

Micro-X Ltd
Appendix 4E
Preliminary final report

1. Group details

Name of entity:	Micro-X Ltd
ABN:	21 153 273 735
Reporting period:	For the year ended 30 June 2018
Previous period:	For the year ended 30 June 2017

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	144% to	1,607
Loss from ordinary activities after tax attributable to the owners of Micro-X Ltd	up	28% to	(16,595)
Loss for the year attributable to the owners of Micro-X Ltd	up	28% to	(16,595)

Dividends

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

Comments

The loss for the Group after providing for income tax amounted to \$16,595,000 (30 June 2017: \$12,920,000).

Refer to the Director's report in the 2018 Annual Report for additional information in the results during the financial year.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(2.05)	9.14

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
XinRay Systems Inc.	30%	30%	(248)	(491)
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			(248)	(491)
Income tax on operating activities			-	-

The Group made an assessment to impair the carrying amount of the investment in XinRay to \$1.9M (30 June 2017: \$8.8M), this is the Group's share in net assets (30%).

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

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

11. Attachments

Details of attachments (if any):

The Annual Financial Report of Micro-X Ltd for the year ended 30 June 2018 is attached.

Micro-X Ltd
Appendix 4E
Preliminary final report

12. Signed

Signed  _____

Patrick O'Brien
Non-Executive Chairman

Date: 29 August 2018

Micro-X Ltd

ABN 21 153 273 735

Annual Financial Report - 30 June 2018

Micro-X Ltd
Corporate directory
For the year ended 30 June 2018

Directors

Peter Robin Rowland (Managing Director)
Patrick Gerard O'Brien (Non-Executive Chairman)
Richard Nicholas Hannebery (Executive Director)
David Peter Neil Symons (Non-Executive Director)
Alexander Bennett Gosling (Non-Executive Director)
Yasmin Anna King (Non-Executive Director)
James White McDowell (Non-Executive Director) - Appointed 7 September 2017,
Resigning 31 August 2018

Company secretary

Georgina Carpendale

Registered office

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

Principal place of business

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

Share register

Computershare Investors Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford, VIC 3067
Phone: 1300 555 159 (within Australia)
Phone: +61 3 8320 4062 (outside Australia)

Auditor

Grant Thornton Audit Pty Ltd
Collins Square, Tower 1
727 Collins Street
Docklands, VIC 3008
Phone: +61 3 8320 2222

Stock exchange listing

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

Website

www.micro-x.com

Micro-X Ltd
Contents
For the year ended 30 June 2018

Directors' report	3
Auditor's independence declaration	22
Statement of profit or loss and other comprehensive income	23
Statement of financial position	24
Statement of changes in equity	25
Statement of cash flows	26
Notes to the financial statements	27
Directors' declaration	56
Independent auditor's report to the members of Micro-X Ltd	57
Shareholder information	62

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

The directors present their report, together with the financial statements, on the Group for the year ended 30 June 2018.

Directors

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

Peter Robin Rowland (Managing Director)
Patrick Gerard O'Brien (Non-Executive Chairman)
Richard Nicholas Hannebery (Executive Director)
David Peter Neil Symons (Non-Executive Director)
Alexander Bennett Gosling (Non-Executive Director)
Yasmin Anna King (Non-Executive Director)
James White McDowell (Non-Executive Director) - Appointed 7 September 2017, Resigning 31 August 2018

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

Principal activities

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

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

Dividends

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

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

Review of operations

Financial Overview:

The loss for the Group after providing for income tax amounted to \$16,595,000 compared with a loss in the previous year of \$12,920,000.

The majority of the loss was due to \$7.3M in expenditure on research and development activity. Most of this was for the continuation of development and productionisation of Micro-X's first product, the Carestream DRX Revolution Nano ('Nano'); the remainder being activity in completing the Australian Department of Defence contract for the Capability Technology Demonstrator of the 'Rover' military mobile imager and the Mobile Backscatter Imager (MBI).

The increase in the loss for the year was due to a once-off \$6.8M impairment charge which was recognised in relation to the Group's investment in XinRay Systems Inc. in North Carolina. The impairment reflects the terms of agreement between XinRay and NuRay Technology Co. Ltd, a joint venture Group based in Jintan, China in which XinRay has a 30% ownership. It is unclear if the future revenues expected to be earned by XinRay through the NuRay Technology joint venture will support the current carrying value of Micro-X's investment in XinRay. Therefore, the Micro-X Board prefers that a lower risk approach be taken in respect of the underlying calculations supporting the carrying amount. The impairment is a non-cash charge and the revenue effects on all of Micro-X's planned future products are not incorporated in the calculation. This review thus in no way reflects upon Micro-X's future business.

During the year the Group undertook a successful capital raising via an unsecured mandatorily convertible note issue for \$5.0M. This raising was completed on 27th March 2018. Costs in relation to the issue were recognised in our statement of profit and loss. During the year the Group executed a loan facility agreement with R&D Capital in relation to an R&D (Research & Development) Tax Prepayment Loan. The total facility value is \$3.2M, with \$1.6M drawn down as at the year end. The loan is payable upon receipt of FY18 R&D Tax Refund from the Australian Tax Office.

A Research and Development Tax Incentive cash refund for \$7.0M was received in August 2017 for the 2016/17 financial year.

Revenues were received in respect of contract work undertaken for the Australian Department of Defence and sales of units and service spares of the DRX Revolution Nano to Carestream Health.

