpetuity	\$0.400	3	650	-	-

Distribution of Securities

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

	Ordinary shares		Options over ordinary shares	
	Number of holders	% of total shares issued	Number of holders	% of total shares issued
1 to 1,000	66	-	-	-
1,001 to 5,000	1,105	0.71	-	-
5,001 to 10,000	699	1.23	-	-
10,001 to 100,000	1,717	13.51	-	-
100,001 and over	450	84.55	-	-
	<u>4,037</u>	<u>100.00</u>	<u>-</u>	<u>-</u>
Holding less than a marketable parcel	<u>400</u>	<u>(0.12)</u>	<u>-</u>	<u>-</u>

There are 400 holders (with a total of 574,278 shares) holding less than a marketable parcel.

Micro-X Ltd
Shareholder information
For the year ended 30 June 2021

Equity security holders

Twenty largest equity security holders

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

	Ordinary shares Number held	% of total shares issued
NATIONAL NOMINEES LIMITED	52,820,659	11.49
UBS NOMINEES PTY LTD	35,942,251	7.82
BNP PARIBAS NOMS PTY LTD (DRP)	33,214,208	7.23
CS THIRD NOMINEES PTY LIMITED (HSBC CUST NOM AU LTD 13 A/C)	32,934,574	7.16
JP MORGAN NOMINEES PTY LTD	24,396,555	5.31
BNP PARIBAS NOMINEES PTY LTD (IB AU NOMS RETAILCLIENT DRP)	20,268,680	4.41
MR PETER ROBIN ROWLAND	11,950,000	2.60
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	7,782,826	1.69
LONSDALE NOMINEES PTY LTD (THE LONSDALE FUND A/C)	5,904,601	1.28
HARMAN NOMINEES PTY LTD (HARMANIS INVESTMENT)	5,071,585	1.10
HAMMOND ROYCE CORPORATION PTY LTD (LEN DAVID SUPER FUND A/C)	4,966,867	1.08
BRONTE INVESTMENTS PTY LTD (MCMAHON SUPERANNUATION A/C)	4,600,279	1.00
CITICORP NOMINEES PTY LIMITED	4,420,525	0.96
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,265,502	0.71
MEDDISCOPE PTY LTD (PODESTA FAMILY A/C)	3,244,565	0.71
VABEN PTY LTD (THE VABEN SUPERANNUATION A/C)	2,900,000	0.63
GOWING BROS LIMITED	2,752,858	0.60
ANGLESEA INVESTMENTS PTY LIMITED (DAMIEN OBRIEN FAMILY A/C)	2,485,288	0.54
NATIONAL NOMINEES LIMITED (DB A/C)	2,452,422	0.53
KANAT NOMINEES PTY LTD (AARON KANAT ML A/C)	2,420,828	0.53
	263,795,073	57.38

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

	Ordinary shares Number held	% of total shares issued
Perennial Value Management Limited	62,041,316	13.50
Regal Funds Management Pty limited	41,062,795	8.93
TIGA Trading Pty Ltd and Thorney Technologies Limited	26,282,972	5.72
AustralianSuper Pty Ltd	23,810,480	5.18

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.

Service and Performance Rights, Options and Convertible Notes

Service rights, Performance rights, Options and Convertible Notes do not have voting rights attached.

There are no other classes of equity securities.

CORPORATE DIRECTORY

Micro-X Ltd
Corporate directory
For the year ended 30 June 2021

Directors

Peter Rowland (Managing Director)
David Knox (Non-Executive Chair)
Alexander Gosling (Non-Executive Director)
Yasmin King (Non-Executive Director)
Patrick O'Brien (Non-Executive Director)
James McDowell (Non-Executive Director) – Appointed 1 January 2021

Company secretary

Kingsley Hall

Registered office

A14, 6 MAB Eastern Promenade
1284 South Road, Tonsley
SA 5042

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 8320 4062 (outside Australia)

Auditor

Grant Thornton Audit Pty Ltd
Grant Thornton House, Level 3
170 Frome Street
Adelaide, SA 5000
Phone: +61 8 8372 6666

Legal

Thomson Geer
Level 14, 60 Martin Place
Sydney, NSW 2000

Stock exchange listing

Micro-X Ltd shares are listed on the Australian Securities Exchange
(ASX code:MX1)

Website

www.micro-x.com

