

Micro-X Ltd
Appendix 4E
Preliminary final report

1. Company details

Name of entity: Micro-X Ltd
ABN: 21 153 273 735
Reporting period: For the year ended 30 June 2017
Previous period: For the year ended 30 June 2016

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	down	26% to	659
Loss from ordinary activities after tax attributable to the owners of Micro-X Ltd	up	20% to	(12,920)
Loss for the year attributable to the owners of Micro-X Ltd	up	20% to	(12,920)

Dividends

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

Comments

The loss for the company after providing for income tax amounted to \$12.9M (30 June 2016: \$10.7M).

Refer to the Director's report in the 2017 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	<u>9.14</u>	<u>13.58</u>

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.

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
XinRay Systems Inc.	30%	30%	(491)	28
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			(491)	28
Income tax on operating activities			-	-

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

The financial statements have been audited and an unqualified opinion has been issued.

11. Attachments

Details of attachments (if any):

The Annual Financial Report of Micro-X Ltd for the year ended 30 June 2017 is attached.

12. Signed

Signed  _____

Date: 30 August 2017

Patrick O'Brien
Non-Executive Chairman

Micro-X Ltd

ABN 21 153 273 735

Annual Financial Report - 30 June 2017

Micro-X Ltd
Corporate directory
For the year ended 30 June 2017

Directors	Peter Robin Rowland (Managing Director) Patrick Gerard O'Brien (Non-Executive Chairman) Richard Nicholas Hannebery (Executive Director) David Peter Neil Symons (Non-Executive Director) Alexander Bennett Gosling (Non-Executive Director) Yasmin Anna King (Non-Executive Director) - appointed 5 December 2016
Company secretary	Georgina Carpendale - appointed 5 December 2016
Registered office	A14, 6 MAB Eastern Promenade 1284 South Road, Tonsley Clovelly Park, SA 5042
Principal place of business	A14, 6 MAB Eastern Promenade 1284 South Road, Tonsley Clovelly Park, 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 The Rialto, Level 30, 525 Collins Street Melbourne, VIC 3000 Phone: +61 3 8320 2222
Stock exchange listing	Micro-X Ltd shares are listed on the Australian Securities Exchange (ASX code: MX1)
Website	www.micro-x.com

Micro-X Ltd
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Micro-X Ltd
Directors' report
For the year ended 30 June 2017

The directors present their report, together with the financial statements, on the company for the year ended 30 June 2017.

Directors

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

Peter Robin Rowland (Managing Director)
Patrick Gerard O'Brien (Non-Executive Chairman)
Richard Nicholas Hannebery (Executive Director)
David Peter Neil Symons (Non-Executive Director)
Alexander Bennett Gosling (Non-Executive Director)
Yasmin Anna King (Non-Executive Director) - appointed 5 December 2016

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

Principal activities

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

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

Dividends

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

Review of operations

The loss for the company after providing for income tax amounted to \$12.9M (30 June 2016: \$10.7M).

The majority of the loss for the year was due to \$15.2M expenditure on research and development of the company's first product, the DRX Revolution Nano ('Nano').

During the year the company undertook a successful placement offer and entitlement offer of \$5.2M and \$4.8M respectively. The securities started trading on 18 April 2017 (placement shares) and on 9 May 2017 (rights issue shares). Costs in relation to the placement and entitlement offerings have been split between the statement of profit and loss and against equity on the statement of financial position.

During the year the company executed a loan facility agreement with the South Australian Treasurer for a loan commitment of \$3.0M with an agreed interest rate of 5.75% per annum paid monthly in arrears. The loan was fully drawn down as at the year end.

The key milestone achievements for Micro-X through the course of 2016-2017 financial year were:

Carestream Health Inc. ('Carestream'):

In August 2016 the Company signed agreements with Carestream Health Inc. for exclusive development and OEM supply for the DRX Revolution Nano.

Carestream officially launched the DRX Revolution Nano at the 102nd Scientific Meeting of Radiological Society of North America (RSNA) in Chicago on 27th November 2016.

Service training for Nano was successfully conducted in Rochester of Carestream's technical product support staff from all parts of the world during April.

Micro-X Ltd
Directors' report
For the year ended 30 June 2017

In June 2017, the company announced the receipt by Carestream of notification from the US Food and Drug Administration (FDA) that the DRX-Revolution Nano's 510(K) application had been approved.

Tonsley facility:

The Company moved into new premises at Tonsley, South Australia. The registered address for of the Company changed in conjunction to the move to permanent facilities.

Research and development tax rebate:

The research and development tax incentive refund for \$8.2M was received in November 2016 for the 2015/2016 financial year.

Reliability growth testing:

During the year, the company carried out an intensive Reliability Growth Testing program for the Nano at Tonsley. The company set a high target for reliability to ensure that any systemic flaws in design or construction which might give rise to post-installation service calls were identified and corrected prior to First Customer Shipments. By the end of April 2017, the Nano had passed a number of cycles equivalent to a 10-year operation and the program further boosted confidence in the durability of the unit as a competitive market discriminator.

Quality & regulatory:

During October 2016 Intertek, an independent test agency, undertook compliance testing on the Nano to the required IEC60601 standard for mechanical, electrical and radiation safety and the Nano passed the testing.

In April 2017, the company received its ISO13485 accreditation certificate. The certification confirms that the company has established and is operating at its Tonsley facility a comprehensive Quality Management System for the design and manufacture of medical devices.

Defence products:

A critical design review of the development of the Mobile Backscatter Imager ('MBI') and the Mobile Medical Imager ('Rover') was held with Defence staff from the project office and counter-IED task force in September 2016, the relevant milestone was passed.

The company completed the construction milestone for both the MBI and Rover demonstrations under the current contract with the Department of Defence. The set-to-work and testing of the equipment is underway and the imaging demonstrations will be performed in October.

In November 2016 the Company conducted usability trials for a variant product of the Nano for military use ('Rover'). The trials were held with the 2nd General Health Battalion at the ADF Role 2 (Enhanced) Deployed Medical Facility in Enoggera Barracks, Queensland.

The company presented the Rover and the MBI programs to the Office of the Secretary of Defense in Washington DC.

The company also hosted a visit at Tonsley from a large overseas delegation of Counter-IED and Home Made Explosives experts from the US Military, FBI, and Department of Homeland Security. There was strong interest shown in our new explosives imaging technology currently in development.

Significant changes in the state of affairs

The Company used the cash and assets, in a form readily convertible to cash, that it had at the time of listing on the ASX (21 December 2015) in a way consistent with its business objectives for the year ended 30 June 2016 and 30 June 2017.

The business objectives were to focus on the development of the DRX Revolution Nano ('Nano'). The anticipated use of proceeds for MBI have been used to improve the Nano core technology, reproducibility and effectiveness which will have a benefit of ensuring reproducibility for a multi emitter tube to be used in MBI.

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

Micro-X Ltd
Directors' report
For the year ended 30 June 2017

Matters subsequent to the end of the financial year

On 17 August 2017 the company announced that it had signed an agreement with XinRay Systems Inc. for new management arrangements to support the production of x-ray tubes for its 'DRX Revolution Nano' product. The company will directly manage tube production in North Carolina under its accredited quality system and implement improvements in manufacturing processes and supply-chain management. There is an option for the company's investment in plant and equipment under the agreement to be exchanged for additional equity in the future to increase its ownership of XinRay.

On 30 August 2017, the company announced that it has received an R&D Tax Incentive rebate of \$7,032,170 for the 2016/2017 financial year. The R&D Tax Incentive is an Australian Government program under which companies with turnover of less than \$20M receive a cash refund for 43.5% of eligible expenditure on research and development.