The Carestream DRX Revolution Nano:

The Group experienced some significant delays in the commercialisation program of the DRX Revolution Nano during the year. Most of these were due to issues in the supply chain associated with poor yield of the x-ray tube which is sourced from Micro-X's technology partner, XinRay Systems, based in North Carolina. The cause of the issues was poor management of processes and quality in the transition from early, low volume, prototype operations to full production methods and processes. The problems were solved by Micro-X inserting a significant team of ex-GM Holden production supply-chain quality management experts from Adelaide, into North Carolina to improve and manage the production activities and control supplier quality. Carestream's help in this process with people and resources from Rochester NY is gratefully acknowledged in overcoming this hurdle and proving the effectiveness of the intervention in production validation.

Micro-X used the hiatus these issues caused wisely to simultaneously increase the scope and extent of its product reliability growth and proving program. A total of eight Nano carts were put through a simulated use cycle of movements, impacts and x-ray imaging which was accelerated to accumulate ten years of expected use in a few months. A significant number of mechanical wear and fatigue issues were uncovered and fixed in this test program. This investment gives Micro-X great confidence in the in-service life and reliability of the product.

With the last of the design changes from the reliability program introduced, the final cart design was verified and production processes validated so that in October 2017 Carestream officially accepted the 'First from Production' units and commenced preparations for product launch with a program of in-house quality proving and clinical testing in a number of hospital sites. End-user operational training and documentation was developed and tested; service training courses and documentation were developed and deployed. Carestream and Micro-X share a common view on the criticality of a successful product launch; The 'Nano' will be the first product in the history of medical x-ray imaging not to use a heated filament and so the demonstrated reliability in the first product sales will define the acceptance of this technology and the CNT brand for its life.

Market reaction to the product was extremely positive when it was displayed at the Radiological Society of North America (RSNA) in Chicago in December 2017 and in March 2018, following a successful exhibition at the European Congress of Radiology held in Vienna, the 'Carestream DRX Revolution Nano' officially was offered for sale. Micro-X received a \$1.8 million purchase order from Carestream for Nano units and spare parts to support Carestream's increasing sales and

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

marketing activities and provide initial stock for first customer sales.

The Carestream DRX Revolution Nano was recognised by an international panel of jurors in May 2018 with a 'Best in Class' win in the Good Design Awards. The Awards Jury commented "This is a brilliant design solution with a very high standard of manufacturing and carefully considered raw materials selection. Good design and innovation at its best."

Some early production deliveries to Carestream have, unfortunately, experienced malfunctions following air cargo shipment to New York. The cause of this problem has been identified as a consequence of experiencing impact shocks significantly in excess of the transportation specifications to which the carts were originally tested. Micro-X has developed a change to production processes which has now been proven to fix this problem and with confidence restored, production deliveries are re-commencing as this Annual Report is in preparation.

The difficulties and delays which have been encountered in the Nano program, whilst regrettable, are in hindsight not unusual in the development of such a radical new technology. The biggest achievement of this year in review is that these problems have been quickly identified and rectified by the Micro-X team. This stands proud witness to the team's exceptional culture, skills, energy and perseverance. Micro-X and Carestream remain as committed and excited about the global sales potential of the 'Nano' product as ever and the investment in solving the core technology issues have created a solid technology platform which can support a large number of future product opportunities.

Rover:

Micro-X completed the last part of its Capability Technology Demonstration contract with the Australian Department of Defence in May 2018 with an imaging test of a new design of CNT x-ray tube. The purpose of this part of the contract was to evaluate the quality of imaging which could be provided in a sub-100kg cart if the x-ray tube used in the Nano were to be up-rated to the higher power required for trauma imaging of combat soldiers in a military deployed medical facility. The test was an outstanding success with both the Australian Defence Force's Chief Radiologist and another independent Radiologist judging the images to be of 'good diagnostic quality'. This exciting result shows that the performance of Micro-X's technology in mobile imaging can be extended much further than previously expected and opens the possibility for a new bedside imaging product capable of the entire range of medical imaging procedures.

Earlier in the year Micro-X provided radiology suite tender responses to all the prime contractors who are bidding for an Australian Defence Project (JP2060) to provide the Australian Army with a turn-key solution for a new deployable field hospital. The Department of Defence expects to make source selection for this project during calendar 2019 and Micro-X has the option to upgrade its offering to the winning prime contractor to incorporate a higher power system using this new tube design.

Mobile Backscatter Imager (MBI):

In future years' retrospection, the first demonstration of the MBI imaging performance will be judged to be the outstanding achievement of this year to contribute to Micro-X's long-term growth. The images gathered at our Capability Technology Demonstration to the Australian Defence Force's project sponsor, the Counter-IED Imaging Task Force, have captured the imagination of defence, security and police bomb-squad personnel all over the world who have seen them. While stand-off backscatter imaging has been done before, no-one else has achieved what Micro-X has demonstrated which is better than 0.5mm resolution, and that in an imaging module of such small size.

Micro-X has invested a considerable amount of time during the year to share and discuss the MBI demonstration images and product concept with bomb disposal technicians and counter-terrorist experts in Australia, USA and Europe. The purpose of these 'voice-of-customer' discussions is to shape the product architecture and the concept-of-operations to maximise the market appeal of the product which will be finally developed. The feedback has already radically changed the product design configuration away from the original robot-integrated unit to become a much smaller, standalone imaging module the size of a small suitcase and light enough to be picked up in the jaws of any explosive ordnance disposal (EOD) robot while still providing high-quality images to a safely positioned remote operator.

