



1047 Elwell Court, Palo Alto  
CA 94303 USA  
Tel (US): +1 (650) 390 9000  
Tel (AU): 1-800-778-662  
Fax: +1 650 390 9007  
[www.airxpanders.com](http://www.airxpanders.com)

**30 March 2017**

## **AirXpanders issues 2016 Annual Report**

**Palo Alto, CA, United States – AirXpanders, Inc. (ASX: AXP) (AirXpanders or Company)** a medical device company focused on the design, manufacture, sale and distribution of the AeroForm® tissue expander, has lodged its 2016 Annual Report with the ASX today.

The Annual Report includes the Company's audited financial statements for the year ended 31 December 2016 and other required disclosures. The financial statements included in the Annual Report were prepared in accordance with US generally accepted accounting principles (US GAAP) and are denominated in US dollars.

AirXpanders has scheduled its Annual Meeting of Stockholders at *Johnson Winter & Slattery's* Melbourne office, Level 34, 55 Collins Street, Melbourne, Victoria, Australia on Tuesday, 23 May 2017 at 9.00am Australian Eastern Standard Time (Monday, 22 May 2017 at 4.00pm U.S. Pacific Time).

- ENDS -

<b>Company</b>	<b>Investor relations</b>
Scott Dodson President & CEO Tel: +1 (650)-390-9008 Email: <a href="mailto:sdodson@airxpanders.com">sdodson@airxpanders.com</a>	Kyahn Williamson WE Buchan Tel: +61 (3) 9866 4722 / + 61 (0)401018828 Email: <a href="mailto:kwilliamson@buchanwe.com.au">kwilliamson@buchanwe.com.au</a>

### **About AirXpanders:**

Founded in 2005, AirXpanders, Inc. ([www.airxpanders.com](http://www.airxpanders.com)) designs, manufactures and markets innovative medical devices to improve breast reconstruction. The company's AeroForm Tissue Expander System, is used in patients undergoing two-stage breast reconstruction following mastectomy. Headquartered in Palo Alto, California, AirXpanders' vision is to be the global leader in reconstructive surgery products and to become the standard of care in two-stage breast reconstruction. AirXpanders is a publically listed company on the Australian Securities Exchange under the symbol "AXP." AeroForm was granted U.S. FDA de novo marketing authorisation in 2016, first CE mark in Europe in 2012 and is currently licensed for sale in Australia.

### **Foreign Ownership Restriction**

AirXpanders' CHES Depositary Interests (CDIs) are issued in reliance on the exemption from registration contained in Regulation S of the US Securities Act of 1933 (Securities Act) for offers or sales which are made outside the US. Accordingly, the CDIs have not been, and will not be, registered under the Securities Act or the laws of any state or other jurisdiction in the US. The holders of AirXpanders' CDIs are unable to sell the CDIs into the US or to a US person unless the re-sale of the CDIs is registered under the Securities Act or an exemption is available. Hedging transactions with regard to the CDIs may only be conducted in accordance with the Securities Act.

For more information, refer to the Company's website at [www.airxpanders.com](http://www.airxpanders.com).

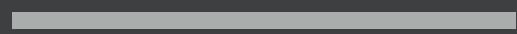


.....



# 2016

## Annual Report



AirXpanders Inc  
[www.airxpanders.com](http://www.airxpanders.com)

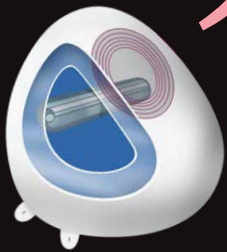
# Contents

---

Chairman's Letter	03
CEO's Report	04
AirXpanders' 2016 Highlights	06
Surgeon Testimonial	07
Independent Auditor's Report	08 - 09
Consolidated Financial Statements	10 - 38
Shareholder Information	39

# Chairman's Letter

“**Making a difference in the lives of women who have been touched by breast cancer has always been part of AirXpanders' mission**”



I am delighted to present AirXpanders' annual report for 2016 to investors. It has been a wonderful year for the Company as the AeroForm® Tissue Expander System continues to gain traction and recognition in the Australian market, and more recently, received U.S. Food and Drug Administration (FDA) *de novo* clearance. The latter achievement is a major milestone which has opened the door for the device to be launched in the United States, the world's largest medical device market.

Making a difference in the lives of women who have been touched by breast cancer has always been part of AirXpanders' mission, and we are delighted AeroForm can help even more women in their reconstruction journey now that commercialisation in the United States is underway.

AirXpanders had an exciting year in 2016 leading up to the FDA announcement: we positively promoted AeroForm to the medical and surgeon community in the U.S. and Australia; welcomed two highly experienced individuals to the Board; presented new subset data from the XPAND pivotal study at the American Society of Plastic Surgeons' annual conference; and engaged with high volume hospitals across the U.S. The cumulation of such efforts has helped put the Company in a strong position as it enters the U.S. market.

In 2016, as we continued to see positive response towards AeroForm in Australia, the AirXpanders team worked hard to engage with the U.S. market, e.g. by presenting at medical and surgical conferences and reporting successful data from the XPAND pivotal study to generate further awareness for our innovative technology. Simultaneously, while we generated repeat orders across Australia, we also worked towards expanding our manufacturing capacity, with the full line in Costa Rica expected to be producing commercial units this year. The FDA *de novo* clearance at the end of 2016 was a significant milestone for AirXpanders, and the Company's work throughout the year puts it in a strong position as it rolls out the commercial launch of AeroForm in the U.S. I would like to thank my fellow Board members, President and CEO Scott Dodson, and the entire AirXpanders team for their dedication and hard work. Through the efforts of Scott and the team, we look forward to building on the successful achievements in 2016 and continue to grow security holder value in 2017.

To our security holders, we are grateful for your continued support and we look forward to engaging with you in the year ahead.

**Barry Cheskin**  
Chairman

# CEO's Report



**The U.S. is the world's largest medical device market** with an addressable market on the order of US\$800+ million\*

2016 was a period of growth and preparation for AirXpanders. During the year, we accelerated our market share in Australia while simultaneously laying down the foundation to ensure we were well positioned for the next phase of growth in anticipation of FDA clearance.

Given the U.S. is the world's largest medical device market and has an addressable market on the order of US\$800+ million, the preparation AirXpanders did in 2016 and the lessons from the Australian market were critical for the year ahead.



## Operational Highlights & Milestones

Throughout 2016, AirXpanders achieved a number of important operational milestones. The highlights include:

- Welcomed two experienced individuals to the AirXpanders Board of Directors, with Mr Gregory Lichtwardt and Ms Zita Peach joining as Independent Non-Executive Directors.
- Raised A\$20 million in private placement, primarily used by the Company for market growth in Australia; sales and marketing initiatives in preparation for U.S. launch of AeroForm, manufacturing expansion in Costa Rica and general working capital.
- Expansion of the Senior Management team with the addition of Mr Scott Murcray as CFO/COO, whose internal focus is to assist the manufacturing team with the operational expansion to Costa Rica and prepare the Company for the organisational ramp up for AeroForm in the U.S.
- Presented positive subset data from the XPAND pivotal study at the world's largest gathering of plastic surgeons, the American Society of Plastic Surgeons (ASPS) annual conference.
- Published pivotal trial data from the XPAND study on AeroForm in *Plastic and Reconstructive Surgery*, the official journal of the ASPS. The results showed women undergoing reconstructive surgery following mastectomy who received AeroForm were able to complete expansion and reconstruction faster than woman who received traditional saline-based expanders.

\*Assumes USD 2,500 ASP

- Received U.S. FDA *de novo* clearance for AeroForm, allowing the device to be sold in the world's biggest medical device market, the U.S. The regulatory clearance marked a major milestone given the total addressable market is worth more than US\$800 million.

## Financial Position as of 31 December 2016

AirXpanders' total revenue for the year was US\$570,316, an increase of 95% over 2015. Overall the company reported a net loss of US\$19,422,897 after tax with total cash holdings of US\$11,477,151.

Our quarterly unit sales trend gained traction in 2016, with the final quarter up 27% compared to the third quarter.

“ We have seen very encouraging early results in our initial commercial launch in the U.S.

”

## Looking ahead

2016 was a milestone year for AirXpanders in terms of regulatory highlights and our highly positive activities in Australia provides us with a blueprint for 2017 as we execute our U.S. commercialisation plans. In the year ahead, our major goals include:

- Building inventory for the U.S. market;
- Accelerating investment for U.S. sales and marketing, including hiring of local sales force;
- Furthering our commercial manufacturing expansion in Costa Rica;
- Continuing to accelerate market share and market development in Australia;
- Releasing device enhancements including a new dose controller and a further advanced version of the tissue expander;
- Expanding established commercial sites to create competitive hospital bidding

In the first few months of 2017, we have seen very encouraging early results in

our initial commercial launch in the U.S. Not only did we successfully raise a further A\$45 million to strengthen our balance sheet to support operations and sales ramp up, but we also reached – or exceeded – several goals we had set for ourselves. This includes our targets for securing clinical sites during our targeted market release and preparing for our broader Phase 2 market release, pending FDA clearance of our new film. The company is proceeding on both counts and the response we are receiving in the U.S. market has been overwhelmingly positive. Every day, we are inspired by breast cancer patients who are going through their personal journey of survival and we are committed to help improve their experience by giving them control of their expansion process through a more convenient and comfortable option.