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

Likely developments and expected results of operations

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

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

Environmental regulation

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

Information on directors

Name:	Patrick O'Brien
Title:	Non-Executive Chairman
Qualifications:	LLB, B.Com, Grad Dip Applied Finance, MBA
Experience and expertise:	Patrick is managing director of Patrick O'Brien & Associates and a director of Red Rock Leisure, The Water & Carbon Group and O'Brien Capital. Patrick has over 25 years' business experience in Australia, the UK, Europe, Asia and the US including as an executive director with Macquarie Group where he led teams in corporate finance (Melbourne 1996-2005) and private equity (London 2005-2009). In this latter role Patrick was responsible for Macquarie's controlling stakes in, and chaired, large unlisted groups European Directories and National Grid Wireless. Prior to Macquarie, Patrick was a strategy consultant with McKinsey & Company and a lawyer with Minter Ellison.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Member of Nomination and Remuneration Committee and Member of Audit and Risk Committee
Interests in shares:	4,625,380 fully paid ordinary shares
Interests in options:	200,000 unlisted options exercisable at \$0.575 (57.5 cents) on or before 31/12/19; 400,000 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 31/12/19

Micro-X Ltd
Directors' report
For the year ended 30 June 2017

Name: Peter Rowland
Title: Managing Director
Qualifications: BSc., MBA, MIET, CEng, FAICD
Experience and expertise: Peter worked in the engineering design, development and project management of innovative, high-technology military & scientific equipment in his early career in Scotland. In Australia, he ran an engineering design consultancy group, was director of business development at BAE Systems and then was managing director of ASX-listed Ellex Medical Lasers which designed and manufactured ophthalmic laser equipment. More recently he was vice president of Asia-Pacific operations for Biolase Technology Inc., a NASDAQ listed therapeutic medical device supplier.

Other current directorships: Nil
Former directorships (last 3 years): Nil
Interests in shares: 12,425,000 fully paid ordinary shares
Interests in options: 696,556 unlisted options exercisable at \$0.575 (57.5 cents) on or before 31/12/19;
1,393,114 unlisted options exercisable at \$0.625 (62.5 cents) on or before 31/12/19

Name: Richard Hannebery
Title: Executive Director
Qualifications: BA (Econ), Grad Dip Econ
Experience and expertise: Richard has over 20 years' experience in commercial and financial advisory services with Merrill Lynch, Credit Suisse and JT Campbell & Co. He has 15 years' experience as a specialist in healthcare technology and intellectual property based companies at a business development and director level. Richard has extensive experience in strategy development and its implementation, as well as commercialisation, including direct negotiation of key sales and distribution agreements in various markets with large multinational medtech and technology companies. Richard is currently a board member and the part-time chief executive of ASX-listed Genera Biosystems Limited and a non-executive director of Australian Continence Solutions Pty Limited and its operating company Nurturecare (Aust) Pty Limited.

Other current directorships: Genera Biosystems Limited (ASX:GBI) appointed 14 May 2013
Former directorships (last 3 years): None
Special responsibilities: Nil
Interests in shares: 3,774,900 fully paid ordinary shares
Interests in options: 696,556 Unlisted Options exercisable at \$0.575 (57.5 cents) on or before 31/12/19;
1,393,114 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 31/12/19

Name: Dr. Alexander Gosling AM
Title: Non-Executive Director
Qualifications: AM, MA, DEng, FTSE
Experience and expertise: Alexander has been working in the field of process and product development and related research and development for 40 years. A founding director of Invetech and was part of the management team that led Invetech to a public listing (as Vision Systems) and then to its acquisition by Danaher Corp for \$800M. He currently works for Capstone Partners, a strategy consultancy specialising in technology commercialisation and the development of start-up companies. Alexander is an engineer, with an Honours degree from Cambridge University. He is a Fellow of the Academy of Technological Sciences and Engineering, a Fellow of the Institute of Engineers Australia and a Governor of the Warren Centre for Advanced Engineering. He was awarded an Honorary Doctorate in Engineering from Swinburne University and made a Member of The Order of Australia for services to engineering.

Other current directorships: Nil
Former directorships (last 3 years): Nil
Special responsibilities: Chair of Nomination and Remuneration Committee and Member of Audit and Risk Committee
Interests in shares: 110,000 fully paid ordinary shares
Interests in options: 133,333 Unlisted Options exercisable at \$0.575 (57.5 cents) on or before 31/12/19;
266,668 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 31/12/19

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Name: David Symons
Title: Non-Executive Director
Qualifications: LLB, B.Com
Experience and expertise: David has more than 15 years' experience in corporate strategy communications, private equity, investment banking, and corporate management. He has previously held executive roles at ABN AMRO Capital, Macquarie Bank, Merrill Lynch and Promina Group. He is currently a non-executive director of ASX-listed Genera Biosystems Limited.
Other current directorships: Genera Biosystems Limited (ASX:GBI)
Former directorships (last 3 years): None
Special responsibilities: Chair of Audit and Risk Committee and Member of Nomination and Remuneration Committee
Interests in shares: 2,220,200 fully paid ordinary shares
Interests in options: 133,333 Unlisted Options exercisable at \$0.575 (57.5 cents) on or before 31/12/19;
266,668 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 31/12/19

Name: Yasmin King
Title: Non-Executive Director
Qualifications: BA (Econ)(Honours). MBA
Experience and expertise: Yasmin is CEO 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. She has also served on both public and private sector boards. She is an adjunct 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: None
Former directorships (last 3 years): None
Special responsibilities: Member of Audit and Risk Committee
Interests in shares: Nil

'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

Georgina Carpendale was appointed as Company Secretary on 5 December 2016. Georgina is a Chartered Accountant with a First Class Honours Degree in Business specialising in Accounting. Georgina has 10 years' experience in the accounting profession. Georgina has 4 years' experience within the medical technology industry. Georgina is the Chief Financial Officer for Micro-X.

Justin Mouchacca resigned as Company Secretary on 5 December 2016. Justin holds a Bachelor of Business majoring in Accounting. He graduated from RMIT University in 2008, became a Chartered Accountant in 2011 and since July 2013 has been the principal of chartered accounting firm, Leydin Freyer Corp Pty Ltd.

Micro-X Ltd
Directors' report
For the year ended 30 June 2017

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 2017, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Patrick O'Brien	13	14	2	2	3	4
Peter Rowland	14	14	-	-	-	-
Richard Hannebery	14	14	-	-	-	-
David Symons	14	14	2	2	4	4
Alexander Gosling	12	14	2	2	4	4
Yasmin King	8	8	-	-	1	2

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 company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

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

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

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

Principles used to determine the nature and amount of remuneration

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

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

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

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

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

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

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

Micro-X Ltd
Directors' report
For the year ended 30 June 2017

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

Non-executive directors remuneration

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

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

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

Executive remuneration

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

The executive remuneration and reward framework has four components:

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

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

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

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

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

Company performance and link to remuneration

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

Use of remuneration consultants

The Company did not engage any remuneration consultants during the financial year ended 30 June 2017.