While this change to product configuration makes the design task more challenging, the wide appeal of the product which has been confirmed during the work undertaken this year and the price expectation which accompanies the predicted performance validates the exceptionally robust profitability of the proposed business model.

Future Airport Security Solutions (FASS) Programme in the United Kingdom:

Following selection of Micro-X's tender proposal for the FASS Programme, Micro-X signed a contract with the Defence Science and Technology Laboratory of the UK Ministry of Defence in April 2018. This contract is to undertake the first phase

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

of Research and Development, to demonstrate the potential imaging performance of a lightweight, portable x-ray system for detecting small amounts of explosives hidden in consumer electronic devices. Micro-X's concept is a novel integration of backscatter and transmission imaging. Initial work shows that 50 grams of energetic material can be easily detected.

Image processing development on this project has pioneered an exciting new collaboration between Micro-X and a world-leading group in pattern recognition at the Department of Computer Science of Durham University in the UK, under Professor Toby Breckon. Professor Breckon's group is applying their machine-learning expertise in checkpoint image evaluation to automate the detection of threats in Micro-X's combination backscatter/transmission x-ray images. This forms a pathway towards ultra-high-speed x-ray screening at airports.

Intellectual Property:

Micro-X has continued to substantiate its IP position with the national phase filings of Nano patents and design registrations in Australia, United States of America, China and the EU.

Investment in research continues with ongoing separate collaborations with The University of Adelaide, Flinders University and The University of Melbourne on applications of core technology. This has resulted in a number of provisional patent filings being made that will protect future products that Micro-X will develop.

Product Strategy Development:

Micro-X's business strategy is that, following the proving of its CNT technology with the global commercialisation of the Carestream DRX Revolution Nano, it will prioritise new product developments in both medical and security imaging to opportunities where its products can provide novel and valuable customer benefits and where conventional technology solutions cannot compete.

During the year, Micro-X has commenced early-stage technical feasibility and financial evaluation of a number of future product opportunities in order to create a road-map, which shows how common areas of technology development feed into financially attractive product opportunities to maximise returns for engineering development spend.

Micro-X presented some of the future product opportunities under consideration in a presentation given to the 'Bioshares Biotech Summit' in New Zealand on 28th July 2018. This presentation is viewable on the MX1 or ASX website. Aside previously disclosed new products in Micro-X's development pipeline, of most interest are an ambulance based brain perfusion imaging product for stroke victims and a 3D breast imaging product.

Corporate Development:

The showing of the world's first CNT powered x-ray system, the Carestream DRX Revolution Nano, on the Carestream exhibition stand at RSNA in December 2017 with a 510(k) approval from the FDA awakened considerable interest amongst global healthcare companies. Micro-X received a number of unsolicited approaches registering potential interest in either product partnerships using this new technology platform and/or direct investment. In December the Micro-X Board appointed a US-Based Corporate Development Consultant, to assist in developing and managing a strategic partnering and investment process alongside the senior leadership team.

This process has continued over recent months with interested parties and Micro-X expects to conclude one or more strategic technology collaborations with a concomitant investment in Q2 of FY2019.

Micro-X incorporated a US-based subsidiary, Micro-X Inc, in December 2017. This entity was established to assist with operations in the USA as well as to provide payroll services to US-based employees. Micro-X Inc. is leading a research collaboration established in 2017 with Lawrence Livermore National Laboratory into new detection technologies for Home-Made Explosives using Micro-X proprietary technology and is seeking grant funding from the US Department of Homeland Security.

Micro-X signed a variation on the lease of its main facilities in Tonsley, South Australia in June 2018, in order to expand office & production space to accommodate engineering development space for the MBI program and additional Nano production workflow. Work will commence on this expansion in the first half of FY19.

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

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

The Group also continues to make significant progress with a number of leading companies in the global security and healthcare industries to define and enact a long-term, strategic alliance that includes a major investment. Collaboration structures now in the final stages of preparation centre on technology and new product development which will have the effect of accelerating Micro-X's road map of novel x-ray products in both security and medical diagnostic imaging as well as providing new and effective paths to market for the product portfolio. An announcement is expected early in Q4CY18.