As AirXpanders undergoes commercialisation in the U.S., we are excited about the opportunities in the next stage of our journey. On behalf of the company, we are grateful for the support of our shareholders and investors.

**Scott Dodson**  
President & CEO

# AirXpanders' 2016 Highlights

---



## February 2016

Achieved market share of almost 20% in Australia, based on a monthly run rate since listing in June 2015



## June 2016

A\$20 million private placement for market growth in Australia



## September 2016

Increased quarterly unit sales by 25% compared to Q2 2016



## December 2016

AirXpanders receives U.S. FDA *de novo* clearance for the AeroForm Tissue Expander System



## Surgeon Testimonial



### Kamakshi R. Zeidler, M.D., FACS Board Certified Plastic Surgeon

Co-Founder and Managing Partner at Aesthetx, Campbell, California

“ We showed that this technology was not only **safe and effective**, but easy and convenient for patients to use

”

I am a surgeon dedicated to innovation and technological advancement of breast surgery in general, with a passion for breast reconstruction. As a female surgeon and a person whose family is significantly affected by breast cancer, I am particularly attuned to the need for technological improvements in the process of breast reconstruction to make it not only better but more comfortable for patients.

Being based in Silicon Valley, I've had exposure to a lot of different technologies that carried more hype than promise. Early on, however, I identified AeroForm as a novel technology with tremendous potential and have supported the research to bring it to market ever since. I was an investigator in both the XPAND and XPAND II trials, and had the honor of being the highest enroller in both trials. Through the trials, we showed that

this technology was not only safe and effective, but easy and convenient for patients to use, and it significantly sped up the expansion process - allowing women to move through expansion and being able to switch out their expanders for implants much quicker. This is tremendous gain for patients who are eager to move on with their lives and put the process behind them.

What has been most exciting for my patients is the ability to be a part of the process, that they are in charge of the expansion, and they get to determine how fast or how slow and when the expansion process happens. AeroForm removes the need for needles and eliminates the need for in office procedures on a weekly basis that are traditionally required for saline expanders. The AeroForm technology is a game changer for breast reconstruction and fundamentally transforms the patient experience.



# Independent Auditor's Report



## Independent Auditor's Report

To the Board of Directors and Stockholders of  
AirXpanders, Inc.  
Palo Alto, California

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AirXpanders, Inc. (collectively, the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

100 W San Fernando St., Ste. 275 San Jose, CA 95113 T: 408.294.3924 F: 408.295.3925

877.754.4557



# Independent Auditor's Report (continued)

---



To the Board of Directors and Stockholders of  
AirXpanders, Inc.  
Page 2

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AirXpanders, Inc. and its subsidiary as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads 'SingerLewak LLP'.

SingerLewak LLP

February 27, 2017

# CONSOLIDATED FINANCIAL STATEMENTS

Consolidated

## Balance Sheets

December 31, 2016 and 2015

	2016	2015
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 11,477,151	\$ 19,112,802
Accounts receivable	118,299	76,884
Inventory	1,413,100	527,020
Prepaid expenses and other current assets	557,758	194,593
Total current assets	13,566,308	19,911,299
<b>Property and equipment, net</b>	1,879,288	909,662
<b>Other assets</b>	83,425	76,542
<b>Total assets</b>	<b>\$ 15,529,021</b>	<b>\$ 20,897,503</b>

See accompanying notes to consolidated financial statements

Consolidated

# Balance Sheets (continued)

December 31, 2016 and 2015

	2016	2015
	\$	\$

## LIABILITIES AND STOCKHOLDERS' EQUITY

### Current liabilities

Current portion of long-term debt, net of discount	\$ 1,195,335	\$ 1,500,000
Accounts payable	1,248,970	874,396
Accrued expenses	915,547	393,959
Total current liabilities	3,359,852	2,768,355

### Long-term debt, less current portion, net of discount

	-	1,083,933
Total liabilities	3,359,852	3,852,288

## COMMITMENTS (NOTE 8)

### Stockholders' equity

Preferred stock, \$0.001 par value; 10,000,000 authorized at December 31, 2016 and 2015; no shares issued and outstanding at December 31, 2016 and 2015

- -

Class A common stock; \$0.001 par value, 200,000,000 authorized at December 31, 2016 and 2015; 79,241,708 and 70,427,195 shares issued and outstanding at December 31, 2016 and 2015

79,241 70,426

Class B common stock; \$0.001 par value, 100,000,000 authorized at December 31, 2016 and 2015; no shares issued and outstanding at December 31, 2016 and 2015

- -

Additional paid-in capital

78,418,222 63,880,186

Accumulated deficit

(66,328,294) (46,905,397)

Total stockholders' equity

12,169,169 17,045,215

### Total liabilities and stockholders' equity

\$ 15,529,021 \$ 20,897,503

See accompanying notes to consolidated financial statements

Consolidated Statements of

# Operations and Comprehensive Loss

For the Years Ended December 31, 2016 and 2015

	2016	2015
	\$	\$
<b>Revenue</b>	\$ 570,316	\$ 292,608
<b>Cost of goods sold</b>	4,543,023	1,905,589
<b>Gross loss</b>	(3,972,707)	(1,612,981)
<b>Operating expenses</b>		
Research and development	5,077,527	3,131,118
Clinical trials and regulatory	2,087,075	1,696,231
Selling, general and administrative	7,985,769	4,640,073
Total operating expenses	15,150,371	9,467,422
<b>Operating loss</b>	(19,123,078)	(11,080,403)
<b>Interest expense</b>	249,054	421,996
<b>Other expense (income), net</b>	49,965	(341,054)
<b>Operating loss before income tax provision</b>	(19,422,097)	(11,161,345)
Provision for income taxes	800	-
<b>Net loss and comprehensive loss</b>	\$ (19,422,897)	\$ (11,161,345)
<b>Net loss per common share:</b>		
Basic and diluted	\$ (0.26)	\$ (0.32)
<b>Weighted-average number of shares used in computing net loss per share:</b>		
Basic and diluted	74,793,530	35,377,588

See accompanying notes to consolidated financial statements

Consolidated Statements of

# Stockholders' Equity

	Convertible Preferred Stock		Common Stock				
	Issued and Outstanding Shares	Amount	Issued and Outstanding Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
<b>Balance, December 31, 2014</b>	<b>130,509,868</b>	<b>\$ 130,510</b>	<b>901,665</b>	<b>\$ 902</b>	<b>\$ 33,425,263</b>	<b>\$ (35,744,052)</b>	<b>\$ (2,187,377)</b>
Issuance of common stock for cash (net of issuance costs of \$2,872,649)	-	-	25,217,180	25,217	25,055,056	-	25,080,273
Exercise of warrants to purchase common stock	-	-	9,780,489	9,780	39,122	-	48,902
Exercise of stock options	-	-	2,965	3	520	-	523
Conversion of convertible bridge notes payable and accrued interest of \$70,233 into common stock	-	-	4,412,474	4,412	5,025,808	-	5,030,220
Conversion of convertible preferred stock into common stock	(130,509,868)	(130,510)	30,112,422	30,112	100,398	-	-
Conversion of warrants to purchase preferred stock into warrants to purchase common stock	-	-	-	-	122,516	-	122,516
Stock-based compensation	-	-	-	-	111,503	-	111,503
Net loss	-	-	-	-	-	(11,161,345)	(11,161,345)
<b>Balance, December 31, 2015</b>	<b>-</b>	<b>\$ -</b>	<b>70,427,195</b>	<b>\$ 70,426</b>	<b>\$ 63,880,186</b>	<b>\$ (46,905,397)</b>	<b>\$ 17,045,215</b>
Issuance of common stock for cash (net of issuance costs of \$731,489)	-	-	8,771,930	8,772	14,150,085	-	14,158,857
Exercise of stock options	-	-	42,583	43	10,577	-	10,620
Stock-based compensation	-	-	-	-	377,374	-	377,374
Net loss	-	-	-	-	-	(19,422,897)	(19,422,897)
<b>Balance, December 31, 2016</b>	<b>-</b>	<b>\$ -</b>	<b>79,241,708</b>	<b>\$ 79,241</b>	<b>\$ 78,418,222</b>	<b>\$ (66,328,294)</b>	<b>\$ 12,169,169</b>

See accompanying notes to consolidated financial statements

Consolidated Statements of

# Cash Flows

	2016	2015
	\$	\$

## Cash flows from operating activities

Net loss	\$ (19,422,897)	\$ (11,161,345)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	237,291	85,619
Amortization of debt discount and deferred issuance cost	111,403	36,566
Loss of disposal of assets	13,584	-
Interest on convertible bridge notes payable converted to common stock	-	70,233
Change in fair value of warrant liabilities	-	(41,622)
Inventory provision	1,537,090	527,444
Stock-based compensation	377,374	111,503
Changes in operating assets and liabilities		
Accounts receivable	(41,415)	(76,884)
Inventory	(2,423,170)	(882,796)
Prepaid expenses and other assets	(389,746)	(175,056)
Accounts payable	324,635	472,571
Accrued expenses	521,588	198,794
Net cash used in operating activities	(19,154,263)	(10,834,973)