Details of remuneration

Amounts of remuneration

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

Micro-X Ltd
Directors' report
For the year ended 30 June 2017

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

- Peter Rowland (Managing Director)
- Patrick O'Brien (Non-Executive Chairman)
- Richard Hannebery (Executive Director of Corporate Development)
- David Symons (Non-Executive Director)
- Alexander Bennett Gosling (Non-Executive Director)
- Yasmin Anna King (Non-Executive Director) - appointed 5 December 2016
- Georgina Sarah Carpendale (Chief Financial Officer)

2017	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments - Options	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	
	\$	\$	\$	\$	\$	\$	
<i>Non-Executive Directors:</i>							
P O'Brien	60,000	-	-	-	-	36,993	96,993
A Gosling	36,530	-	-	3,470	-	24,661	64,661
D Symons	39,998	-	-	-	-	24,661	64,659
Y King*	21,032	-	-	1,998	-	10,788	33,818
<i>Executive Directors:</i>							
P Rowland	250,000	-	-	23,750	-	39,984	313,734
R Hannebery	125,000	-	-	-	-	39,984	164,984
<i>Other Key Management Personnel:</i>							
G Carpendale - CFO	125,577	-	-	11,930	-	-	137,507
	<u>658,137</u>	<u>-</u>	<u>-</u>	<u>41,148</u>	<u>-</u>	<u>177,071</u>	<u>876,356</u>

* Ms King was appointed as Non-Executive Director on 5 December 2017

2016	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments - Options	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	
	\$	\$	\$	\$	\$	\$	
<i>Non-Executive Directors:</i>							
P O'Brien*	45,000	-	-	-	-	28,220	73,220
A Gosling**	30,000	-	-	2,850	-	18,813	51,663
D Symons**	29,997	-	-	-	-	18,813	48,810
<i>Executive Directors:</i>							
P Rowland	199,154	25,000	-	11,510	-	118,568	354,232
R Hannebery	95,262	-	-	-	-	118,568	213,830
<i>Other Key Management Personnel:</i>							
G Carpendale - CFO***	4,154	-	-	395	-	-	4,549
	<u>403,567</u>	<u>25,000</u>	<u>-</u>	<u>14,755</u>	<u>-</u>	<u>302,982</u>	<u>746,304</u>

Micro-X Ltd
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- * Mr O'Brien was appointed as Non-Executive Chairman on 6 August 2015
- ** Messrs Gosling and Symons were appointed as Non-Executive Directors on 27 August 2015
- *** Ms Carpendale was appointed Chief Financial Officer on 14 June 2016

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2017	2016	2017	2016	2017	2016
<i>Non-Executive Directors:</i>						
P O'Brien	62%	61%	-	-	38%	39%
A Gosling	62%	64%	-	-	38%	36%
D Symons	62%	61%	-	-	38%	39%
Y King	68%	-	-	-	32%	-
<i>Executive Directors:</i>						
P Rowland	87%	59%	-	7%	13%	34%
R Hannebery	76%	45%	-	-	24%	55%
<i>Other Key Management Personnel:</i>						
G Carpendale - CFO	100%	100%	-	-	-	-

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

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Service agreements

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

Name: Peter Rowland
Title: Managing Director
Agreement commenced: 1 September 2014
Term of agreement: No fixed term. Micro-X or Mr Rowland may terminate the employment contract at any time provided that either party gives notice as follows:
• on or before 1 September 2016 – 3 months' notice;
• on or before 1 September 2017 – 4 months' notice;
• on or before 1 September 2018 – 5 months' notice; and
• on or before 1 September 2019 – 6 months' notice.
Details: Annual salary is \$250,000 per annum plus compulsory employer superannuation contributions (subject to review in June 2017).

Mr Rowland is entitled to an incentive payment of:

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

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

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

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Name: Richard Hannebery
Title: Executive Director
Agreement commenced: 1 September 2014
Term of agreement: No fixed term. Micro-X or Mr Hannebery may terminate the employment contract at any time provided that either party gives notices as follows:

- on or before 1 September 2016 – 3 months' notice;
- on or before 1 September 2017 – 4 months' notice;
- on or before 1 September 2018 – 5 months' notice; and
- on or before 1 September 2019 – 6 months' notice.

Details: Annual salary is \$125,000 per annum (subject to review in June 2017).

Mr Hannebery is entitled to an incentive payment of:

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

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

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

Name: Georgina Carpendale
Title: Chief Financial Officer
Agreement commenced: 14 June 2016
Term of agreement: No fixed term. Micro-X or Ms Carpendale may terminate the employment contract at any time provided that either party gives notice as follows:

- on or before 14 June 2017 – 1 months' notice;
- on or before 14 June 2018 – 1 months' notice;
- on or before 14 June 2019 – 2 months' notice; and
- on or before 14 June 2020 – 2 months' notice.

Details: Annual salary is \$130,000 per annum plus compulsory employer superannuation contributions (subject to review in June 2017).

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 year ended 30 June 2017.

Micro-X Ltd
Directors' report
For the year ended 30 June 2017

Options

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

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
1 September 2014* (1,393,112 options)	21 December 2015	31 December 2019	\$0.575	\$0.151
1 September 2014* (1,393,112 options)	1 September 2016	31 December 2019	\$0.625	\$0.136
1 September 2014* (1,393,116 options)	1 September 2017	31 December 2019	\$0.625	\$0.136
21 December 2015 (466,666 options)	21 December 2016	31 December 2019	\$0.575	\$0.151
21 December 2015 (466,666 options)	21 December 2017	31 December 2019	\$0.625	\$0.136
21 December 2015 (466,668 options)	21 December 2018	31 December 2019	\$0.625	\$0.136
5 December 2016** (160,000 options)	1 December 2018	1 December 2020	\$0.625	\$0.142
5 December 2016** (160,000 options)	1 December 2019	1 December 2020	\$0.625	\$0.142

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

** These options were agreed to be issued on 5th December 2016 as part of the non-executive director agreement with Yasmin King. Exercise price will be the higher of \$0.625 or in the event of a capital raising before the ratification of this grant of options by the shareholders, a 25% premium to the share price at which the first such capital raising immediately following the appointment takes place. The grant of the unlisted options is subject to shareholder approval at the Company's 2017 Annual General Meeting, and has been estimated and expensed.

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2017 are set out below:

Name	Number of options granted during the year 2017	Number of options granted during the year 2016	Number of options vested during the year 2017	Number of options vested during the year 2016
P Rowland	-	-	696,556	696,556
R Hannebery	-	-	696,556	696,556
P O'Brien	-	600,000	200,000	-
A Gosling	-	400,000	133,333	-
D Symons	-	400,000	133,333	-
Y King	320,000	-	-	-

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

Micro-X Ltd
Directors' report
For the year ended 30 June 2017

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

- issues to Executive Directors (P Rowland and R Hannebery):
 - one third (Tranche 1) vested immediately upon IPO;
 - one third (Tranche 2) vest on 1 September 2016, provided the holder remains employed by the company on that date;
 - one third (Tranche 3) vest on 1 September 2017, provided the holder remains employed by the company on that date;
- issues to Non-Executive Directors:
 - one third (Tranche 1) vest on 21 December 2016, provided the holder remains employed by the company on that date;
 - one third (Tranche 2) vest on 21 December 2017, provided the holder remains employed by the company on that date;
 - one third (Tranche 3) vest on 21 December 2018, provided the holder remains employed by the company on that date.
- issues to Non-Executive Director (Yasmin King):
 - one half (Tranche 1) vest on 1 December 2018, provided the holder remains employed by the company on that date;
 - one half (Tranche 2) vest on 1 December 2019, provided the holder remains employed by the company on that date;

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

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2017 are set out below:

Name	Value of options granted	Value of options available to be exercised	Value of options lapsed	Remuneration consisting of options
	during the year \$	during the year \$	during the year \$	for the year %
P Rowland	-	201,198	-	-
R Hannebery	-	201,198	-	-
P O'Brien	-	30,384	-	-
A Gosling	-	20,256	-	-
D Symons	-	20,256	-	-
Y King	45,438	-	-	-

Micro-X Ltd
Directors' report
For the year ended 30 June 2017

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
P Rowland	12,425,000	-	-	-	12,425,000
R Hannebery	3,712,400	-	62,500	-	3,774,900
P O'Brien	3,887,869	-	737,511	-	4,625,380
A Gosling	100,000	-	10,000	-	110,000
D Symons	2,145,600	-	74,600	-	2,220,200
	<u>22,270,869</u>	<u>-</u>	<u>884,611</u>	<u>-</u>	<u>23,155,480</u>

Option holding

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

	Balance at the start of the year	Granted as remuneration	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
P Rowland	2,089,670	-	-	-	2,089,670
R Hannebery	2,089,670	-	-	-	2,089,670
P O'Brien	600,000	-	-	-	600,000
A Gosling	400,000	-	-	-	400,000
D Symons	400,000	-	-	-	400,000
Y King	-	320,000	-	-	320,000
	<u>5,579,340</u>	<u>320,000</u>	<u>-</u>	<u>-</u>	<u>5,899,340</u>

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

	Vested and exercisable	Vested and unexercisable	Balance at the end of the year
<i>Options over ordinary shares</i>			
P Rowland	1,393,112	-	1,393,112
R Hannebery	1,393,112	-	1,393,112
P O'Brien	200,000	-	200,000
A Gosling	133,333	-	133,333
D Symons	133,333	-	133,333
	<u>3,252,890</u>	<u>-</u>	<u>3,252,890</u>

This concludes the remuneration report, which has been audited.