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

Environmental regulation

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

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

Information on directors

Name:	Patrick O'Brien
Title:	Non-Executive Chairman
Qualifications:	LLB, B.Com, Grad Dip Applied Finance, MBA
Experience and expertise:	Patrick is managing director of Patrick O'Brien & Associates and a director of Red Rock Leisure, The Water & Carbon Group and O'Brien Capital. Patrick has over 25 years' business experience in Australia, the UK, Europe, Asia and the US including as an executive director with Macquarie Group where he led teams in corporate finance (Melbourne 1996-2005) and private equity (London 2005-2009). In this latter role Patrick was responsible for Macquarie's controlling stakes in, and chaired, large unlisted Groups European Directories and National Grid Wireless. Prior to Macquarie, Patrick was a strategy consultant with McKinsey & Group and a lawyer with Minter Ellison.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Member of Nomination and Remuneration Committee and Member of Audit and Risk Committee
Interests in shares:	4,625,380 fully paid ordinary shares
Interests in options:	200,000 unlisted options exercisable at \$0.575 (57.5 cents) on or before 31/12/19; 400,000 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 31/12/19
Name:	Peter Rowland
Title:	Managing Director
Qualifications:	BSc., MBA, MIET, CEng, FAICD
Experience and expertise:	Peter worked in the engineering design, development and project management of innovative, high-technology military & scientific equipment in his early career in Scotland. In Australia, he ran an engineering design consultancy Group, was director of business development at BAE Systems and then was managing director of ASX-listed Ellex Medical Lasers which designed and manufactured ophthalmic laser equipment. More recently he was vice president of Asia-Pacific operations for Biolase Technology Inc., a NASDAQ listed therapeutic medical device supplier.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Interests in shares:	12,425,000 fully paid ordinary shares
Interests in options:	696,556 unlisted options exercisable at \$0.575 (57.5 cents) on or before 31/12/19; 1,393,114 unlisted options exercisable at \$0.625 (62.5 cents) on or before 31/12/19
Name:	Richard Hannebery
Title:	Executive Director
Qualifications:	BA (Econ), Grad Dip Econ
Experience and expertise:	Richard has over 20 years' experience in commercial and financial advisory services with Merrill Lynch, Credit Suisse and JT Campbell & Co. He has 15 years' experience as a specialist in healthcare technology and intellectual property based companies at a business development and director level. Richard has extensive experience in strategy development and its implementation, as well as commercialisation, including direct negotiation of key sales and distribution agreements in various markets with large multinational medtech and technology companies. Richard is currently a board member and the part-time chief executive of ASX-listed Genera Biosystems Limited and a non-executive director of Australian Continence Solutions Pty Limited and its operating Group Nurturecare (Aust) Pty Limited.
Other current directorships:	Genera Biosystems Limited (ASX:GBI) appointed 14 May 2013
Former directorships (last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	3,006,350 fully paid ordinary shares
Interests in options:	696,556 Unlisted Options exercisable at \$0.575 (57.5 cents) on or before 31/12/19; 1,393,114 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 31/12/19

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

Name:	Dr. Alexander Gosling AM
Title:	Non-Executive Director
Qualifications:	AM, MA, DEng, FTSE
Experience and expertise:	Alexander has been working in the field of process and product development and related research and development for 40 years. A founding director of Invetech and was part of the management team that led Invetech to a public listing (as Vision Systems) and then to its acquisition by Danaher Corp for \$800M. He currently works for Capstone Partners, a strategy consultancy specialising in technology commercialisation and the development of start-up companies. Alexander is an engineer, with an Honours degree from Cambridge University. He is a Fellow of the Academy of Technological Sciences and Engineering, a Fellow of the Institute of Engineers Australia and a Governor of the Warren Centre for Advanced Engineering. He was awarded an Honorary Doctorate in Engineering from Swinburne University and made a Member of The Order of Australia for services to engineering.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Chair of Nomination and Remuneration Committee and Member of Audit and Risk Committee
Interests in shares:	110,000 fully paid ordinary shares
Interests in options:	133,333 Unlisted Options exercisable at \$0.575 (57.5 cents) on or before 31/12/19; 266,668 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 31/12/19
Name:	David Symons
Title:	Non-Executive Director
Qualifications:	LLB, B.Com
Experience and expertise:	David has more than 15 years' experience in corporate strategy communications, private equity, investment banking, and corporate management. He has previously held executive roles at ABN AMRO Capital, Macquarie Bank, Merrill Lynch and Promina Group. He is currently a non-executive director of ASX-listed Genera Biosystems Limited.
Other current directorships:	Genera Biosystems Limited (ASX:GBI)
Former directorships (last 3 years):	Nil
Special responsibilities:	Chair of Audit and Risk Committee and Member of Nomination and Remuneration Committee
Interests in shares:	2,220,200 fully paid ordinary shares
Interests in options:	133,333 Unlisted Options exercisable at \$0.575 (57.5 cents) on or before 31/12/19; 266,668 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 31/12/19

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

Name: Yasmin King
 Title: Non-Executive Director
 Qualifications: BA (Econ)(Honours). MBA
 Experience and expertise: Yasmin is CEO of SkillsIQ Limited, the organisation that develops the National Occupational Standards for vocational qualifications in the Services and Health and Community services sectors. Yasmin was the inaugural NSW Small Business Commissioner and an Associate Commissioner for the Australian Consumer and Competition Commission, both positions leading to her detailed knowledge and experience in the areas of compliance and regulation. Yasmin has extensive experience in negotiation having run a successful consultancy in this area, including acting as lead negotiator for numerous State and Federal Government procurement contracts. She worked as a principal consultant for an international negotiation organisation coaching major ASX companies and public sector agencies including Department of Defence in contract negotiation. She has also served on both public and private sector boards. She is an adjunct of the Australian Graduate School of Management, delivering the conflict resolution and negotiation component of the Women in Leadership program. Yasmin holds a Bachelor of Economics (Honours) and a Master of Business Administration. She is a Fellow of the Australian Institute of Group Directors and a Fellow Certified Practising Accountant.

