

Micro-X Limited
(formerly known as Micro-X Pty Ltd)

FINANCIAL STATEMENTS
For the Year Ended 30 June 2014

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Director's Report

The Directors present their report, together with the financial statements, of Micro- X Limited (formerly known as Micro-X Pty Ltd) ('the Company') for the year ended 30 June 2014.

Director details

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

Peter Robin Rowland

Richard Nicholas Hannebery (appointed 22 August 2014)

Patrick Gerard O'Brien (appointed 8 August 2014)

David Peter Neil Symons (appointed 27 August 2014)

Alexander Gosling (appointed 27 August 2015)

Alison Coutts (resigned 19 February 2014)

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 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 counter improvised explosive device imaging security markets.

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

Review of operations and financial results

The loss of the Company for the financial year after providing for income tax amounted to \$385,533 (2013 profit of \$76,976). A review of the operations of the Company during the financial year noted that the Company continued to research and develop ultra-light weight x-ray devices.

Significant changes in the state of affairs

No significant changes in the Company's state of affairs occurred during the financial year.

Events since the end of the reporting period

Since the end of the financial year, the Company:

- further funded its research and development through the initiation of an interim loan of \$225,000;
- entered into a Commercialisation Agreement with Carestream Health Inc on 11 November 2014 to distribute Carestream branded product. Part of the agreement included issuing \$1.98m of Series A Converting Preferred Shares;
- raised \$6m through issuing Series B Converting Preferred Shares on 11 November 2014 and a further \$5m through issuing Series C Converting Preferred Shares on 30 June 2015 to fund the activities of the Company;
- agreed in principal to a \$3m loan from the South Australian government to build a manufacturing facility;
- contracted with the Department of Defence, during September 2015, to perform a \$1.9m capability and technology development program in relation to the Mobile Backscatter Imager (MBI); and
- receipted \$3.1m from the R&D tax incentive for expenditure incurred during the year ending 30 June 2015. The R&D tax incentive is recognised on a cash basis.

The Company is also working towards an initial public offering to occur late November 2015/early December 2015 to raise \$15m - \$20m. As part of this initial public offering all Series A, B and C Converting Preferred Shares will be converted to ordinary shares. The Company will also subdivide its ordinary shares at a ratio of 1 to 950.

Director's Report

Dividends paid or declared

There were no dividends paid or declared during the year.

Environmental legislation

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Indemnities given and insurance premiums paid to auditors and officers

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the Group.

Proceedings on behalf of the Company

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

Signed in accordance with a resolution of the Board of Directors:



Peter Robin Rowland
Director

Dated this 24 November 2015

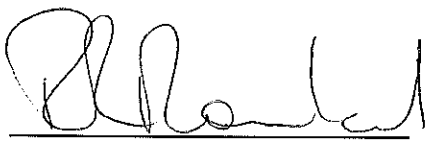
Directors' Declaration

The Directors have determined that the Company is not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies outlined in Note 1 to the financial statements.

The Directors of the Company declare that:

1. the financial statements and notes, as set out in the financial report present fairly the Company's financial position as at 30 June 2014 and its performance for the year ended on that date in accordance with the accounting policies described in Note 1 to the financial statements; and
2. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Peter Robin Rowland
Director

Dated this 24 November 2015

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2014

	Notes	2014 \$	2013 \$
Income			
Government subsidies		68,993	367,025
		<u>68,993</u>	<u>367,025</u>
Expenditure			
Research & development costs		(300,230)	(287,015)
Director and employee costs		(12,000)	-
Administrative expenses		(129,342)	(3,214)
Finance costs		(12,954)	-
		<u>(454,526)</u>	<u>(290,229)</u>
Profit/(loss) before Income Tax		<u>(385,533)</u>	<u>76,796</u>
Income tax expense	2	-	-
Profit/(loss) for the year		<u>(385,533)</u>	<u>76,796</u>
Other comprehensive income		-	-
Total comprehensive profit/(loss) for the year		<u>(385,533)</u>	<u>76,796</u>

Statement of Financial Position

as at 30 June 2014

	Notes	2014 \$	2013 \$
Current assets			
Cash and cash equivalents		41,074	58,712
Other receivables			3,915
Total current assets		<u>57,902</u>	<u>62,627</u>
Total assets		<u>57,902</u>	<u>62,627</u>
Current liabilities			
Trade payables		197,416	54,562
Financial liabilities		237,954	-
Total current liabilities		<u>435,370</u>	<u>54,562</u>
Total liabilities		<u>435,370</u>	<u>54,562</u>
Net (liabilities)/assets		<u>(377,468)</u>	<u>8,065</u>
Equity			
Share capital	3	1,300	1,300
Accumulated profit/(losses)		(378,768)	6,765
Total equity		<u>(377,468)</u>	<u>8,065</u>