Micro-X Ltd
Directors' report
For the year ended 30 June 2017

Shares under option

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

Grant date	Expiry date	Exercise price	Number under option
1 September 2014*	31 December 2019	\$0.575	1,393,112
1 September 2014*	31 December 2019	\$0.625	2,786,228
21 December 2015	31 December 2019	\$0.575	2,049,998
21 December 2015	31 December 2019	\$0.625	4,100,002
5 December 2016**	1 December 2020	\$0.625	320,000
1 April 2017	1 April 2021	\$0.625	2,500,000
			<u>13,149,340</u>

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

** These options were agreed to be issued on 5th December 2016 as part of the non-executive director agreement with Yasmin King. Exercise price will be the higher of \$0.625 or in the event of a capital raising before the ratification of this grant of options by the shareholders, a 25% premium to the share price at which the first such capital raising immediately following the appointment takes place. The grant of the unlisted options is subject to shareholder approval at the Company's 2017 Annual General Meeting.

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

Shares issued on the exercise of options

There were no ordinary shares of the company issued on the exercise of options during the year ended 30 June 2017 and up to the date of this report.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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 23 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.

Micro-X Ltd
Directors' report
For the year ended 30 June 2017

The directors are of the opinion that the services as disclosed in note 23 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.

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



Patrick O'Brien
Non-Executive Chairman

30 August 2017

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF MICRO-X LTD

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Micro-X Ltd for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M A Cunningham
Partner - Audit & Assurance

Melbourne, 30 August 2017

Grant Thornton Audit Pty Ltd ACN 130 913 594
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Micro-X Ltd
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2017

	Note	2017 \$'000	2016 \$'000
Revenue	5	659	892
Total revenue		<u>659</u>	<u>892</u>
Expenses			
Employee and director costs		(3,031)	(1,418)
Office and administrative expenses		(595)	(182)
Corporate expenses		(134)	(427)
Quality and regulatory		(121)	(32)
Project costs		(15,280)	(17,682)
Depreciation and amortisation expense		(79)	(30)
Other expenses		(795)	(403)
Finance costs		(139)	(2,860)
Total expenses		<u>(20,174)</u>	<u>(23,034)</u>
Operating loss		(19,515)	(22,142)
Other income	6	7,086	11,373
Share of profits of associates accounted for using the equity method	7	<u>(491)</u>	<u>28</u>
Loss before income tax expense		(12,920)	(10,741)
Income tax expense	8	<u>-</u>	<u>-</u>
Loss after income tax expense for the year attributable to the owners of Micro-X Ltd		(12,920)	(10,741)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		<u>186</u>	<u>-</u>
Other comprehensive income for the year, net of tax		<u>186</u>	<u>-</u>
Total comprehensive income for the year attributable to the owners of Micro-X Ltd		<u>(12,734)</u>	<u>(10,741)</u>
		Cents	Cents
Basic earnings per share	31	(10.44)	(16.75)
Diluted earnings per share	31	(10.44)	(16.75)

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

Micro-X Ltd
Statement of financial position
As at 30 June 2017

	Note	2017 \$'000	2016 \$'000
Assets			
Current assets			
Cash and cash equivalents		5,573	4,169
Trade and other receivables	9	7,659	8,814
Inventories		1,196	-
Other		27	26
Total current assets		<u>14,455</u>	<u>13,009</u>
Non-current assets			
Investments accounted for using the equity method	10	8,765	9,070
Property, plant and equipment	11	358	165
Intangibles	12	2,127	2,017
Total non-current assets		<u>11,250</u>	<u>11,252</u>
Total assets		<u>25,705</u>	<u>24,261</u>
Liabilities			
Current liabilities			
Trade and other payables	13	7,077	6,012
Borrowings	14	3,000	-
Provisions	15	139	21
Total current liabilities		<u>10,216</u>	<u>6,033</u>
Non-current liabilities			
Provisions	16	165	-
Total non-current liabilities		<u>165</u>	<u>-</u>
Total liabilities		<u>10,381</u>	<u>6,033</u>
Net assets		<u>15,324</u>	<u>18,228</u>
Equity			
Issued capital	17	48,024	38,720
Foreign currency translation reserve	18	186	-
Share based payments reserve	19	1,317	791
Accumulated losses		<u>(34,203)</u>	<u>(21,283)</u>
Total equity		<u>15,324</u>	<u>18,228</u>

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

Micro-X Ltd
Statement of changes in equity
For the year ended 30 June 2017

	Issued capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2015	1	265	-	(10,542)	(10,276)
Loss after income tax expense for the year	-	-	-	(10,741)	(10,741)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(10,741)	(10,741)
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments (note 32)	-	526	-	-	526
Issue of shares through IPO	20,000	-	-	-	20,000
Conversion of Converting Preferred Shares - Series A, B and C	18,273	-	-	-	18,273
Purchase of XinRay Systems Inc. investment	1,917	-	-	-	1,917
Capital raising costs	(1,471)	-	-	-	(1,471)
Balance at 30 June 2016	<u>38,720</u>	<u>791</u>	<u>-</u>	<u>(21,283)</u>	<u>18,228</u>

	Issued capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2016	38,720	791	-	(21,283)	18,228
Loss after income tax expense for the year	-	-	-	(12,920)	(12,920)
Other comprehensive income for the year, net of tax	-	-	186	-	186
Total comprehensive income for the year	-	-	186	(12,920)	(12,734)
Issue of shares through placement offer	5,200	-	-	-	5,200
Issue of shares through entitlement offer	4,776	-	-	-	4,776
Capital raising costs	(672)	-	-	-	(672)
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments (note 32)	-	526	-	-	526
Balance at 30 June 2017	<u>48,024</u>	<u>1,317</u>	<u>186</u>	<u>(34,203)</u>	<u>15,324</u>

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

Micro-X Ltd
Statement of cash flows
For the year ended 30 June 2017

	Note	2017 \$'000	2016 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		627	882
Payments to suppliers (inclusive of GST)		(20,461)	(17,609)
Interest received		19	68
R&D incentive tax refunds		8,219	3,106
Interest Paid		(141)	-
Net GST receipts		1,307	1,111
Rent Expense		(88)	(81)
		<hr/>	<hr/>
Net cash used in operating activities	29	(10,518)	(12,523)
Cash flows from investing activities			
Payments for property, plant and equipment	11	(272)	(184)
Payments for intangibles	12	(110)	(37)
Payments for investments in associates		-	(7,124)
		<hr/>	<hr/>
Net cash used in investing activities		(382)	(7,345)
Cash flows from financing activities			
Proceeds from issue of shares	17	9,976	20,000
Capital raising costs	17	(672)	(1,471)
Proceeds from borrowings		3,000	2,916
		<hr/>	<hr/>
Net cash from financing activities		12,304	21,445
		<hr/>	<hr/>
Net increase in cash and cash equivalents		1,404	1,577
Cash and cash equivalents at the beginning of the financial year		4,169	2,592
		<hr/>	<hr/>
Cash and cash equivalents at the end of the financial year		<u>5,573</u>	<u>4,169</u>

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

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 1. General information

The financial statements cover Micro-X Ltd as an individual entity. 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
Clovelly Park, SA 5042

Principal place of business

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 August 2017. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The company 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.