Other current directorships: Nil
 Former directorships (last 3 years): Nil
 Special responsibilities: Member of Audit and Risk Committee
 Interests in shares: 50,000 fully paid ordinary shares
 Interests in options: 320,000 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 01/12/20

Name: James McDowell
 Title: Non-Executive Director
 Experience and expertise: Mr McDowell has more than 30 years of experience in international defence and aerospace sectors and has lived and worked in the UK, the USA, Korea, Singapore, Hong Kong and Australia. Mr McDowell joined BAE Systems in 1996 and his last executive appointment with the Group was as Chief Executive Officer of their A\$5 billion annual turnover business operations in Saudi Arabia. Prior to this he was Chief Executive Officer of BAE Systems Australia for 10 years. Based in Adelaide, he drove a major expansion program as the Group grew to become Australia's largest defence business. Prior to his time at BAE Systems Mr McDowell worked for 18 years at aerospace Group Bombardier Shorts in legal, commercial and marketing positions, making a major contribution to that Group's growth into the USA. In 2014, Mr McDowell was appointed by the Australian Federal Government to the team to conduct the First Principles Review of the Australian Department of Defence. The Team's 'One Defence' recommendations included transformational changes to structure, governance arrangements, accountabilities, processes and systems of Defence. Mr McDowell is also Chairman of the Australian Nuclear Science & Technology Organisation which is a centre-of-excellence in Australia for radiation safety and nuclear medicine research

Other current directorships: Austal Limited (ASX:ASB); Codan Limited (ASX:CDA)
 Former directorships (last 3 years): Nil
 Interests in shares: 60,000 fully paid ordinary shares
 Interests in options: 320,000 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 01/09/21

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

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

Company secretary

Georgina Carpendale is a Chartered Accountant with a First Class Honours Degree in Business specialising in Accounting. Georgina has 11 years' experience in the accounting profession. Georgina has 5 years' experience within the medical technology industry. Georgina is the Chief Financial Officer for Micro-X.

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

Meetings of directors

The number of meetings of the Group's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Patrick O'Brien	10	10	2	2	2	2
Peter Rowland	10	10	-	-	-	-
Richard Hannebery	10	10	-	-	-	-
David Symons	9	10	2	2	2	2
Alexander Gosling	10	10	2	2	2	2
Yasmin King	9	10	-	-	2	2
James McDowell	9	9	-	-	-	-

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

Remuneration report (audited)

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

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

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

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

Principles used to determine the nature and amount of remuneration

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

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

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

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

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

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

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

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

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

Non-executive directors remuneration

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

Non-executive directors were issued Award Options, as described in the Group's Prospectus dated 25 November 2015, on 17 December 2015, following the completion of the Group's Initial Public Offer. Apart from the Award Options, Non-executive directors present from the Initial Public Offer do not receive share options or other incentives. New non-executive directors since this period are offered share options upon their appointment.

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

Executive remuneration

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

The executive remuneration and reward framework has four components:

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

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

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

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

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

Group performance and link to remuneration

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

Use of remuneration consultants

The Group did not engage any remuneration consultants during the financial year ended 30 June 2018.

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

Details of remuneration

Amounts of remuneration

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

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

- Peter Rowland (Managing Director)
- Patrick O'Brien (Non-Executive Chairman)
- Richard Hannebery (Executive Director of Corporate Development)
- David Symons (Non-Executive Director)
- Alexander Bennett Gosling (Non-Executive Director)
- Yasmin Anna King (Non-Executive Director)
- James McDowell (Non-Executive Director) - appointed 7 September 2017, resigning 31 August 2018
- Georgina Sarah Carpendale (Chief Financial Officer)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments - Options	Total
	Cash salary and fees \$	Cash bonus \$	Non-monetary \$	Super-annuation \$	Long service leave \$	Equity-settled \$	
2018							
<i>Non-Executive Directors:</i>							
P O'Brien	60,000	-	-	-	-	15,590	75,590
A Gosling	36,529	-	-	3,470	-	10,394	50,393
D Symons	39,999	-	-	-	-	10,394	50,393
Y King	36,529	-	-	3,470	-	23,842	63,841
J McDowell*	29,504	-	-	3,960	-	13,505	46,969
<i>Executive Directors:</i>							
P Rowland	263,221	25,000	-	27,381	-	5,483	321,085
R Hannebery	40,000	-	-	-	-	5,483	45,483
<i>Other Key Management Personnel:</i>							
G Carpendale - CFO	144,423	-	-	13,720	-	-	158,143
	650,205	25,000	-	52,001	-	84,691	811,897

* Mr McDowell was appointed as Non-Executive Director on 7 September 2017

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

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

* Ms King was appointed as Non-Executive Director on 5 December 2016

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2018	2017	2018	2017	2018	2017
<i>Non-Executive Directors:</i>						
P O'Brien	79%	62%	-	-	21%	38%
A Gosling	79%	62%	-	-	21%	38%
D Symons	79%	62%	-	-	21%	38%
Y King	63%	68%	-	-	37%	32%
J McDowell	71%	-	-	-	29%	-
<i>Executive Directors:</i>						
P Rowland	90%	87%	8%	-	2%	13%
R Hannebery	88%	76%	-	-	12%	24%
<i>Other Key Management Personnel:</i>						
G Carpendale - CFO	100%	100%	-	-	-	-

During the financial year a bonus was paid to Peter Rowland (Managing Director) upon meeting set key performance indicators ('KPI'). This bonus was approved by the Board of Directors following a recommendation from the Remuneration & Nomination Committee on the 16 February 2018. Mr Rowland was granted 80% of his bonus entitlement based on the following headline KPIs, equally weighted:

- Thought leadership, strategic planning and development of long term vision
- Operational business leadership
- Financial measures
- Stakeholder impact
- People leadership

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

Service agreements

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

Name:	Peter Rowland
Title:	Managing Director
Agreement commenced:	1 September 2014
Term of agreement:	No fixed term. Micro-X or Mr Rowland may terminate the employment contract at any time provided that either party gives notice as follows: <ul style="list-style-type: none">• on or before 1 September 2016 – 3 months' notice;• on or before 1 September 2017 – 4 months' notice;• on or before 1 September 2018 – 5 months' notice; and• on or before 1 September 2019 – 6 months' notice.
Details:	Annual salary is \$277,500 per annum plus compulsory employer superannuation contributions (subject to review in January 2019).