See accompanying notes to consolidated financial statements



Consolidated Statements of

# Cash Flows (continued)

	2016	2015
	\$	\$
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(1,150,865)	(839,975)
Net cash used in investing activities	(1,150,865)	(839,975)
<b>Cash flows from financing activities</b>		
Proceeds from convertible bridge notes payable	-	4,959,987
Principal payments on notes payable	(1,500,000)	(952,671)
Proceeds from issuance of common stock, net of issuance costs	14,158,857	25,080,273
Proceeds from exercise of stock options	10,620	523
Proceeds from exercise of warrants for common stock	-	48,902
Net cash provided by financing activities	12,669,477	29,137,014
<b>Net (decrease) increase in cash and cash equivalents</b>	(7,635,651)	17,462,066
<b>Cash and cash equivalents - beginning of period</b>	19,112,802	1,650,736
<b>Cash and cash equivalents - end of period</b>	<b>\$ 11,477,151</b>	<b>\$ 19,112,802</b>
<b>Supplemental disclosure</b>		
Cash paid for interest	\$ 137,653	\$ 240,144
Cash paid for taxes	\$ 800	\$ 800
<b>Supplemental schedule of noncash investing and financing activities:</b>		
Conversion of preferred stock to common stock in connection with initial public offering	\$ -	\$ 34,632,758
Conversion of convertible bridge notes payable and accrued interest to common stock in connection with initial public offering	\$ -	\$ 5,030,220
Conversion of warrant liabilities to equity	\$ -	\$ 122,516

See accompanying notes to consolidated financial statements

# Notes to Consolidated Financial Statements

As of and for the years ended December 31, 2016 and 2015

## NOTE 1 – DESCRIPTION OF BUSINESS

AirXpanders, Inc. and its Australian subsidiary (“AirXpanders” or the “Company”) is a Delaware corporation formed on March 17, 2005, and is headquartered in Palo Alto, California. The Company designs, manufactures and markets medical devices to improve breast reconstruction. The Company’s AeroForm Tissue Expander System is used in patients undergoing two-stage breast reconstruction following mastectomy. AeroForm was granted U.S. FDA de novo marketing authorization in 2016, its first CE mark in Europe in 2012 and is currently licensed for sale in Australia. To date, the Company has been primarily engaged in developing and launching its initial product technology, building the manufacturing infrastructure to support commercialization efforts, recruiting key personnel and raising capital.

In June 2015, the Company issued 29,629,654 shares of common stock in connection with an initial public offering on the Australia Securities Exchange (ASX) and conversion of convertible bridge notes payable and related accrued interest (IPO). The Company raised a total of \$30,089,162, net of issuance costs of \$2,872,649.

## NOTE 2 – LIQUIDITY

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business for the foreseeable future. The Company has incurred net losses and cash flow deficits from operations since its inception and has an accumulated deficit of \$66,328,294 at December 31, 2016. To date, the Company’s products have been approved for marketing and sales in Europe, Australia and the United States, and the Company started selling its product in Australia in 2015, and in the United States in 2017. Management expects operating losses and cash flow deficits to continue for the foreseeable future. The Company’s ability to achieve profitability is dependent primarily on its ability to gain market share in the U.S, build and maintain manufacturing capacity to support commercial launch in the US and obtain a more profitable per unit manufacturing cost for its products. The Company’s plan to address these adverse conditions is to raise additional funds for operations through the issuance of equity securities and debt. These activities are expensive, time-consuming, and uncertain, and any delay could have a material adverse effect on the Company. The accompanying consolidated financial statements do not include any adjustments that may be needed if the Company were unable to continue as a going concern.

In February 2017, the Company issued 16,304,348 shares of common stock in connection with an equity offering on the Australian Securities Exchange or ASX. The Company raised a total of \$34,110,563 (A\$45 million), net of issuance costs of \$1,364,423. The Company believes that the cash from the offering and its cash and cash equivalents are sufficient to remain in operations for at least one year from the date of issuance of these consolidated financial statements.

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The consolidated financial statements include the accounts of AirXpanders, Inc. and its Australian subsidiary. Intercompany transactions and balances have been eliminated in consolidation. Certain amounts presented in prior periods have been reclassified to the current year presentation. Such changes had no effect on the previously reported net loss or accumulated deficit.

# Notes to Consolidated Financial Statements (continued)

## Foreign Currency

The Company transacts business in Australia. The functional currency of its foreign subsidiary is the U.S. dollar. Monetary assets and liabilities are translated at the year-end exchange rate and non-monetary assets and liabilities are translated at historical rates and items in the statement of operations are translated at average rates with gains and losses from remeasurement being recorded in other expense (income), net in the accompanying consolidated statements of operations and comprehensive loss. Foreign currency translation and remeasurement gains or losses included in other expense (income), net in the accompanying consolidated statements of operations and comprehensive loss was a loss of \$37,810 during the year ended December 31, 2016 and a gain of \$261,478 during the year ended December 31, 2015.

## Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting period. Actual results could differ materially from those estimates. The Company's most significant estimates relate to the valuation of its common stock prior to the IPO, valuation of stock options and valuation of its inventory at the lower of cost or market.

## Certain Significant Risks and Uncertainties

The Company operates in a dynamic, highly competitive industry and believes that changes in any of the following areas could have a material adverse effect on the Company's future financial position, results of operations, or cash flows: ability to obtain future financing; advances and trends in new technologies and industry standards; regulatory approval and market acceptance of the Company's products; development of sales channels; certain supplier relationships; litigation or claims against the Company based on intellectual property, patent, product, regulatory, or other factors including the Company's ability to attract and retain employees necessary to support its growth.

## Concentrations of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents. The Company maintains all of its U.S. cash balances at one financial institution, which at times may exceed the Federal Deposit Insurance Corporation (FDIC) limits of \$250,000 for interest-bearing accounts. At December 31, 2016, the Company had unrestricted cash balances of approximately \$10,822,486 that were in excess of the FDIC limits. The Company also maintains all of its Australian cash balance at one financial institution, which at times may exceed the Australian government guaranteed limit of USD \$180,777 (AU\$ 250,000). At December 31, 2016, the Company had a cash balance of approximately \$798,527 that were in excess of the guaranteed limit.

## Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At December 31, 2016, the Company maintained a balance of \$10,501,867 with one U.S. financial institution and the US dollar equivalent of approximately \$975,284 with one Australian financial institution.

# Notes to Consolidated Financial Statements (continued)

---

## **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Inventory**

Inventory is valued at the lower of cost or market value, with cost determined by the first-in, first-out method. When needed, the Company provides reserves for excess or obsolete inventory.

### **Property and Equipment**

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, generally three to five years. Leasehold improvements and property and equipment under capital leases are amortized over the shorter of the estimated useful lives of the assets or the lease terms. Construction in process assets are stated at cost and will be depreciated over their estimated useful lives once placed in service.

Expenditures for repairs and maintenance are charged to expense as incurred. Upon disposition of an asset, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the statement of operations.

### **Impairment of Long-Lived Assets**

The Company's long-lived assets and other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value. Through December 31, 2016, the Company had not experienced impairment losses on its long-lived assets.

### **Fair Value of Financial Instruments**

The Company follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic No. 820, Fair Value Measurement ("ASC 820"), which clarifies fair value as an exit price, establishes a hierarchal disclosure framework for measuring fair value, and requires extended disclosures about fair value measurements. The provisions of ASC 820 apply to all financial assets and liabilities measured at fair value.

As defined in ASC 820, fair value represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a result, fair value is a market-based approach that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering these assumptions, ASC 820 defines a three-tier value hierarchy that prioritizes the inputs used in the valuation methodologies in measuring fair value.

# Notes to Consolidated Financial Statements (continued)

**Level 1** –Quoted prices in active markets for identical assets or liabilities.

**Level 2** –Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** –Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following table sets forth by level, within the fair value hierarchy, the Company's assets measured at fair value in the balance sheet as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 11,477,151	\$ -	\$ -	\$ 11,477,151
<b>Total assets at fair value</b>	<b>\$ 11,477,151</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,477,151</b>

The following table sets forth by level, within the fair value hierarchy, the Company's assets measured at fair value in the balance sheet as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 19,112,802	\$ -	\$ -	\$ 19,112,802
<b>Total assets at fair value</b>	<b>\$ 19,112,802</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 19,112,802</b>

# Notes to Consolidated Financial Statements (continued)

---

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As of December 31, 2016 and 2015, the Company had the following financial instruments for which disclosure only of fair value is required:

### Long-term Debt

Long-term debt is valued at carrying value which is considered to be representative of its fair value based on current market rates available to the Company for comparable borrowing facilities as well as due to its short time of maturity (Level 2 measurement).

### Revenue Recognition

The Company recognizes revenue from sales of its products in accordance with the Revenue Recognition Topic ASC 605.

The Company recognizes revenue from product sales when the following four criteria are met: delivery has occurred, there is persuasive evidence of an arrangement, the fee is fixed or determinable, and collectability of the related receivable is reasonably assured. Revenue recognition generally occurs after a device has been implanted in a patient and a purchase order has been received from the customer.

### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at cost, net of allowance for doubtful accounts. Credit is extended to customers based on an evaluation of their financial condition and other factors. The Company does not charge interest on past due balances. The Company generally does not require collateral or other security to support accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains an allowance for doubtful accounts.