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

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

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

Other Income - Government subsidies

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

Going concern

The Company incurred a net loss after tax for the financial year ended 30 June 2017 of \$12.9M (year ended June 2016: \$10.7M) and had net cash outflows from operating activities of \$10.9M (year ended June 2016: \$12.5M).

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

- the operating loss and operating cash flow outcomes for the year ended 30 June 2017 reflect the results of the company's major activities during that period, including the following, which were not directly revenue-generating nor cash-flow positive:
- The continuation and finalisation of research and development activities on the DRX Revolution Nano, which the Company is undertaking with the objective that the outcomes of these activities be profitable and generate positive operating cash flows;
- the company planning to consolidate its operating activities at a profitable and cash flow-positive level going forward;
- as the company is an ASX-listed entity, it has the ability to raise additional funds if required;
- the company received \$7.0M from the R&D tax incentive scheme in relation to FY2017 on 30 August 2017; and
- the Board is of the opinion that the company has sufficient funds to meet the planned corporate activities, research and development activities and working capital requirements; and

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 2. Significant accounting policies (continued)

The Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recognised in the financial report as at 30 June 2017.

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

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

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

Operating segments

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

Revenue recognition

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

Sale of goods

Sale of goods revenue is recognised at the point of sale, which is at the end of production and the goods are ready to be shipped, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

Contract revenue

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

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

Government subsidies

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

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

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.

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

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

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

Current and non-current classification

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

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

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

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

Cash and cash equivalents

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

Note 2. Significant accounting policies (continued)

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 provision for impairment. Trade receivables are generally due for settlement within 30 days.

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

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

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 comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

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.

Associates

Associates are entities over which the entity is able to exert significant influence but not control or joint control.

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

Property, plant and equipment

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

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

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

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

Depreciation is calculated on a straight-line basis to write off the net cost of each item of 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.

Note 2. Significant accounting policies (continued)

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

An item of 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.

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 gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Research and development

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

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

Patents and trademarks

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

Impairment of non-financial assets

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

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

Trade and other payables (Note 13)

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

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received.

Provisions

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

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.

Note 2. Significant accounting policies (continued)

Provisions are recognised when the company has a present (legal or constructive) obligation as a result of a past event, it is probable the company 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, taking into account 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, or options over shares, that are provided to employees in exchange for the rendering of services.

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

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

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

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

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

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

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 2. Significant accounting policies (continued)

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 take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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

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

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

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

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

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.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 2. Significant accounting policies (continued)

Foreign operations:

Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and 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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the annual reporting period ended 30 June 2017. The company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the company, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets.

A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI').

For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted.

The standard introduces additional new disclosures. The company will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the company.

Note 2. Significant accounting policies (continued)

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard will require:

- contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract;
- determine the transaction price, adjusted for the time value of money excluding credit risk;
- allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and
- recognition of revenue when each performance obligation is satisfied.

Credit risk will be presented separately as an expense rather than adjusted to revenue.

For goods, the performance obligation would be satisfied when the customer obtains control of the goods.

For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers.

For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The company will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the company.

AASB 16 Leases

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

This standard:

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

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

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

Note 3. Critical accounting judgements, estimates and assumptions

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

Share-based payment transactions (Note 32)

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 Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

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

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

Income tax

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

Recovery of deferred tax assets

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

Note 4. Operating segments

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

Major customers

During the year ended 30 June 2017 approximately \$420K or 64% (2016: \$800K or 90%) of the company's external revenue was derived from sales to Defence Science and Technology Group of the Department of Defence. During the year ended 30 June 2017 approximately \$233K or 35% (2016: \$92K or 10%) of the company's external revenue was derived from sales to Carestream.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 5. Revenue

	2017	2016
	\$'000	\$'000
<i>Sales revenue</i>		
Sale of Goods	239	92
<i>Other revenue</i>		
Contract revenue	420	800
Revenue	<u>659</u>	<u>892</u>

Note 6. Other income

	2017	2016
	\$'000	\$'000
Interest received	19	68
R&D tax incentive refund	7,052	11,305
Net foreign exchange gain	15	-
	<u>7,086</u>	<u>11,373</u>

Note 7. Share of profits of associates accounted for using the equity method

	2017	2016
	\$'000	\$'000
Share of profits of associates accounted for using the equity method	<u>(491)</u>	<u>28</u>

Note 8. Income tax

	2017	2016
	\$'000	\$'000
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	<u>(12,920)</u>	<u>(10,741)</u>
Tax at the statutory tax rate of 30%	(3,876)	(3,222)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	158	158
Share of profits - associates	147	8
R&D tax incentive income	(2,110)	(3,392)
Feedstock adjustment	23	(8)
Other non-deductible expenses	(9)	858
Net prior year 'true-up' adjustments	-	74
R&D expenditure	<u>4,851</u>	<u>5,467</u>
	(816)	(57)
Current year tax losses not recognised	807	20
Current year temporary differences not recognised	<u>9</u>	<u>37</u>
Income tax expense	<u>-</u>	<u>-</u>

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 9. Current assets - trade and other receivables

	2017 \$'000	2016 \$'000
Trade receivables	199	10
R&D tax incentive refund	7,034	8,201
	<u>7,233</u>	<u>8,211</u>
Deposits	4	-
GST receivable	422	603
	<u>7,659</u>	<u>8,814</u>

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

	2017 \$'000	2016 \$'000
Investment in associate - XinRay Systems Inc.	<u>8,765</u>	<u>9,070</u>

Refer to note 27 for further information on interests in associates.

Note 11. Non-current assets - property, plant and equipment

	2017 \$'000	2016 \$'000
Leasehold improvements - at cost	244	34
Less: Accumulated depreciation	(21)	-
	<u>223</u>	<u>34</u>
Plant and equipment - at cost	75	62
Less: Accumulated depreciation	(26)	(12)
	<u>49</u>	<u>50</u>
Fixtures and fittings - at cost	60	40
Less: Accumulated depreciation	(22)	(8)
	<u>38</u>	<u>32</u>
Computer equipment - at cost	91	62
Less: Accumulated depreciation	(43)	(13)
	<u>48</u>	<u>49</u>
	<u>358</u>	<u>165</u>

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 11. Non-current assets - property, plant and equipment (continued)

Reconciliations

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

	Leasehold improvements \$'000	Plant & equipment \$'000	Fixtures & fittings \$'000	Computer equipment \$'000	Total \$'000
Balance at 1 July 2015	-	12	-	-	12
Additions	34	48	40	62	184
Depreciation expense	-	(10)	(8)	(13)	(31)
Balance at 30 June 2016	34	50	32	49	165
Additions	210	13	20	29	272
Depreciation expense	(21)	(14)	(14)	(30)	(79)
Balance at 30 June 2017	<u>223</u>	<u>49</u>	<u>38</u>	<u>48</u>	<u>358</u>

Note 12. Non-current assets - intangibles

	2017 \$'000	2016 \$'000
Development - at cost	<u>1,980</u>	<u>1,980</u>
Patents and trademarks - at cost	<u>147</u>	<u>37</u>
	<u>2,127</u>	<u>2,017</u>

Reconciliations

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

	Capitalised development costs \$'000	Patents & trademarks \$'000	Total \$'000
Balance at 1 July 2015	1,980	-	1,980
Additions	-	37	37
Balance at 30 June 2016	1,980	37	2,017
Additions	-	110	110
Balance at 30 June 2017	<u>1,980</u>	<u>147</u>	<u>2,127</u>

Capitalised development costs

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

	2017 \$'000	2016 \$'000
DRX Revolution Nano	<u>1,980</u>	<u>1,980</u>

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

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

Recoverability of development costs

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

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

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

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

- period over which cash flows were projected: 5 years;
- growth rate used to extrapolate cash flow projections: 5%; and
- discount rate applied to cash flow projections: 12% post-tax WACC.