Mr Rowland is entitled to an incentive payment of:

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

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

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

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

Name:	Richard Hannebery
Title:	Executive Director
Agreement commenced:	1 September 2014
Term of agreement:	No fixed term. Micro-X or Mr Hannebery may terminate the employment contract at any time provided that either party gives notices as follows: <ul style="list-style-type: none">• on or before 1 September 2016 – 3 months' notice;• on or before 1 September 2017 – 4 months' notice;• on or before 1 September 2018 – 5 months' notice; and• on or before 1 September 2019 – 6 months' notice.
Details:	<p>Annual salary is \$40,000 per annum (subject to review in June 2018).</p> <p>Mr Hannebery is entitled to an incentive payment of:</p> <ul style="list-style-type: none">• either 25% of his salary where all KPIs set by the Group are achieved, or• a relative percentage of his salary where one or more but not all KPIs are achieved. <p>Mr Hannebery has been issued LTI interests, being share options. Details of these options are:</p> <ul style="list-style-type: none">• number of options issued: 2,089,670, in 3 tranches;• grant date: 1 September 2014;• vesting terms:<ul style="list-style-type: none">- 696,556 options vesting upon IPO (Tranche 1);- remaining options vest only upon satisfaction of service conditions as follows:<ul style="list-style-type: none">- 696,556 options vest 1 September 2016, provided he remains employed with the Group on that date (Tranche 2);- 696,558 options vest 1 September 2017, provided he remains employed with the Group on that date (Tranche 3);• exercise prices:<ul style="list-style-type: none">- Tranche 1 - \$0.575 (57.5 cents) per option;- Tranches 2 and 3 - \$0.625 (62.5 cents) per option;- expiry date: 31 December 2019.
Name:	Georgina Carpendale
Title:	Chief Financial Officer
Agreement commenced:	14 June 2016
Term of agreement:	No fixed term. Micro-X or Ms Carpendale may terminate the employment contract at any time provided that either party gives notice as follows: <ul style="list-style-type: none">• on or before 14 June 2017 – 1 months' notice;• on or before 14 June 2018 – 1 months' notice;• on or before 14 June 2019 – 2 months' notice; and• on or before 14 June 2020 – 2 months' notice.
Details:	Annual salary is \$160,000 per annum plus compulsory employer superannuation contributions (subject to review in January 2019).

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

Share-based compensation

Issue of shares

There were no shares issued to the directors and other key management personnel as part of compensation during the year ended 30 June 2018.

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

Options

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

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
1 September 2014* (1,393,112 options)	21 December 2015	31 December 2019		
1 September 2014* (1,393,112 options)	1 September 2016	31 December 2019	\$0.575	\$0.151
1 September 2014* (1,393,116 options)	1 September 2017	31 December 2019	\$0.625	\$0.136
21 December 2015 (466,666 options)	21 December 2016	31 December 2019	\$0.625	\$0.136
21 December 2015 (466,666 options)	21 December 2017	31 December 2019	\$0.575	\$0.151
21 December 2015 (466,668 options)	21 December 2018	31 December 2019	\$0.625	\$0.136
5 December 2016** (160,000 options)	1 December 2018	1 December 2020	\$0.625	\$0.136
5 December 2016** (160,000 options)	1 December 2019	1 December 2020	\$0.625	\$0.142
11 September 2017*** (160,000 options)	11 September 2019	1 September 2021	\$0.625	\$0.142
11 September 2017*** (160,000 options)	11 September 2020	1 September 2021	\$0.625	\$0.128
			\$0.625	\$0.128

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

** These options were agreed to be issued on 5th December 2016 as part of the non-executive director agreement with Yasmin King.

*** These options were agreed to be issued on 11th September 2017 as part of the non-executive director agreement with James McDowell.

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2018 are set out below:

Name	Number of options granted during the year 2018	Number of options granted during the year 2017	Number of options vested during the year 2018	Number of options vested during the year 2017
P Rowland	-	-	696,558	696,556
R Hannebery	-	-	696,558	696,556
P O'Brien	-	-	200,000	200,000
A Gosling	-	-	133,333	133,333
D Symons	-	-	133,333	133,333
Y King	-	320,000	-	-
J McDowell	320,000	-	-	-

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

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

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

- issues to Executive Directors (P Rowland and R Hannebery):
 - one third (Tranche 1) vested immediately upon IPO;
 - one third (Tranche 2) vest on 1 September 2016, provided the holder remains employed by the Group on that date;
 - one third (Tranche 3) vest on 1 September 2017, provided the holder remains employed by the Group on that date;
- issues to Non-Executive Directors:
 - one third (Tranche 1) vest on 21 December 2016, provided the holder remains employed by the Group on that date;
 - one third (Tranche 2) vest on 21 December 2017, provided the holder remains employed by the Group on that date;
 - one third (Tranche 3) vest on 21 December 2018, provided the holder remains employed by the Group on that date.
- issues to Non-Executive Director (Yasmin King):
 - one half (Tranche 1) vest on 1 December 2018, provided the holder remains employed by the Group on that date;
 - one half (Tranche 2) vest on 1 December 2019, provided the holder remains employed by the Group on that date;
- issues to Non-Executive Director (James McDowell):
 - one half (Tranche 1) vest on 11 September 2019, provided the holder remains employed by the Group on that date;
 - one half (Tranche 2) vest on 11 September 2020, provided the holder remains employed by the Group on that date;