The Company estimates its allowance for doubtful accounts by evaluating specific accounts where information indicates that customers may have an inability to meet their financial obligations and receivable amounts are outstanding for an extended period beyond the invoice terms. In these cases, the Company uses assumptions and judgment, based on the best available facts and circumstances, to either record a specific allowance against these customer balances or to write the balances off. The accounts receivable aging is reviewed on a regular basis and write-offs are recorded on a case-by-case basis net of any amounts that may be collected. Allowance charges are recorded as operating expenses. Based on the Company's customer analysis, it did not have an allowance for doubtful accounts at December 31, 2016 and 2015.

### Concentration

Two customers each contributed 16% of the Company's revenue for the year ended December 31, 2016 and two customers accounted for 33%, respectively, of the accounts receivable balance at December 31, 2016. One customer contributed 24% of the Company's revenue for the year ended December 31, 2015 and two customers accounted for 47% of the accounts receivable balance at December 31, 2015. Substantially all product sales in 2016 and 2015 were to hospitals in Australia.

### Reverse Stock Split

In May 2015 the Company's shareholders approved a 5-for-1 reverse stock split of all outstanding common stock and all securities exercisable into common stock. All amounts for common stock, preferred stock conversion ratios, stock options and warrants in the consolidated financial statements have been retroactively adjusted to reflect the effect of the reverse stock split.

# Notes to Consolidated Financial Statements (continued)

## **Stock-Based Compensation**

Stock-based compensation is measured at the grant date based on the fair value of the award. The fair value of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period. The expense recognized for the portion of the award that is expected to vest has been reduced by an estimated forfeiture rate. The forfeiture rate is determined at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company uses the Black-Scholes option-pricing model (the "Black-Scholes model") as the method for determining the estimated fair value of stock options.

### *Expected Term*

The Company's expected term represents the period that the Company's stock-based awards are expected to be outstanding and is determined using the simplified method, which essentially equates to a weighted average of the vesting periods and total term of the award.

### *Expected Volatility*

Expected volatility is estimated using comparable public company's volatility for similar terms as the Company does not have a long enough operating period as a public company to estimate its own volatility. Over time as the Company develops its own volatility history it will begin to incorporate that history into its expected volatility estimates.

### *Expected Dividend*

The Black-Scholes model calls for a single expected dividend yield as an input. The Company has never paid dividends and has no current plans to pay dividends on its common stock.

### *Risk-Free Interest Rate*

The risk-free interest rate used in the Black-Scholes model is based on the U.S. Treasury zero coupon issues in effect at the time of grant for periods corresponding with the expected term of the option.

The Company recognizes the fair value of stock options granted to nonemployees as stock-based compensation expense over the period in which the related services are received.

## **Research and Development**

Costs incurred in research and development activities (including clinical trials) are expensed as incurred. Research and development costs include, but are not limited to, payroll and personnel expenses, laboratory supplies, consulting costs, travel, parts and materials, equipment expenses, and equipment depreciation.

## **Income Taxes**

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are recorded based on the estimated future tax effects of differences between the financial statement and income tax basis of assets and liabilities. In addition, deferred tax assets are recorded for the future benefit of utilizing net operating loss and tax credit carryovers. Deferred tax assets and liabilities are measured using the enacted tax rates applied to taxable income.



# Notes to Consolidated Financial Statements (continued)

---

## **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided against the Company's deferred income tax assets when it is more likely than not that the asset will not be realized.

Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, the Company considers all available evidence, including past operating results, estimates of future taxable income and the feasibility of tax planning strategies. In the event that the Company changes its determination as to the amount of deferred tax assets that are more likely than not to be realized, the Company will adjust its valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

The Company follows authoritative guidance regarding uncertain tax positions. This guidance requires that realization of an uncertain income tax position must be more likely than not (i.e. greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. The guidance further prescribes the benefit to be realized assumes a review by tax authorities having all relevant information and applying current conventions. The interpretation also clarifies the financial statement classification of tax related penalties and interest and sets forth disclosures regarding unrecognized tax benefits. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits as income tax expense.

### **Segments**

The Company has determined the chief executive officer is the chief operating decision maker. The Company's chief executive officer reviews financial information presented for purposes of assessing performance and making decisions on how to allocate resources. The Company has determined that it operates in a single reporting segment.

### **Basic and Diluted Net Loss Per Share**

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by giving effect to all potential shares of common stock, stock options, stock warrants, convertible debt and convertible preferred stock to the extent dilutive. For the periods presented, all such common stock equivalents have been excluded from diluted net loss per share as the effect to net loss per share would be anti-dilutive.

# Notes to Consolidated Financial Statements (continued)

The following table sets forth the computation of the Company's basic and diluted net loss per share for the years ended December 31, 2016 and 2015:

	2016	2015
Numerator		
Net loss	\$ (19,422,897)	\$ (11,161,345)
Denominator		
Weighted-average common shares for basic and diluted net loss per share	74,793,530	35,377,588
Basic and diluted net loss per share	<b>\$ (0.26)</b>	<b>\$ (0.32)</b>

Following is a table summarizing the potentially dilutive common shares that were excluded from diluted weighted-average common shares outstanding as their effects would be antidilutive as of December 31:

	2016	2015
Shares of common stock issuable upon conversion of warrants and convertible preferred stock	336,814	386,814
Shares of common stock options	5,355,702	5,590,619
Potential common shares excluded from diluted net loss per share	<b><u>5,692,516</u></b>	<b><u>5,977,433</u></b>

Subsequent to December 31, 2016, the Company issued 16,304,348 shares of common stock in connection with an equity offering (See Note 16, "Subsequent Events").

# Notes to Consolidated Financial Statements (continued)

---

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Recent Accounting Pronouncements

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. Early adoption is permitted including adoption in an interim period. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements and related disclosures.

In August, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses certain issues where diversity in practice was identified and may change how an entity classifies certain cash receipts and cash payments on its statement of cash flows. The new guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASC Topic 718, Compensation—Stock Compensation. The new guidance simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance is effective for public business entities for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In February 2016, the FASB issued a new standard, Leases, ASC 842. Lessees will need to recognize all lease arrangements with terms longer than twelve months on their balance sheet as a right-of-use asset and a corresponding lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Lessor accounting is similar to the current model. Existing sale-leaseback guidance, including guidance for real estate, is replaced with a new model applicable to both lessees and lessors. The new guidance is effective for public business entities in fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In November, 2015, the FASB issued ASU 2015-17, "Income Taxes". The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance for each tax-paying jurisdiction within each tax-paying component, be classified as noncurrent on the balance sheet. The new guidance will be effective for public business entities in fiscal years beginning after December 15, 2016, including interim periods within those years. Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period. The Company adopted the ASU as of December 31, 2016 and its consolidated Balance Sheets as of this date reflects the revised classification of current deferred tax assets and liabilities as noncurrent. However, due to 100% valuation allowance against the Company's net deferred tax assets adoption had substantially no impact on its consolidated financial statements.

# Notes to Consolidated Financial Statements (continued)

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory". ASU 2015-11 more closely aligns the measurement of inventory in U.S. GAAP with the measurement of inventory in International Financial Reporting Standards by requiring companies using any methods of inventory valuation other than last-in, first-out or the retail inventory methods to measure inventory using the lower of cost and net realizable value, where net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. For public business entities, ASU 2015-11 is effective for annual reporting periods beginning after December 15, 2016 including interim periods within those fiscal years. ASU 2015-11 should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of this ASU in its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU requires retrospective adoption and is effective in 2016 for the Company. The Company adopted this ASU as required on a retrospective basis which resulted in an immaterial debt issuance cost reclassification as of December 31, 2016 and 2015 in its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements - Going Concern" relating to the disclosure of an entity's going concern uncertainty. This update provides guidance about managements responsibilities in evaluating an entity's going concern uncertainties, and about the timing and content of related footnote disclosures. Under this amended guidance, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the consolidated financial statements are issued. For public business entities, ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016. The Company adopted this ASU as required for its December 31, 2016 consolidated financial statements and made the required evaluation and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". The core principle of the guidance is that an entity should recognize 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. To achieve that core principle, an entity should 1) identify the contract(s) with a customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation. In July 2015, the FASB deferred for one year the effective date of the new revenue standard, but early adoption will be permitted. The new standard will be effective for the Company on January 1, 2018. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

# Notes to Consolidated Financial Statements (continued)

## NOTE 4 – INVENTORY

Inventory consisted of the following as of December 31:

	2016	2015
	\$	\$
Raw materials	\$ 760,317	\$ 220,667
Work in progress	438,669	241,949
Finished goods	214,114	64,404
<b>Inventory</b>	<b>\$ 1,413,100</b>	<b>\$ 527,020</b>

The Company had written down its inventory to market value by \$1,537,090 and \$527,444 for the years ended December 31, 2016 and 2015, respectively.

## NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

	2016	2015
	\$	\$
Machinery and equipment	\$ 1,084,549	\$ 714,382
Computer equipment	160,956	121,926
Furniture and fixtures	83,870	77,457
Leasehold improvements	170,241	100,354
Software licenses	189,216	19,061
Office equipment	10,692	8,679
Construction in progress	872,032	395,903
Property and equipment, gross	2,571,556	1,437,762
Accumulated depreciation and amortization	(692,268)	(528,100)
<b>Property and equipment, net</b>	<b>\$ 1,879,288</b>	<b>\$ 909,662</b>

Depreciation and amortization expense amounted to \$237,291 and \$85,619 for the years ended December 31, 2016 and 2015, respectively.