As a result of the impairment assessment at 30 June 2017, the directors and management of the Company determined that the recoverable amount of the Development Cost intangible assets, recorded in the Nano CGU, as estimated from the discounted cash flows and other measurement techniques, was not impaired.

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

Note 13. Current liabilities - trade and other payables

	2017	2016
	\$'000	\$'000
Trade payables	4,225	4,913
Accrued payroll	46	-
PAYG	149	46
Other payables	2,657	1,053
	<u>7,077</u>	<u>6,012</u>

Refer to note 21 for further information on financial instruments.

Note 14. Current liabilities - borrowings

	2017	2016
	\$'000	\$'000
South Australian Financing Authority (SAFA) Loan	<u>3,000</u>	<u>-</u>

Refer to note 21 for further information on financial instruments.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 15. Current liabilities - provisions

	2017 \$'000	2016 \$'000
Annual leave	136	21
Deferred lease incentives	(12)	-
Payroll tax	15	-
	<u>139</u>	<u>21</u>

Note 16. Non-current liabilities - provisions

	2017 \$'000	2016 \$'000
Long service leave	5	-
Deferred lease incentives	160	-
	<u>165</u>	<u>-</u>

Note 17. Equity - Issued capital

	2017 Shares	2016 Shares	2017 \$'000	2016 \$'000
Ordinary shares - fully paid	<u>144,350,698</u>	<u>119,409,725</u>	<u>48,024</u>	<u>38,720</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2015	23,000		1
Conversion of Series A, B and C to ordinary shares	17 December 2015	56,553	\$0.000	18,273
Share Split 1:950	17 December 2015	75,495,797	\$0.000	-
Issue of shares at initial public offering	17 December 2015	40,000,000	\$0.500	20,000
Purchase of XinRay Inc. investment	17 December 2015	3,834,375	\$0.500	1,917
Capital raising cost	17 December 2015	-	\$0.000	(1,471)
Balance	30 June 2016	119,409,725		38,720
Issue of shares - placement	18 April 2017	13,000,000	\$0.400	5,200
Issue of shares - entitlement offer	9 May 2017	11,940,973	\$0.400	4,776
Capital raising cost - placement	18 April 2017	-	\$0.000	(324)
Capital raising cost - entitlement offer	9 May 2017	-	\$0.000	(348)
Balance	30 June 2017	<u>144,350,698</u>		<u>48,024</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.

There is no current on-market share buy-back.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 17. Equity - Issued capital (continued)

Capital risk management

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

Note 18. Equity - Foreign currency translation reserve

	2017 \$'000	2016 \$'000
Exchange differences on translating foreign operations	186	-

Note 19. Equity - Share based payments reserve

	2017 \$'000	2016 \$'000
Share-based payments reserve	1,317	791

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 payments reserve \$'000	Total \$'000
Balance at 1 July 2015	265	265
Share option expense	526	526
Balance at 30 June 2016	791	791
Share option expense	526	526
Balance at 30 June 2017	1,317	1,317

Note 20. Equity - dividends

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

Note 21. Financial instruments

Financial risk management objectives

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

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

Note 21. Financial instruments (continued)

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 company is not exposed to any significant price risk.

Interest rate risk

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

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 \$5.6M (2016: \$4.2M). The sensitivity of the cash at bank balance to changes in interest rate (of +/-1%) equates to +/- \$55,726 (2016: +/- \$41,690). The sensitivity of 1% is based on reasonable, possible changes, over a financial year, using the observed range of actual historical short term deposit rate movements and management's expectation of future movements.

Credit risk

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

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

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

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

Liquidity risk

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

The company manages liquidity risk by maintaining adequate cash reserves 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.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 21. Financial instruments (continued)

Remaining contractual maturities

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

2017	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 - fixed rate</i>						
SAFA loan	5.75%	3,157	-	-	-	3,157
Total non-derivatives		3,157	-	-	-	3,157

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 22. Key management personnel disclosures

Compensation

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

	2017	2016
	\$	\$
Short-term employee benefits	658,137	428,567
Post-employment benefits	41,148	14,755
Share-based payments	177,071	302,982
	<u>876,356</u>	<u>746,304</u>

Note 23. Remuneration of auditors

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

	2017	2016
	\$	\$
<i>Audit services - Grant Thornton Audit Pty Ltd</i>		
Audit or review of the financial statements	50,000	50,000
<i>Other services - Grant Thornton Audit Pty Ltd</i>		
Investigating Accountant's Report and due diligence review	-	58,000
Tax consulting	12,500	10,000
	<u>12,500</u>	<u>68,000</u>
	<u>62,500</u>	<u>118,000</u>

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 24. Contingent liabilities

The company has no contingent liabilities as at 30 June 2017.

Note 25. Commitments and contingencies

	2017	2016
	\$'000	\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	182	168
One to five years	1,010	672
More than five years	715	784
	1,907	1,624
	1,907	1,624

Operating lease commitments includes contracted amounts for a non-cancellable operating commercial property lease of a purpose-designed facility at Tonsley, South Australia. The lease will have a term of 10 years, with a 10 year option to renew. Annual lease payments are approximately \$182,000 and there is a 3.5% annual rent increase

Note 26. Related party transactions

Associates

Interests in associates are set out in note 27.

Key management personnel

Disclosures relating to key management personnel are set out in note 22 and the remuneration report included in the directors' report.

Transactions with related parties

During the year XinRay Systems Inc. (a director-related entity) was engaged by the company to develop the Carbon-Nano Tube for the DRX Revolution Nano. During the year the company was invoiced under the Design and Development Agreement \$5.7M (2016: \$3.0M). The outstanding balance of \$2.7M (2016: \$1.4M) due to XinRay Systems Inc. is included in trade and other payables.

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

Receivable from and payable to related parties

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

Loans to/from related parties

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

Note 27. Interests in associates

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2017	2016
		%	%
XinRay Systems Inc.	United States of America	30%	30%

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 27. Interests in associates (continued)

The Company has made the following significant judgements and assumptions in determining that it has significant influence over XinRay Systems Inc ("XinRay"):

- it has a 30% shareholding in XinRay, and is one of 2 shareholders the other bring Xintek Inc.
- its Managing Director, Mr Peter Rowland, is a member of the Board of XinRay and will continue to represent the Company's interests on that Board; and
- Whilst XinRay has contractual work with multiple customers during the previous 12 month period Micro-X contract payments accounted for more than half of XinRay's contractual revenues.

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

- XinRay is still at an early stage of development and relies upon the funding support of its shareholders or access to funding from other corporate partners and government agencies such as the US TSA;
- Should XinRay be successful in securing a current Broad Agency Announcement (BAA) grant funding from the US Transport Security Administration (TSA) for its 3D - CT baggage screening imaging system for airport security check points it does not guarantee successful TSA certification of XinRay system and as such there is no guarantee of commercial success for the system;
- The Company believes that the investment reduces risk for access to XinRay manufactured products it exclusively accesses under its Strategic Supplier Agreement for the development and commercialisation of the Company's new product pipeline;
- The investment may provide significant financial return to the Company should XinRay's other business activities be commercially successful.