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

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2018 are set out below:

Name	Value of options granted during the year \$	Value of options available to be exercised during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
P Rowland	-	296,576	-	2%
R Hannebery	-	296,576	-	12%
P O'Brien	-	57,769	-	21%
A Gosling	-	38,513	-	21%
D Symons	-	38,513	-	21%
Y King	-	-	-	37%
J McDowell	40,529	-	-	29%

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
P Rowland	12,425,000	-	-	-	12,425,000
R Hannebery	3,774,900	-	-	(768,550)	3,006,350
P O'Brien	4,625,380	-	-	-	4,625,380
A Gosling	110,000	-	-	-	110,000
D Symons	2,220,200	-	-	-	2,220,200
Y King	-	-	50,000	-	50,000
J McDowell	-	-	60,000	-	60,000
G Carpendale	19,000	-	-	-	19,000
	<u>23,174,480</u>	<u>-</u>	<u>110,000</u>	<u>(768,550)</u>	<u>22,515,930</u>

Option holding

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

	Balance at the start of the year	Granted as remuneration	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
P Rowland	2,089,670	-	-	-	2,089,670
R Hannebery	2,089,670	-	-	-	2,089,670
P O'Brien	600,000	-	-	-	600,000
A Gosling	400,000	-	-	-	400,000
D Symons	400,000	-	-	-	400,000
Y King	320,000	-	-	-	320,000
J McDowell	-	320,000	-	-	320,000
	<u>5,899,340</u>	<u>320,000</u>	<u>-</u>	<u>-</u>	<u>6,219,340</u>

On March 27 2018, the Group completed a successful private placement of 50,000 Unsecured Mandatorily Convertible Notes for \$5,000,000. Each of the directors of the Group participated in this capital raising; in aggregate subscribing for \$450,000.

The number of Convertible Note purchased by each director, is set out below:

P.Rowland - Purchased 200 Unlisted Convertible Notes for \$20,000;
R Hannebery - Purchased 1,350 Unlisted Convertible Notes for \$135,000;
P. Obrien - Purchased 1,500 Unlisted Convertible Notes for \$150,000;
A. Gosling - Purchased 250 Unlisted Convertible Notes for \$25,000;
D.Symons - Purchased 200 Unlisted Convertible Notes for \$20,000;
Y.King - Purchased 500 Unlisted Convertible Notes for \$50,000;
J.McDowell - Purchased 500 Unlisted Convertible Notes for \$50,000;

This concludes the remuneration report, which has been audited.

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

Shares under option

Unissued ordinary shares of Micro-X Ltd under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
1 September 2014*	31 December 2019	\$0.575	1,393,112
1 September 2014*	31 December 2019	\$0.625	2,786,228
21 December 2015	31 December 2019	\$0.575	1,799,998
21 December 2015	31 December 2019	\$0.625	3,600,002
5 December 2016	1 December 2020	\$0.625	320,000
1 April 2017	1 April 2021	\$0.625	2,500,000
11 September 2017	1 September 2021	\$0.625	320,000
			<u>12,719,340</u>

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

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

Shares issued on the exercise of options

There were no ordinary shares of Micro-X Ltd issued on the exercise of options during the year ended 30 June 2018 and up to the date of this report.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Group

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 22 to the financial statements.

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

Micro-X Ltd
Directors' report
For the year ended 30 June 2018

The directors are of the opinion that the services as disclosed in note 22 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

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

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

Rounding of amounts

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

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

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

On behalf of the directors



Patrick O'Brien
Non-Executive Chairman

29 August 2018

Auditor's Independence Declaration

To the Directors of Micro-X Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Micro-X Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Cunningham
Partner – Audit & Assurance

Melbourne, 29 August 2018

Micro-X Ltd
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

	Note	Consolidated 2018 \$'000	2017 \$'000
Revenue			
Sale of goods		845	239
Contract revenue		762	420
		<u>1,607</u>	<u>659</u>
Total revenue		<u>1,607</u>	<u>659</u>
Expenses			
Cost of sales		(634)	-
Employee and director costs		(4,124)	(3,031)
Office and administrative expenses		(652)	(595)
Professional fees		(549)	(161)
Corporate expenses		(235)	(134)
Quality and regulatory		(35)	(121)
Project development costs		(7,413)	(15,280)
Depreciation and amortisation expense		(120)	(80)
Other expenses		(1,060)	(633)
Finance costs		(183)	(139)
Total expenses		<u>(15,005)</u>	<u>(20,174)</u>
Operating loss		(13,398)	(19,515)
Other income	5	3,895	7,086
Share of profits of associates accounted for using the equity method	6	(248)	(491)
Impairment of investments	28	<u>(6,844)</u>	<u>-</u>
Loss before income tax expense		(16,595)	(12,920)
Income tax expense	7	<u>-</u>	<u>-</u>
Loss after income tax expense for the year attributable to the owners of Micro-X Ltd		(16,595)	(12,920)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		<u>240</u>	<u>186</u>
Other comprehensive income for the year, net of tax		<u>240</u>	<u>186</u>
Total comprehensive income for the year attributable to the owners of Micro-X Ltd		<u>(16,355)</u>	<u>(12,734)</u>
		Cents	Cents
Basic earnings per share	31	(11.50)	(10.44)
Diluted earnings per share	31	(11.50)	(10.44)