# Notes to Consolidated Financial Statements (continued)

## NOTE 6 – ACCRUED EXPENSES

Accrued expenses consisted of the following as of December 31:

	2016	2015
	\$	\$
Accrued compensation and benefits	\$ 424,899	\$ 199,290
Accrued rent payable	68,908	28,976
Accrued clinical trials services	176,975	-
Accrue inventory supplies	92,617	42,735
Accrued other	152,148	122,958
<b>Total accrued expenses</b>	<b>\$ 915,547</b>	<b>\$ 393,959</b>

## NOTE 7 – DEBT FINANCING

### Loans

In January 2014, the Company borrowed \$3,500,000 under a loan and security agreement with a financial institution which expires in July 2017. Interest is paid monthly on the principal amount at 7.34% per annum. The loan is secured by substantially all of the Company's assets, excluding intellectual property. Under the terms of the agreement, interest-only payments were made monthly through March 2015, with principal payments commencing in April 2015, due in 28 equal monthly installments. A fee of \$271,250 is due at maturity, which is being accrued over the term of the loan. The Company can prepay the entire loan amount by providing a written five day notice prior to such prepayment and pay all outstanding principal, interest and prepayment fees plus any default fees and all other sums that shall have become due and payable.

In March 2015, the Company amended the loan and security agreement to extend the interest-only period from March 2015 to April 2015, with principal payments commencing in May 2015, due in 27 equal monthly installments. The Company had the option to borrow an additional \$3,500,000 under the agreement, with the same terms, if certain conditions were met. This option expired unexercised in June 2015.

In connection with the loan agreement and security agreement, the Company granted a warrant to the financial institution for the purchase of 52,500 shares of Series E convertible preferred stock ("Series E") at \$1.00 per share. As a result of the Company's IPO in June 2015 and conversion of all outstanding preferred stock into common stock, the warrants were converted into warrants for 52,500 shares of common stock at an exercise price of \$1.00 per share. The fair value of the warrant of \$31,710 on the date of issuance was recorded as a debt discount.

The Company recorded \$34,814 and \$36,566 to interest expense related to amortization of the debt discount and issuance costs for the years ended December 31, 2016 and 2015 respectively. As of December 31, 2016, the unamortized discount and issuance cost is \$31,240.

# Notes to Consolidated Financial Statements (continued)

## NOTE 7 – DEBT FINANCING (continued)

The Company recorded \$249,054 and \$346,251 of interest expense on the loans for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016, \$1,226,574 was outstanding under this loan and security agreement.

### Convertible Bridge Notes Payable

In February and June 2015, the Company raised through a private placement of convertible bridge notes payable a total of \$4,959,987 in net cash proceeds. The convertible bridge notes had a stated interest rate of 7% per annum. All the outstanding convertible bridge notes payable and accrued unpaid interest of \$70,233 were converted into 4,412,474 shares of common stock as part of Company's IPO in June 2015.

### Lease Obligations

The Company leases its office space under a non-cancelable operating lease. Monthly base rent payments range from approximately \$13,300 to \$21,300. In July 2015, the Company signed an agreement to extend its current office space lease to September 30, 2019. Under the same lease agreement, the Company expanded the premises and leased additional office space commencing October 1, 2015.

The Company recognizes rent expense on a straight-line basis over the term of the lease. Rent expense (including common area maintenance) related to the Company's operating leases was \$513,794 and \$272,967 for the years ended December 31, 2016 and 2015, respectively. The deferred rent balance was \$68,908 and \$28,976 at December 31, 2016 and 2015, respectively.

## NOTE 8 – COMMITMENTS

As of December 31, 2016, the future rental commitments due under the lease are:

	2016
Years Ending December 31	\$
2017	401,842
2018	413,898
2019	317,356
<b>Total</b>	<b>\$ 1,133,096</b>



# Notes to Consolidated Financial Statements (continued)

## Indemnifications

The Company has agreed to indemnify its officers and directors for certain events or occurrences arising as a result of the officers or directors serving in such capacity. The Company has a directors and officers' liability insurance policy that limits its exposure and enables the Company to recover a portion of any future amounts paid resulting from the indemnification of its officers and directors. In addition, the Company enters into indemnification agreements with other parties in the ordinary course of business. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. The Company's management believes the estimated fair value of these indemnification agreements is minimal and has not recorded a liability for these agreements as of December 31, 2016 and 2015.

## Royalties

The Company uses AeroForm® technology in the products it is developing. AeroForm® embodies inventions that have been patented in certain key jurisdictions. Certain of those patents are held by Shalon Ventures (either alone or jointly with AirXpanders). Shalon Ventures and AirXpanders have entered into a License Agreement dated March 9, 2005 (as amended on March 9, 2009 and January 9, 2012) in relation to those inventions (Shalon Ventures License Agreement). Pursuant to the Shalon Ventures License Agreement, Shalon Ventures granted AirXpanders an exclusive license to develop, make, have made, use, offer for sale, sell, have sold, import and export products that, but for the license, would infringe one or more claims of the patents. The license covers all human uses of self-expanding tissue expanders anywhere in the world and includes the right to sublicense.

In consideration for the license, AirXpanders pays Shalon Ventures a running royalty of 3% of net sales of the licensed invention. If the amount of royalties paid in a calendar year is less than \$10,000, then AirXpanders shall also pay Shalon Ventures' out of pocket costs for prosecuting and maintaining the relevant patents. Each party indemnifies the other for any liability arising out of its material breach of the license, or its gross negligence, intentional misconduct and illegal actions. AirXpanders also indemnifies Shalon Ventures for any liability arising out of the commercialization of products using the license. Through the year ended December 31, 2016, the Company has incurred \$19,266 in royalty fees. Mr. Teddy Shalon and Mr. Barry Cheskin are directors and shareholders of the Company. Mr. Cheskin is also the co-founder and chairman of the board of the Company. Mr. Shalon is the Chief Executive Officer and sole shareholder of Shalon Ventures. Mr. Shalon and Mr. Cheskin are each party to an agreement with Shalon Ventures, under which Shalon Ventures has agreed to pay Mr. Shalon 58%, and Mr. Cheskin 8%, of any royalties due to Shalon Ventures from AirXpanders under the Shalon Ventures License Agreement.

# Notes to Consolidated Financial Statements (continued)

## NOTE 9 – COMMON STOCK

In May 2015, the Company's shareholders approved a 5-for-1 reverse stock split of all outstanding common stock and all securities exercisable into common stock.

The Company's Articles of Incorporation, as amended, authorize the Company to issue 300,000,000 shares of \$0.001 par value common stock consisting of 200,000,000 shares of common stock Class A and 100,000,000 shares of common stock Class B. Class A common stockholders are entitled to dividends when and if declared by the Board of Directors, Class B common stockholders are not entitled to any dividends. The holder of each share of Class A common stock is entitled to one vote and holders of Class B common stock are not entitled to vote. At December 31, 2016 and 2015, no dividends had been declared for common stock. At December 31, 2016, 79,241,708 and no shares of common stock Class A and Class B respectively, were issued and outstanding.

As of December 31, 2016 and 2015, common stock that the Company had reserved for issuance was as follows:

	2016	2015
Warrants for common and convertible preferred shares	336,814	386,814
Stock option plans	6,956,580	5,590,619
<b>Total</b>	<b>7,293,394</b>	<b>5,977,433</b>

In June 2016, the Company issued 8,771,930 shares of common stock in connection with an equity offering on the ASX. The Company cash proceeds were \$14,158,511, net of issuance costs of \$731,489.

In June 2015, the Company issued 29,629,654 shares of common stock in connection with an IPO on the ASX and conversion of convertible bridge notes payable and related accrued interest. The Company raised a total of \$30,089,162, net of issuance costs of \$2,872,649. Of this amount \$28,001,824 (AU\$36.5 million) were cash proceeds directly from the IPO; \$4,959,987 were cash proceeds from the private placement of convertible bridge notes payable.

# Notes to Consolidated Financial Statements (continued)

## NOTE 10 – CONVERTIBLE PREFERRED STOCK

The Company issued Series A, B, B-1, C, D and E convertible preferred stock during the period from 2005 through 2014, raising a total of \$30,393,627 in cash, net of issuance costs of \$595,493.

As part of Company's IPO in June 2015, all outstanding convertible preferred stock was converted into common stock. Series A, B, B-1 and E convertible preferred stock were converted to common stock at a 1:1 ratio, Series C convertible preferred stock was converted to common at a 1.25:1 ratio and Series D convertible preferred stock was converted to common at a 1.35:1 ratio. After conversion of all preferred stock to common stock, the Company cancelled all existing series of preferred stock.

The Company's Certificate of Incorporation, as amended, authorize the Company to issue 10,000,000 authorized shares of preferred stock, with rights and privileges for preferred stock to be determined by Company's Board of Directors before issuing preferred shares. At December 31, 2016, there are no outstanding shares of preferred stock.