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

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 27. Interests in associates (continued)

Summarised financial information

	2017	2016
	\$'000	\$'000
<i>Summarised statement of financial position (AUD)</i>		
Current assets	4,368	5,531
Non-current assets	6,785	5,338
Total assets	<u>11,153</u>	<u>10,869</u>
Current liabilities	3,324	3,369
Non-current liabilities	1,425	79
Total liabilities	<u>4,749</u>	<u>3,448</u>
Net assets	<u><u>6,404</u></u>	<u><u>7,421</u></u>
<i>Summarised statement of profit or loss and other comprehensive income (AUD)</i>		
Revenue	5,966	2,145
Expenses	(6,847)	(2,051)
Profit/(loss) before income tax	(881)	94
Other comprehensive income	-	-
Total comprehensive income	<u><u>(881)</u></u>	<u><u>94</u></u>
<i>Reconciliation of the company's carrying amount (AUD)</i>		
Closing net assets	6,404	7,421
Group's share in %	30%	30%
Group's share in \$	1,921	2,226
Goodwill	6,844	6,844
Closing carrying amount	<u><u>8,765</u></u>	<u><u>9,070</u></u>

Note 28. Events after the reporting period

On 17 August 2017 the company announced that it had signed an agreement with XinRay Systems Inc. for new management arrangements to support the production of x-ray tubes for its 'DRX Revolution Nano' product. The company will directly manage tube production in North Carolina under its accredited quality system and implement improvements in manufacturing processes and supply-chain management. There is an option for the company's investment in plant and equipment under the agreement to be exchanged for additional equity in the future to increase its ownership of XinRay.

On 30 August 2017, the company announced that it has received an R&D Tax Incentive rebate of \$7,032,170 for the 2016/2017 financial year. The R&D Tax Incentive is an Australian Government program under which companies with turnover of less than \$20M receive a cash refund for 43.5% of eligible expenditure on research and development.

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 29. Reconciliation of loss after income tax to net cash used in operating activities

	2017	2016
	\$'000	\$'000
Loss after income tax expense for the year	(12,920)	(10,741)
Adjustments for:		
Depreciation and amortisation	79	30
Share of loss/(profit) - associates	491	(28)
Share-based payments	526	526
Non-cash finance costs	-	2,859
Lease Incentive	148	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	1,277	(8,502)
Increase in trade and other payables	958	3,312
Increase in employee benefits	119	21
Increase in Inventories	(1,196)	-
Net cash used in operating activities	<u>(10,518)</u>	<u>(12,523)</u>

Note 30. Non-cash investing and financing activities

	2017	2016
	\$'000	\$'000
Shares issued as consideration for acquisition of interest in associate	-	1,917
Conversion of converting preferred shares and accrued interest to fully paid ordinary shares	-	18,273
	<u>-</u>	<u>20,190</u>

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

Note 31. Earnings per share

	2017	2016
	\$'000	\$'000
Loss after income tax attributable to the owners of Micro-X Ltd	<u>(12,920)</u>	<u>(10,741)</u>
	Cents	Cents
Basic earnings per share	(10.44)	(16.75)
Diluted earnings per share	(10.44)	(16.75)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>123,779,236</u>	<u>64,132,036</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>123,779,236</u>	<u>64,132,036</u>

Note 32. Share-based payments

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

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 32. Share-based payments (continued)

The general terms and conditions of the Award Options are:

- basis for issues of options:
 - issues to Executive Directors (Peter Rowland and Richard Hannebery) - in accordance with respective executive contracts with the Company;
 - issues to Non-Executive Directors and other employees - to incentivise performance and further align interests with shareholders;
 - issues to consultants - award for contribution to product development of the DRX Revolution Nano;
 - no amount was payable by the holders on the issues of the options;
- vesting arrangements:
 - issues to Executive Directors:
 - one third (Tranche 1) vested immediately upon IPO;
 - one third (Tranche 2) vest on 1 September 2016, provided the holder remains employed by the company on that date;
 - one third (Tranche 3) vest on 1 September 2017, provided the holder remains employed by the company on that date;
 - issues to Non-Executive Directors and other employees:
 - one third (Tranche 1) vest on 21 December 2016, provided the holder remains employed by the company on that date;
 - one third (Tranche 2) vest on 21 December 2017, provided the holder remains employed by the company on that date;
 - one third (Tranche 3) vest on 21 December 2018, provided the holder remains employed by the company on that date;
 - issues to consultants:
 - one third (Tranche 1) vest on 21 December 2016;
 - one third (Tranche 2) vest on 21 December 2017;
 - one third (Tranche 3) vest on 21 December 2018;
- exercise prices:
 - Tranche 1: \$0.575 (57.5 cents) per option;
 - Tranches 2 and 3: \$0.625 (62.5 cents) per option;
- all of the above options expire on 31 December 2019;

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 32. Share-based payments (continued)

- issues to Non-Executive Directors (during the year):
 - one half (Tranche 1) vest on 1 December 2018, provided the holder remains employed by the company on that date;
 - one half (Tranche 2) vest on 1 December 2019, provided the holder remains employed by the company on that date;
- these options were agreed to be issued as part of the non-executive director agreement. Exercise price will be the higher of \$0.625 or in the event of a capital raising before the ratification of this grant of options by the shareholders, a 25% premium to the share price at which the first such capital raising immediately following the appointment takes place. The grant of the unlisted options is subject to shareholder approval at the company's 2017 Annual General Meeting.
- these options expire on 1 December 2020;
 - issues to other employees (during the year):
 - one third (Tranche 1) vest on 1 April 2018, provided the holder remains employed by the company on that date;
 - one third (Tranche 2) vest on 1 April 2019, provided the holder remains employed by the company on that date;
 - one third (Tranche 3) vest on 1 April 2020, provided the holder remains employed by the company on that date;
 - issues to consultants (during the year):
 - one third (Tranche 1) vest on 1 April 2018;
 - one third (Tranche 2) vest on 1 April 2019;
 - one third (Tranche 3) vest on 1 April 2020;
- exercise prices to other employee and consultants issued during the year for Tranche 1, 2 and 3 is \$0.625 (62.5 cents) per option
- these options expire on 1 April 2021;
- all options will be settled by issues of fully paid ordinary shares in the company.

During the year the share based payments expense recognise was \$526K.

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

2017							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/09/2014	31/12/2019	\$0.575	1,393,112	-	-	-	1,393,112
01/09/2014	31/12/2019	\$0.625	2,786,228	-	-	-	2,786,228
21/12/2015	31/12/2019	\$0.575	2,050,000	-	-	-	2,050,000
21/12/2015	31/12/2019	\$0.625	4,100,000	-	-	-	4,100,000
05/12/2016	01/12/2020	\$0.625	-	320,000	-	-	320,000
01/04/2017	01/04/2021	\$0.625	-	2,500,000	-	-	2,500,000
			10,329,340	2,820,000	-	-	13,149,340
Weighted average exercise price			\$0.608	\$0.612	\$0.000	\$0.000	\$0.612

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2017

Note 32. Share-based payments (continued)

2016

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

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

Grant date	Expiry date	2017 Number	2016 Number
01/09/2014	31/12/2019	-	1,393,112
01/09/2014	31/12/2019	1,393,112	-
21/12/2015	31/12/2019	2,049,998	-
		<u>3,443,110</u>	<u>1,393,112</u>

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.76 years (2016: 3.27 years).

For the options granted during the current financial year, the Black-Scholes valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
05/12/2017	01/12/2020	\$0.500	\$0.625	50.00%	-	2.63%	\$0.142
01/04/2017	01/04/2021	\$0.460	\$0.625	50.18%	-	2.63%	\$0.149

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

- options issued to the Executive Directors: from 1 September 2014, being the commencement date of their executive contracts with the company, to the respective vesting dates; and
- all other options: from grant dates in December 2015 and April 2017 to the respective vesting dates.

* these options were agreed to be issued as part of the non-executive director agreement. Exercise price will be the higher of \$0.625 or in the event of a capital raising before the ratification of this grant of options by the shareholders, a 25% premium to the share price at which the first such capital raising immediately following the appointment takes place. The grant of the unlisted options is subject to shareholder approval at the company's 2017 Annual General Meeting.