Statement of Changes in Equity

as at 30 June 2014

	Notes	Share Capital \$	Retained Earnings \$	Total Equity \$
Balance at 1 July 2013		1,300	(70,211)	(68,911)
Comprehensive income				
Profit/(Loss) for the year		-	76,976	76,976
Balance at 30 June 2013		1,300	6,765	8,065
Balance at 1 July 2014		1,300	6,765	8,065
Comprehensive income				
Profit/(Loss) for the year		-	(385,533)	(385,533)
Transaction with owners				
Share based payments	3	-	-	-
Balance at 30 June 2014		1,300	(378,768)	(377,468)

Statement of Cash Flows

for the year ended 30 June 2014

	Notes	2014 \$	2013 \$
Cash flows from operating activities			
Payments to suppliers		(314,891)	(328,589)
Receipts from government and partners		68,993	367,025
GST refunds		3,260	4,413
Net cash provided by operating activities	4	(242,638)	42,849
Cash flows from financing activities			
Proceeds from borrowings		225,000	-
Net cash used in financing activities		225,000	-
Net Increase/(decrease) in cash held		(17,638)	42,849
Cash and cash equivalents at beginning of financial year		58,712	15,863
Cash and cash equivalents at end of financial year		41,074	58,712

Notes to the Financial Statements

for the year ended 30 June 2014

Micro-X Limited (formerly known as Micro-X Pty Ltd) ('the Company') is a company limited by shares, incorporated and domiciled in Australia.

The Directors' have prepared the financial statements on the basis that the Company is a non-reporting entity because there are no users dependent on a general purpose financial report. The financial report is therefore a special purpose financial report that has been prepared in order to meet the needs of the Directors. The Company is a for-profit entity for the purpose of preparing financial statements.

These financial statements have been prepared in accordance with the recognition and measurement requirements specified by the Australian Accounting Standards and Interpretations.

The financial statements were authorised for issue on 24 November 2015 by the Directors of the Company.

Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied.

Going concern

The Directors have considered the current trading and cash position of the Company and believe it is appropriate to prepare the financial statements on a going concern basis.

The financial information has been prepared on a going concern basis. This contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business even though the Company has experienced operating losses of \$385,533, during the year ended 30 June 2014 (2013: Operating Profit of \$76,796). Notwithstanding a net asset deficiency of \$377,468 (2013: Net Asset Surplus of \$8,065), the Directors are of the opinion that the Company will continue to operate as a going concern because:

- of the receipt of \$3.1m from the R&D tax incentive post year end;
- of the planned initial public offering of between \$15m to \$20m; and
- the converting preferred shares will convert from debt to equity on initial public offer.

The Company continues to closely monitor expenditure, and the Board is confident that it will be able to manage its cash resources appropriately without negatively impacting upon planned activities. In light of the matters referred to above, 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 2014. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts and classification of liabilities that might be necessary should the Micro-X not continue as a going concern.

Adoption of new and revised accounting standards

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period.

The adoption of these amendments has not resulted in any changes to the Company's accounting policies and has no effect on the amounts reported for the current or prior year.

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

1. Statement of significant accounting policies (continued)

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Consulting income/service income

Revenue from consulting services is recognised when the services are provided by reference to the contract's stage of completion at the reporting date.

Government subsidies

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

Government grants relating to costs are deferred and recognised in the Profit and Loss over the period necessary to match them on a systematic basis with the costs that they are intended to compensate.

Government grant monies received and held by the Company before they can be recognised as revenue are recorded as liabilities in the Company's financial statements.

Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

Income taxes

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Share-based employee remuneration

All services received in exchange for the grant of any share-based payment are measured at their fair values. Where personnel are rewarded using share-based payments, the fair values of personnel's services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

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

1. Statement of significant accounting policies (continued)

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of instruments expected to vest.

Finance costs

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

Cash and cash equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand short-term deposits with an original maturity of three months or less. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents defined above, net of outstanding bank overdrafts.

Trade and other receivables

Other receivables relate to GST refunds expected from the Australian Tax Office and outstanding committed converting preferred share funding. Management have assessed and determined that these balances are recoverable.

Intangible assets

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.

Trade and other payables

Trade payables and other payables are carried at cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of the goods and services.

Financial liabilities

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

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.

Goods and Services Tax (GST)

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

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

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

1. Statement of significant accounting policies (continued)

Equity

Share capital represents the fair value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

Foreign exchange

Functional and presentation currency

The financial statements are presented in Australian dollars (AUD), which is also the functional currency.

Foreign currency transactions and balances

Foreign exchange gains and losses resulting from the settlement of such transaction and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

Critical accounting estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make estimates, judgements and assumptions based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group. Actual results may differ from these estimates.

Significant management judgment in applying accounting policies

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. The following are significant management judgements in applying the accounting policies of the Company that have the most significant effect on the financial statements.

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised.