## NOTE 11 – STOCK WARRANTS

The Company accounts for warrants in accordance with ASC 480, "*Distinguishing Liabilities from Equity*" ("ASC 480"). Under ASC 480, warrants containing certain features, such as put rights and anti-dilution protection, are required to be accounted for as liabilities and recorded at fair value, with changes in fair value being recorded in the statement of operations. The Company's preferred stock warrants prior to conversion to common stock warrants had contained such features, requiring liability accounting.

As part of Company's IPO in June 2015, all outstanding preferred stock warrants were converted into warrants for common stock. As a result of this conversion, the warrants liabilities for \$122,516 were reclassified to additional paid in capital. The Company is required to reserve authorized but unissued shares of its common stock in an amount equal to the number of warrant shares purchasable under the arrangements described below.

The warrant liabilities were revalued at the end of each reporting period and through June 2015 the date of conversion to common stock warrants with the changes in fair value recorded in other income (expense) in the statements of operations.

The changes in fair value of these warrants recorded as other income (expense) for the year ended December 31, 2015 totaled (\$41,623).

The fair value of the warrant liabilities was estimated using Black-Scholes model using the following assumptions for 2015 at the date of conversion:

	2015
Stock price	\$1.16
Expected term (years)	0.62 – 8.67 years
Volatility	33.06 – 43.08%
Risk-free interest rate	0.24 – 1.99%
Dividend yield	0%

# Notes to Consolidated Financial Statements (continued)

## NOTE 11 – STOCK WARRANTS (continued)

The Company's outstanding warrants consisted of the following as of December 31:

	2016	2015
Warrants; exercisable in common stock, exercise price		
\$2.381 per share, expired in March 2016	-	50,000
Warrants; exercisable in common stock, exercise price		
\$0.05 per share, expiring in June 2018	119,314	119,314
Warrants; exercisable in common stock, exercise price		
\$0.05 per share, expiring in October 2018	5,000	5,000
Warrants; exercisable in common stock, exercise price		
\$1.25 per share, expiring in February 2021	120,000	120,000
Warrants; exercisable in common stock, exercise price		
\$1.00 per share, expiring in January 2023	40,000	40,000
Warrants; exercisable in common stock, exercise price		
\$1.00 per share, expiring in January 2024	52,500	52,500
<b>Total</b>	<b>336,814</b>	<b>386,814</b>

## NOTE 12 – STOCK-BASED COMPENSATION

In March 2005, the Company adopted the 2005 Equity Incentive Plan (the "2005 Plan"). In May 2015 the Company adopted the 2015 Equity Incentive Plan (the "2015 Plan") collectively, (the "Plans"). The Plans provide for the granting of stock options to employees and consultants of the Company. Options granted under the Plan may be either incentive stock options or nonqualified stock options. Incentive stock options (ISO) may be granted only to Company employees (including officers and directors who are also employees). Nonqualified stock options (NSO) may be granted to Company employees and consultants.

In May 2013, the 2005 Plan was amended to increase the number of shares reserved for issuance under the Plan to 6,170,159 shares of common stock.

During the year ended December 31, 2015, the 2005 Plan expired and no future options can be granted under the 2005 Plan.

The Company has reserved 1,500,000 shares under the 2015 Plan in addition a total of 4,099,835 shares reserved under the 2005 Plan will be added to 2015 plan if and when the underlying options are cancelled. Pursuant to the 2015 Plan's "evergreen" provision, on the first day of each calendar year beginning in 2016, the number of shares reserved and available for issuance will be increased by an amount equal to 2.0% of the total number of shares of capital stock outstanding on December 31st of the preceding calendar year, subject to a cap equal to 10% of the fully diluted number of shares of capital stock of the Company as of the same date.

# Notes to Consolidated Financial Statements (continued)

Options under the Plans may be granted for periods of up to 10 years and at prices no less than 100% of the estimated fair value of the shares on the date of grant. In the case of an Incentive Stock Option granted to a holder who, at the time the Option is granted, owns stock representing more than 10% of the voting power of all classes of stock of the Company, the term of the Option shall be up to 5 years from the date of grant and at no less than 110% of the estimated fair value of the shares on the date of grant. Options granted generally vest 1/4 on the 12-month anniversary of the vesting commencement date and 1/48 on each monthly anniversary thereafter.

At December 31, 2016 and 2015, 5,216,327 and 4,127,900 options were vested and expected to vest with a weighted-average exercise price of \$0.3775 and \$0.3329 and weighted average remaining contractual life of 6.60 and 6.57 years, respectively. The weighted average grant date fair value per share of options granted during the years ended December 31, 2016 and 2015 was \$0.8553 and \$0.3439, respectively. The fair value of shares vested during the years ended December 31, 2016 and 2015 was \$226,611 and \$96,344, respectively. The weighted average exercise price of options exercised during the year ended December 31, 2016 and 2015 was \$0.25 and \$0.18, respectively. The intrinsic value of the options exercised during the year ended December 31, 2016 and 2015 was \$98,407 and \$5,343, respectively.

In connection with the grant of stock options to employees and non-employees, the Company recorded stock compensation expense as follows:

December 31	2016	2015
	\$	\$
Cost of goods sold	\$ 44,446	\$ -
Research and development	32,448	-
Selling, general and administrative	300,478	111,503
<b>Total</b>	<b>\$ 377,372</b>	<b>\$ 111,503</b>

As of December 31, 2016, unrecognized compensation expense related to employees and to non-employees totaled \$989,480 and \$94,974, respectively, and will be recognized over approximately 3.1 years and 2.4 years, respectively.

# Notes to Consolidated Financial Statements (continued)

## NOTE 12 – STOCK-BASED COMPENSATION (continued)

Activity under the Plan is set forth below:

	Options Available for Grant	Number of Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life in Years
<b>Balance – December 31, 2014</b>	<b>1,516,823</b>	<b>3,845,709</b>	<b>\$ 0.30</b>	<b>7.33</b>
Additional shares reserved (net of released)	231,052	-	\$ -	-
Options granted	(357,127)	357,127	\$ 0.90	-
Options exercised	-	(2,965)	\$ 0.18	-
Options forfeited/cancelled	28,579	(28,579)	\$ 0.96	-
<b>Balance – December 31, 2015</b>	<b>1,419,327</b>	<b>4,171,292</b>	<b>\$ 0.33</b>	<b>6.57</b>
Additional shares reserved (net of released)	1,408,544	-	\$ -	-
Options granted	(1,531,169)	1,531,169	\$ 2.44	-
Options exercised	-	(42,583)	\$ 0.25	-
Options forfeited/cancelled	304,176	(304,176)	\$ 0.60	-
<b>Balance December 31, 2016</b>	<b>1,600,878</b>	<b>5,355,702</b>	<b>\$ 0.92</b>	<b>6.60</b>

The fair value of options granted to employees was estimated at the date of grant using the following assumptions for the years ended December 31:

	2016	2015
Expected term (years)	5.54 – 6.08 years	5.83 – 6.58 years
Volatility	33.73 – 34.87%	34.91 – 43.52%
Risk-free interest rate	1.18 – 1.86%	1.44 – 1.85%
Dividend yield	- %	- %

# Notes to Consolidated Financial Statements (continued)

## NOTE 13 – INCOME TAXES

The Company had an effective tax rate of 0.0%, and 0.0% for the years ended December 31, 2016, and 2015, respectively.

Reconciliations of the provision for income taxes at the statutory rate to the Company's provision for income tax is as follows:

	December 31	
	2016	2015
	\$	\$
U.S. Federal (tax benefit) provision at statutory rate	\$ (6,603,513)	\$ (3,794,585)
State (tax benefit) income taxes, net of federal benefit	-	(83,088)
Stock-based compensation	52,898	27,101
Change in valuation allowance	6,813,191	4,063,669
Research and development credits	(276,664)	(223,914)
Others permanent differences	14,088	10,817
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>

The significant components of the net deferred tax asset are as follows:

	December 31	
	2016	2015
	\$	\$
Gross deferred income tax assets		
Net operating loss carryforwards	\$ 23,640,605	\$ 17,561,629
R&D credits	1,053,563	801,566
Property and equipment (depreciation)	(45,884)	(75,493)
Others	1,410,946	420,459
Total deferred tax assets	26,059,230	18,708,161
Valuation allowance	(26,059,230)	(18,708,161)
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>

A valuation allowance has been recorded for the entire amount of the Company's deferred tax assets as a result of uncertainties regarding the realization of the deferred tax assets. The change in the valuation allowance totaled \$7,351,069 and \$4,033,342 for the years ended December 31, 2016 and 2015, respectively, principally due to increases in the valuation allowance associated with increased net operating losses.



# Notes to Consolidated Financial Statements (continued)

---

## NOTE 13 – INCOME TAXES (continued)

As of December 31, 2016, the Company had net operating loss carryforwards for federal and state income tax reporting purposes of approximately \$63,168,055 and \$37,081,213 respectively. As of December 31, 2016, the Company also had Federal and California research and development tax credit carryforwards of approximately \$662,756 and \$592,132 respectively. The Federal net operating loss and tax credit carryforwards will expire at various dates beginning in 2025 through 2036. The California net operating loss carryforwards will expire at various dates beginning in 2017 through 2036. The California research and development tax credit carryforwards have no expiration date.

Utilization of the NOL and tax credit carryforwards may be subject to a substantial annual limitation due to ownership change limitations that may have occurred or that could occur in the future, as required by the Internal Revenue Code (the “Code”), as well as similar state provisions. In general, an “ownership change” as defined by the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain stockholders or public groups.