Micro-X Ltd
Directors' declaration
For the year ended 30 June 2017

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the company's financial position as at 30 June 2017 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



Patrick O'Brien
Non-Executive Chairman

30 August 2017

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

Correspondence to:
GPO Box 4376
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MICRO-X LTD

Report on the audit of the financial report

Opinion

We have audited the financial report of Micro-X Ltd (the Company), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of Micro-X Ltd, is in accordance with the *Corporations Act 2001*, including:

- a Giving a true and fair view of the Company's financial position as at 30 June 2017 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 Company in accordance with the 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* (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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Company incurred a net loss of \$12.92 million during the year ended 30 June 2017, with the net cash outflow from operating and investing activities totalling \$10.90 million. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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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.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, 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
<p>Investment in associate – Note 2, 10 and 27</p> <p>The Company owns an investment making up 30% of its associate's shares, totalling \$8.765 million as at 30 June 2017. The investment in XinRay is required to be measured in accordance with AASB 128 <i>Investments in Associates and Joint Ventures</i>.</p> <p>The fair value of the Company's investment is reliant upon the fair value of the associate's investment in a joint venture. The process to measure this investment is complex, and requires significant judgment from management.</p> <p>This area is a key audit matter due to the valuation complexities of the investment being a significant risk.</p>	<p>Our procedures included, amongst others, performing the following:</p> <ul style="list-style-type: none"> • reviewing the measurement of profits and losses captured in the investment against the requirements of AASB 128 including the elimination of profit on related party sales; • making enquiring of the XinRay statutory auditor on procedures performed over significant balances for the 31 December 2016 audit, as well as the audit opinion issued; • performing additional procedures beyond the 31 December 2016 statutory financial statements over significant balances up to the reporting date; • critically analysing the discounted cash flow forecast prepared by management that addresses AASB 136, which included: <ul style="list-style-type: none"> - testing the mathematical accuracy of the model; - understanding the inputs and judgements in the forecast, including obtaining available evidence to support the key assumptions; - assessing the reasonableness of the revenue and costs forecast against current year actuals; - performing sensitivity analysis on the key assumptions; - engaging our internal valuation expert to evaluate the model; and • reviewing the adequacy of the disclosures in the financial statements.
<p>Intangible assets –Note 2, 3 and 12</p> <p>The Company has capitalised an intangible asset associated with the development of what will be its flagship product, totalling \$1.98 million as at 30 June 2017. The product is not yet at a position for commercialisation to the market, and accordingly has not yet begun its useful life.</p> <p>There is significant judgment that is required of management to develop assumptions for future profit and loss information for the purpose of satisfying the impairment considerations under AASB 136 <i>Impairment of Assets</i> by performing a discounted cash flow analysis.</p> <p>This area is a key audit matter due to the judgements and estimates associated with the discounted cash flow.</p>	<p>Our procedures included, amongst others, performing the following:</p> <ul style="list-style-type: none"> • obtaining management's latest discounted cash flow model and critically analysing against the requirements of AASB 136, which included: <ul style="list-style-type: none"> - testing the mathematical accuracy of the model; - understanding the inputs and judgements in the forecast, including obtaining available evidence to support the key assumptions; - assessing the reasonableness of the revenue and costs forecast against current year actuals; - performing sensitivity analysis on the key assumptions; - engaging our internal valuation expert to evaluate the model; and • reviewing the adequacy of the disclosures in the financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>Research and Development incentive – Note 2 and 9</p> <p>Under the research and development (R&D) tax incentive scheme, the Company receives a 43.5% refundable tax offset of 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.</p> <p>Management have performed a detailed review of the Company'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 \$7.032 million. This represents an estimated claim for the period 1 July 2016 to 30 June 2017.</p> <p>We focused on the R&D tax incentive due to the size of the receivable and because there is a 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.</p> <p>This area is a key audit matter due to recognition of the R&D tax incentive being a risk.</p>	<p>Our procedures included, amongst others, performing the following:</p> <ul style="list-style-type: none"> • enquiring with management to obtain and document an understanding of the process to estimate the claim; • evaluating the competence, capabilities and objectivity of management's expert; • utilising our 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; • comparing the nature of the R&D expenditure included in the current year estimate to the prior year claim; • comparing the eligible expenditure used in the receivable calculation to the expenditure recorded in the general ledger; • considering the Company's history of successful claims; • inspecting copies of relevant correspondence with AusIndustry and the Australian Tax Office related to the claims; and • reviewing relevant 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 Company's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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 Company'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 Company 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: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

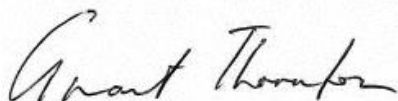
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 16 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Micro-X Ltd, for the year ended 30 June 2017, 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.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M A Cunningham
Partner - Audit & Assurance

Melbourne, 30 August 2017

Micro-X Ltd
Shareholder information
For the year ended 30 June 2017

The shareholder information set out below was applicable as at 18 August 2017.

Distribution of equitable securities

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

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	19	-
1,001 to 5,000	206	-
5,001 to 10,000	144	-
10,001 to 100,000	461	-
100,001 and over	156	12
	<u>986</u>	<u>12</u>
Holding less than a marketable parcel	<u>33</u>	<u>-</u>

Equity security holders

Twenty largest equity security holders

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

	Number held	Ordinary shares % of total shares issued
MR PETER ROBIN ROWLAND	11,950,000	8.28
CARESTREAM HEALTH INC	9,405,000	6.52
UBS NOMINEES PTY LTD	8,049,100	5.58
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	6,710,375	4.65
HARMAN NOMINEES PTY LTD (HARMANIS INVESTMENT)	5,071,585	3.51
LONSDALE NOMINEES PTY LTD (THE LONSDALE FUND A/C)	4,625,380	3.20
NATIONAL NOMINEES LIMITED	4,568,317	3.16
HAMMOND ROYCE CORPORATION PTY LTD (LEN DAVID SUPER FUND A/C)	3,038,287	2.10
OBFT PTY LTD (O'BRIEN FAMILIES A/C)	2,928,623	2.03
XINTEK INC	2,621,293	1.82
WALES RIDING PTY LTD	2,481,400	1.72
MS ROBYN GOULD	2,394,250	1.66
MEDDISCOPE PTY LTD	2,375,000	1.65
BT PORTFOLIO SERVICES LIMITED (THE VABEN S/F A/C)	2,329,487	1.61
MR DAVID SYMONS	1,955,600	1.35
TITANIUM HOLDINGS (VIC) PTY LTD	1,873,450	1.30
BRONTE INVESTMENTS PTY LTD (MCMAHON SUPERANNUATION A/C)	1,850,000	1.28
BNP PARIBAS NOMS PTY LTD (DRP)	1,825,000	1.26
ANGLESEA INVESTMENTS PTY LIMITED (DAMIEN OBRIEN FAMILY A/C)	1,818,622	1.26
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,473,945	1.02
	<u>79,344,714</u>	<u>54.97</u>

Micro-X Ltd
Shareholder information
For the year ended 30 June 2017

Unquoted equity securities

	Number on issue	Number of holders
Shares - ASX Escrowed 24 months to 24 December 2017	28,154,570	13
Unquoted options - Award options issued to directors and employees	12,829,340	12

Substantial holders

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

	Ordinary shares % of total shares issued
	Number held
Peter Robin Rowland and associates	12,425,000
Thorney Technologies and associates	8,856,760
	8.61
	6.14

Voting rights

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

Ordinary shares

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

Shares subject to escrow (Restricted Securities)

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

Options

Options do not have voting rights attached.

There are no other classes of equity securities.

Restricted securities

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