Valuation of shares in the relation to the share based payment

Management assessed that at the time the shares were issued the value of the consideration, being the value of the shares of the Company was negligible as the intellectual property underpinning the value of the Company was in very early stages of development.

Notes to the Financial Statements

for the year ended 30 June 2014

	2014	2013
	\$	\$
2. Income Tax expense		
The major components of tax expense and the reconciliation of the expected tax expense based on the domestic effective rate of the Company at 30% (2013: 30%) and the reported tax expense in profit or loss are as follows:		
Reconciliation of income tax expense to prima facie tax expense		
Profit/(loss) before tax	(385,533)	76,796
Tax at the applicable Australian domestic tax rate of 30%	(115,660)	23,039
Non assessable (income)/deductions	115,660	(23,039)
Tax expense (income)	-	-
Tax losses and temporary differences		
Unused tax losses and temporary differences for which no deferred tax asset has been recognised	-	-

3. Share capital

	2014 no of shares	2014 \$	2013 no of shares	2013 \$
Shares issued and fully paid:				
Beginning of the year	10,000	1,300	10,000	1,300
Share based payment (a)	13,000	-	-	-
End of year	23,000	1,300	10,000	1,300

The share capital of Micro-X consists only of fully paid ordinary shares, the shares do not have a par value. All shares are equally eligible to receive dividends and the repayments of capital and represent one vote at the shareholders' meeting of Micro-X.

(a) Payment of consulting costs

Shares were issued to consultants for their efforts in relation to managing the day to day affairs and in raising funding for the Company. The value of expenses recognised is Nil as the fair value of the consideration, being the fair value of the shares of the Company was negligible given the early stage of development of the intellectual property.

Details are as follows

Date of issue:	27 March 2014
Number of shares issued:	13,000 fully paid ordinary shares
Issue price:	Nil
Total value of shares issued:	Nil
Determination of fair value:	Fair value of the Company at the date of issue

4. Reconciliation of cash flows from operating activities

	2014 \$	2013 \$
Cash flows from operating activities		
Profit/(loss) for the period	(385,533)	76,796
Non-cash flows in profit from ordinary activities		
Finance costs	12,954	-
Change in other receivables	(12,913)	40,958
Change in trade and other payables	142,854	(74,905)
Net cash from operating activities	<u>(242,638)</u>	<u>42,849</u>

	2014 \$	2013 \$
5. Auditor Remuneration		
Audit and review of financial statements		
Audit of the financial statement	10,000	10,000

6. Contingent Assets & Liabilities

There are no contingent assets or liabilities at 30 June 2014.

7. Commitments

There are no commitments at 30 June 2014.

8. Events after the reporting date

Since the end of the financial year, the Company:

- further funded its research and development through the initiation of an interim loan of \$445,000;
- entered into a Commercialisation Agreement with Carestream Health Inc on 11 November 2014 to distribute Carestream branded product. Part of the agreement included issuing \$1.98m of Series A Converting Preferred Shares;
- raised \$6m through issuing Series B Converting Preferred Shares on 11 November 2014 and a further \$5m through issuing Series C Converting Preferred Shares on 30 June 2015 to fund the activities of the Company;
- agreed in principal to a \$3m loan from the South Australian government to build a manufacturing facility;
- contracted with the Department of Defence, during September 2015, to perform a \$1.9m capability and technology development program in relation to the Mobile Backscatter Imager (MBI); and
- receipted \$3.1m from the R&D tax incentive for expenditure incurred during the year ending 30 June 2015. The R&D tax incentive is recognised on a cash basis.

The Company is also working towards an initial public offering to occur late November 2015/early December 2015 to raise \$15m - \$20m. As part of this initial public offering all Series A, B and C Converting Preferred Shares will be converted to ordinary shares. The Company will also subdivide its ordinary shares at a ratio of 1 to 950.

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

We have audited the accompanying financial report, being a special purpose financial report, of Micro-X Limited (formerly known as Micro-X Pty Ltd) (the "Company"), which comprises the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information to the financial report and the statement by the Directors.

Responsibility of the Directors for the financial report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies used and described in Note 1 to the financial report, which form part of the financial report, are appropriate to meet the needs of the Directors. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

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In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the applicable independence requirements of the Accounting Professional and Ethical Standards Board.

Auditor's Opinion

In our opinion, the financial report of Micro-X Limited, presents fairly, in all material respects, the Company's financial position as at 30 June 2014 and of its performance and cash flows for the year then ended in accordance with the accounting policies described in Note 1.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the financial report which indicates that the company incurred a net loss of \$385,533 during the year ended 30 June 2014 and, as of that date, the company's current liabilities exceeded its current assets by \$377,468. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Basis of accounting

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of meeting the needs of the Directors. As a result, the financial report may not be suitable for another purpose.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M.A. Cunningham
Partner - Audit & Assurance

Melbourne, 24 November 2015