Since the Company’s formation, the Company has raised capital through the issuance of capital stock on several occasions which, combined with the purchasing stockholders’ subsequent disposition of those shares, may have resulted in such an ownership change, or could result in an ownership change in the future upon subsequent disposition. The annual limitation may result in the expiration of NOL and tax credit carryforwards before utilization.

The Company has not completed a study to assess whether an ownership change has occurred or whether there have been multiple ownership changes since the Company’s formation due to the complexity and cost associated with such a study, and the fact that there may be additional such ownership changes in the future. If the Company has experienced an ownership change at any time since its formation, utilization of the NOL or tax credit carryforwards to offset future taxable income and taxes, respectively, would be subject to an annual limitation under the Code, which is determined by first multiplying the value of the Company’s stock at the time of the ownership change by the applicable long-term, tax-exempt rate, and then could be subject to additional adjustments, as required. Any limitation may result in expiration of all or a portion of the NOL or tax credit carryforwards before utilization.

The Company maintains a full valuation allowance for its deferred tax assets due to its historical losses and uncertainties surrounding its ability to generate future taxable income to realize these assets. Due to the existence of the valuation allowance, future changes in any unrecognized tax benefits and recognizable deferred tax benefits after the completion of an ownership change analysis is not expected to impact its effective tax rate.

# Notes to Consolidated Financial Statements (continued)

The following table displays by contributing factor the changes in the valuation allowance for deferred tax assets since:

	December 31	
	2016	2015
	\$	\$
Balance at the beginning of the period	\$ 18,708,161	\$ 14,674,819
Net operating loss generated	6,078,975	3,592,882
R&D tax credit increase	251,998	211,630
Depreciation and amortization increase (decrease)	29,608	(44,346)
Reserves and accruals increase	990,487	273,176
<b>Balance at the end of the period</b>	<b>\$ 26,059,229</b>	<b>\$ 18,708,161</b>

The following table reflects changes in the unrecognized tax benefits since January 1, 2015:

	December 31	
	2016	2015
	\$	\$
Gross amount of unrecognized tax benefits as of the beginning of the period	\$ 799,815	\$ -
Increase related to current year tax provision	743,908	-
<b>Gross amount of unrecognized tax benefits as of the end of the period</b>	<b>\$ 1,543,723</b>	<b>\$ -</b>

The Company files income tax returns in the United States on federal basis and various states. The Company is not currently under any international or any United States federal, state and local income tax examinations for any taxable years. A number of the Company's tax returns remain subject to examination by taxing authorities: these include U.S. federal and state tax returns from 2012 forward.

## NOTE 14 – RETIREMENT PLAN

The Company has a salary deferral plan under Section 401(k) of the Internal Revenue Code. The plan allows eligible employees to defer a portion of their compensation ranging from 1% to the maximum allowable dollar limit which is set by law. Such deferrals accumulate on a tax deferred basis until the employee withdraws the funds. The Company, at its option, may match a portion of the employees' contribution. During the years ended December 31, 2016 and 2015, the Company made no matching contributions.

# Notes to Consolidated Financial Statements (continued)

---

## **NOTE 15 – MANAGEMENT INCENTIVE PLAN**

On May 30, 2013, the Company adopted a management incentive plan that establishes a bonus pool with the objective of retaining its key employees and service providers through a potential Corporate Transaction, as defined in the plan. The plan provides for up to 7% of the total proceeds in a Corporate Transaction to be paid to key employees covered under the Plan. The plan was terminated in June 2015 as of the Company's IPO and as a result no amounts were paid under the plan.

## **NOTE 16 – SUBSEQUENT EVENTS**

In February 2017, the Company issued 16,304,348 shares of common stock in connection with an equity offering on the ASX. The Company raised a total of \$34,110,563, net of issuance costs of \$1,364,423.

The Company has performed an evaluation of subsequent events through February 27, 2017 which is the date these consolidated financial statements were issued.

---

# Shareholder Information

## Overview

The Company has securities listed for quotation in the form of CHESS Depositary Interests (CDIs) on the Australian Securities Exchange (ASX) that trade under the symbol "AXP".

Each share of Class A common stock (Share) is equivalent to 3 CDIs.

The information below was applicable as at 15 March 2017.

The Company's share capital is as follows:

Type of Security	Number of Securities
<b>Total number of issued Shares (1)</b>	<b>95,858,584</b>
<b>Total number of CDIs assuming all Shares held as CDIs</b>	<b>287,575,752</b>

(1) Includes Shares held by CHESS Depositary Nominees Pty Limited (CDN).

# Shareholder Information

## Substantial holders

The names of substantial holders in the Company and their respective equity holdings (to the best of the Company's knowledge) follow below:

Name	Date of becoming a substantial holder	Number of equity securities	Percentage of voting power
<b>Citicorp Nominees Pty Limited (1)</b>	3 February 2017	Total holding: 80,492,554 CDIs	<b>28.0%</b>
<b>Vivo (2)</b>	18 January 2012	Total holding: equivalent to 50,526,477 CDIs (Consisting of: 38,763,033 CDIs (representing 12,921,011 Shares of Class A common stock (Shares)) and 3,921,148 Shares (equivalent to 11,763,444 CDIs))	<b>17.6%</b>
<b>GBS Venture Partners Pty Ltd as Trustee for the GBS Bioventures IV Trust</b>	21 April 2010	Total holding: equivalent to 44,804,359 CDIs (Consisting of: 34,099,945 CDIs and 3,568,138 Shares (equivalent to 10,704,414 CDIs))	<b>15.6%</b>
<b>J P Morgan Nominees Australia Limited (1)</b>	29 June 2015	Total holding: 30,258,846 CDIs	<b>10.5%</b>
<b>Prolog Capital II, L.P.</b>	13 March 2009	Total holding: equivalent to 20,061,877 CDIs. (Consisting of: 15,108,988 CDIs (representing 5,036,329 Shares) and 1,650,963 Shares (equivalent to 4,952,889 CDIs))	<b>6.9%</b>
<b>Regal Funds Management Pty Ltd</b>	9 June 2016	Total holding: 16,902,205 CDIs	<b>5.9%</b>
<b>National Nominees Limited (1)</b>	24 February 2017	Total holding: 14,823,214 CDIs	<b>5.2%</b>
<b>UBS Nominees Pty Ltd (1)</b>	3 February 2017	Total holding: 14,628,151 CDIs	<b>5.1%</b>

(1) The Company is not aware of the extent (if any) to which the holdings of Citicorp Nominees Pty Limited, J P Morgan Nominees Australia Limited, National Nominees Limited and UBS Nominees Pty Ltd are subject to an exception listed in section 609 of the Corporations Act.

(2) Vivo includes: Vivo Ventures Fund VII, L.P. (Total: equivalent to 49,448,751 CDIs: consisting of 37,936,221 CDIs (representing 12,645,407 Shares) and 3,837,510 Shares (equivalent to 11,512,530 CDIs) and Vivo Ventures VII Affiliates Fund, L.P. (Total: equivalent to 1,077,726 CDIs: consisting of 826,812 CDIs (representing 275,604 Shares) and 83,638 Shares (equivalent to 250,914 CDIs).

For the purpose of the above table, a "substantial holder" is a security holder, who together with their associates, have a relevant interest (within the meaning of section 608 of the Australian Corporations Act) in securities representing 5% or more of the total number of votes attached to voting shares in the Company.

# Shareholder Information

## Distribution Schedules

The following table is a distribution schedule of the number of holders of CDIs and Shares (as-converted to CDIs) as at 15 March 2017:

Category	Number of Holders
1 -1,000	511
1,001 – 5,000	795
5,001 – 10,000	271
10,001 – 100,000	510
100,001 and over	101
Total	2,188

Includes 2,140 holders of CDIs and 53 holders of Shares (excluding CDN).

## Unmarketable Parcels

There were 277 holders of CDIs and Shares (as-converted to CDIs) holding less than a marketable parcel of CDIs (being a parcel of securities not less than \$500).

# Shareholder Information

## Top 20 Holders

Set out below is a schedule of the 20 largest holders of securities (CDIs and Shares, as-converted to CDIs) in the Company, including the number and percentage held by those holders as at 15 March 2017. [Related but separate legal entities are not aggregated for the purposes of the table below.]

Name of registered holder		Number (or equivalent number) of CDIs held	Percentage
1	CITICORP NOMINEES PTY LIMITED	80,492,554	28.0%
2	GBS VENTURE PARTNERS PTY LTD <GBS BIOVENTURES IV A/C>	44,804,359	15.6%
3	J P MORGAN NOMINEES AUSTRALIA LIMITED	30,258,846	10.5%
4	NATIONAL NOMINEES LIMITED	14,823,214	5.2%
5	UBS NOMINEES PTY LTD	14,628,151	5.1%
6	VIVO VENTURES FUND VII L.P. AND VIVO VENTURES FUND VII AFFILIATES FUND L.P.	11,763,444	4.1%
7	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	11,278,917	3.9%
8	CORRELATION VENTURES LP	7,565,481	2.6%
9	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	5,233,074	1.8%
10	PROLOG CAPITAL II L.P.	4,952,889	1.7%
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	3,629,080	1.3%
12	BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	3,082,114	1.1%
13	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	3,034,809	1.1%
14	HERON CAPITAL VENTURE FUND I L.P.	1,990,629	0.7%
15	BOND STREET CUSTODIANS LIMITED <LAM1 - D08047 A/C>	1,700,000	0.6%
16	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PISELECT>	1,454,739	0.5%
17	MOORE FAMILY NOMINEE PTY LTD <MOORE FAMILY S/FUND A/C>	1,300,000	0.5%
18	PODESTA FAMILY GROUP PTY LTD <PODESTA FAMILY GROUP A/C>	1,220,000	0.4%
19	CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	1,039,964	0.4%
20	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	882,284	0.3%
<b>Totals: Top 20 holders of Securities</b>		<b>245,134,548</b>	<b>85.2%</b>
<b>Total Remaining Holders Balance</b>		<b>42,441,204</b>	<b>14.8%</b>
<b>Total Number (or equivalent number) of CDIs held</b>		<b>287,575,752</b>	

## Shareholder Information

### Options (not listed on ASX)

As at 15 March 2017, there were 5,791,240 options on issue to purchase Shares (Options) (equivalent to 17,373,720 CDIs) under the Company's 2005 Equity Incentive Plan and 2015 Equity Incentive Plan. The number of holders of Options at 15 March 2017 was 98.

The following table is a distribution schedule of the number of holders of Options (as-converted to CDIs) as at 15 March 2017:

Category	Number of Holders
1 -1,000	-
1,001 – 5,000	34
5,001 – 10,000	14
10,001 – 100,000	42
100,001 and over	8
<b>Total</b>	<b>98</b>

### Warrants (not listed on ASX)

As at 15 March 2017, there were 469,970 warrants to acquire a total of 469,970 Shares (Warrants) (equivalent to 1,409,910 CDIs). The number of holders of Warrants at 15 March 2017 was 13. [Oxford Finance Funding I, LLC holds 160,000 Warrants and is the only holder with more than 20% of the total number of warrants.]

The following table is a distribution schedule of the number of holders of Warrants (as-converted to CDIs) as at 15 March 2017:

Category	Number of Holders
1 -1,000	-
1,001 – 5,000	2
5,001 – 10,000	1
10,001 – 100,000	8
100,001 and over	1
<b>Total</b>	<b>12</b>



# Shareholder Information

---

## ASX restrictions

The number of Shares and Options subject to ASX restriction and the restriction period applying to those Shares and Options is as follows:

Restriction period	Number of restricted securities
Until 22 June 2017	827,758 Shares
	2,856,452 Options

## Voluntary escrow

The number of Shares, Options, Warrants and CDIs subject to voluntary restriction and the restriction period applying to those Shares, Options, Warrants and CDIs is as follows:

Escrow period	Number of escrowed securities
Until 22 June 2017	10,774,730 Shares
	693,039 CDIs
	114,441 Options
	37,039 Warrants

# Shareholder Information

---

## Voting Rights

Every holder of Shares present in person or by proxy is entitled to one vote for each Share held on the record date for the meeting on all matters submitted to a vote of Shareholders.

CDI Holders may attend and vote at AirXpanders' general meetings. The Company must allow CDI Holders to attend any meeting of Shareholders unless relevant US law at the time of the meeting prevents CDI Holders from attending those meetings.

In order to vote at such meetings, CDI Holders may:

- instruct CDN, as the legal owner, to vote the Shares underlying their CDIs in a particular manner. A voting instruction form will be sent to CDI Holders with the notice of meeting or proxy statement for the meeting and this must be completed and returned to the Registry before the meeting;
- inform AirXpanders that they wish to nominate themselves or another person to be appointed as CDN's proxy for the purposes of attending and voting at the general meeting; or
- convert their CDIs into a holding of Shares and vote these at the meeting. Afterwards, if the former CDI Holder wishes to sell their investment on the ASX it would need to convert the Shares back to CDIs. In order to vote in person, the conversion from CDIs to Shares must be completed before the record date for the meeting.

One of the above steps must be undertaken before CDI Holders can vote at Shareholder meetings.

Proxy forms, CDI voting instruction forms and details of these alternatives will be included in each notice of meeting or proxy statement sent to CDI Holders by AirXpanders.

Holders of issued but unexercised options and warrants are not entitled to vote.

# Shareholder Information

---

## Required Statements

- (a) There is no current on-market buy-back of the Company's securities.
- (b) The Company is incorporated in the state of Delaware in the United States of America.
- (c) The Company is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act 2001 (Cth) dealing with the acquisition of shares (ie, substantial holdings and takeovers).
- (d) The Company's securities are not quoted on any exchange other than the ASX.
- (e) Under the Delaware law, shares are generally freely transferable, subject to restrictions imposed by US federal or state securities laws, by a company's certificate of incorporation or by-laws, or by an agreement signed with the holders of the shares at issue. The Company's amended and restated certificate of incorporation and amended and restated by-laws do not impose any specific restrictions on transfer.
- (f) The Company has used the cash (and assets in a form readily convertible to cash) that it had at the time of admission to the ASX in a manner consistent with its business objectives (as described in the Prospectus lodged with the Australian Securities and Investments Commission with respect to the Company's initial public offering) from the time of admission to the ASX in June 2015 through to 31 December 2016.
- (g) The name of the Australian Secretary is Brendan Case.
- (h) The address and telephone number of our principal registered office in Australia is:  
  
Level 13, 41 Exhibition Street  
Melbourne, Victoria 3000  
Telephone: + 61 410 442 393
- (i) The address and telephone number of our office in the United States, which is our principal administrative office, is:  
  
1047 Elwell Court  
Palo Alto, California 94303  
+1 650 390 9000
- (j) Register of CDIs:

**Computershare Investor Services Pty Ltd**

GPO Box 2975, Melbourne Victoria 3001, Australia  
Telephone: 1300 850 505 (within Australia)  
or +61 3 9415 4000 (outside Australia)

**Register of Shares:**

Computershare, Inc.  
250 Royall Street, Canton, MA 02021, United States of America  
Telephone: +1 800 962 4284

# Corporate Directory

---

## Board of Directors

**Mr Barry Cheskin**, Chairman  
**Mr Scott Dodson**, President and CEO  
**Mr Dennis Condon**, Non-executive Director  
**Mr Gregory Lichtwardt**, Non-executive Director  
**Mr Zita Peach**, Non-executive Director  
**Mr Teddy Shalon**, Non-executive Director

## Executive Team

**Mr Scott Dodson**, President and CEO  
**Mr Scott Murcay**, CFO / COO  
**Mr Anthony Carnemolla**, VP of Sales  
**Ms Gwen Drain**, Senior Director, Human Resources  
**Ms Kathy Kelley**, Senior Director, Clinical Affairs  
**Ms Jennie Kim**, Senior Director, Global Marketing  
**Mr Mark Payne**, Senior Director, Research & Development  
**Mr Tony Morefield**, VP of Operations  
**Ms Kirsty Amland**, Business Director, Asia Pacific

## Company – US Office & Headquarters

**AirXpanders Inc.**  
1047 Elwell Court  
Palo Alto, California 94303  
United States of America  
Telephone: +1 650 390 9000  
[www.airxpanders.com](http://www.airxpanders.com)

## Company - Registered Office in Australia

**c/- Case Corporate Governance Pty Ltd**  
Level 13, 41 Exhibition Street  
Melbourne, Victoria 3000  
Australia

## Auditor

**SingerLewak LLP**  
100 West San Fernando Street, Suite 275  
San Jose, California 95113  
United States of America  
**Telephone:** +1 408 294 3924  
[www.singerlewak.com](http://www.singerlewak.com)

## CDI Registry

**Computershare Investor Services Pty Ltd**  
GPO Box 2975, Melbourne Victoria 3001, Australia  
**Telephone:** 1300 850 505 (within Australia) or  
+61 3 9415 4000 (outside Australia)

## Investor Relations

**Kyahn Williamson**  
**WE Buchan**  
**Telephone:** +61 (3) 9866 4722 / + 61 (0)401018828  
Email: [kwilliamson@buchanwe.com.au](mailto:kwilliamson@buchanwe.com.au)

## Annual Meeting Date & Place

The Annual Meeting of Stockholders of the Company will be held at **Johnson Winter & Slattery's** Melbourne office, Level 34, 55 Collins Street, Melbourne, Victoria, Australia on Tuesday, 23 May 2017 at 9.00am Australian Eastern Standard Time (Monday, 22 May 2017 at 4.00pm U.S. Pacific Standard Time).

## Australian legal advisor

**Johnson Winter & Slattery**  
Level 25, Bond Street  
Sydney, New South Wales 2000  
Australia  
**Telephone:** +61 2 8274 9555  
[www.jws.com.au](http://www.jws.com.au)

## US legal advisor

**Cooley LLP**  
3175 Hanover Street, Palo Alto, California 94304-1130  
United States of America  
**Telephone:** + 1 650 843 5000  
[www.cooley.com](http://www.cooley.com)

## ASX Code

**AXP**

AirXpanders Inc

ABN: 28 604 398 423

Level 13, 41 Exhibition St  
Melbourne VIC 3000

**Customer Service:** 1-800-778-662

**Email:** [info@airxpanders.com](mailto:info@airxpanders.com)

[www.airxpanders.com](http://www.airxpanders.com)