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

Micro-X Ltd
Statement of financial position
As at 30 June 2018

	Note	Consolidated 2018 \$'000	2017 \$'000
Assets			
Current assets			
Cash and cash equivalents		4,068	5,573
Trade and other receivables	8	4,467	7,659
Inventories		1,550	1,196
Other		27	27
Total current assets		<u>10,112</u>	<u>14,455</u>
Non-current assets			
Investments accounted for using the equity method	9	1,911	8,765
Property, plant and equipment	10	393	358
Intangibles	11	2,239	2,127
Total non-current assets		<u>4,543</u>	<u>11,250</u>
Total assets		<u>14,655</u>	<u>25,705</u>
Liabilities			
Current liabilities			
Trade and other payables	12	5,321	7,077
Borrowings	13	4,600	3,000
Provisions	14	263	139
Total current liabilities		<u>10,184</u>	<u>10,216</u>
Non-current liabilities			
Borrowings		5,000	-
Provisions	15	198	165
Total non-current liabilities		<u>5,198</u>	<u>165</u>
Total liabilities		<u>15,382</u>	<u>10,381</u>
Net assets/(liabilities)		<u>(727)</u>	<u>15,324</u>
Equity			
Issued capital	16	48,024	48,024
Foreign currency translation reserve	17	426	186
Share based payments reserve	18	1,621	1,317
Accumulated losses		<u>(50,798)</u>	<u>(34,203)</u>
Total equity/(deficiency)		<u>(727)</u>	<u>15,324</u>

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

Micro-X Ltd
Statement of changes in equity
For the year ended 30 June 2018

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

Consolidated	Issued capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total deficiency in equity \$'000
Balance at 1 July 2017	48,024	1,317	186	(34,203)	15,324
Loss after income tax expense for the year	-	-	-	(16,595)	(16,595)
Other comprehensive income for the year, net of tax	-	-	240	-	240
Total comprehensive income for the year	-	-	240	(16,595)	(16,355)
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments (note 32)	-	304	-	-	304
Balance at 30 June 2018	<u>48,024</u>	<u>1,621</u>	<u>426</u>	<u>(50,798)</u>	<u>(727)</u>

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

Micro-X Ltd
Statement of cash flows
For the year ended 30 June 2018

		Consolidated	
	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,173	627
Payments to suppliers (inclusive of GST)		(16,462)	(20,461)
Interest received		25	19
R&D incentive tax refunds		7,032	8,219
Interest Paid		(176)	(141)
Net GST receipts		846	1,307
Rent Expense		(276)	(88)
Net cash used in operating activities	30	(7,838)	(10,518)
Cash flows from investing activities			
Payments for property, plant and equipment	10	(155)	(272)
Payments for intangibles	11	(112)	(110)
Net cash used in investing activities		(267)	(382)
Cash flows from financing activities			
Proceeds from issue of shares	16	-	9,976
Capital raising costs	16	-	(672)
Proceeds from issue of convertible notes		5,000	-
Proceeds from borrowings		1,600	3,000
Net cash from financing activities		6,600	12,304
Net increase/(decrease) in cash and cash equivalents		(1,505)	1,404
Cash and cash equivalents at the beginning of the financial year		5,573	4,169
Cash and cash equivalents at the end of the financial year		<u>4,068</u>	<u>5,573</u>

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

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2018

Note 1. General information

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 29 August 2018. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

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

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

Other Income - Government subsidies

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

Going concern

The Group incurred a net loss after tax for the financial year ended 30 June 2018 of \$16.6M (year ended June 2017: \$12.9M) and had net cash outflows from operating activities of \$7.8M (year ended June 2017: \$10.5M). The Group had net deficit as for the financial year ended 30 June 2018 of (\$727K) (year ended June 2017: \$15.3M). The deficit was primarily caused by the impairment charge to the investment in associate - XinRay Systems Inc. at 30 June 2018 and \$5M in non-current liabilities for the mandatorily convertible notes. The convertible notes are a non-cash liability as there is no option for the noteholders to redeem a cash payment as the notes can only be converted to shares. The directors are satisfied that the consolidated entity is able to meet its working capital liabilities as and when they fall due.

Note 2. Significant accounting policies (continued)

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

- the operating loss and operating cash flow outcomes for the year ended 30 June 2018 reflect the results of the Group's major activities during that period, including the following, which were not directly revenue-generating nor cash-flow positive;
- the continuation and finalisation of research and development activities on the DRX Revolution Nano, which the Group is undertaking with the objective that the outcomes of these activities be profitable and generate positive operating cash flows;
- increased sales to customer, Carestream Health, consisting of both trial DRX-Revolution Nano units and service parts sales;
- convertible notes included within non-current liabilities are non-cash in nature and will not affect future cash-flows;
- the Group planning to consolidate its operating activities at a profitable and cash flow-positive level going forward;
- as the Group is an ASX-listed entity, it has the ability to raise additional funds if required;
- the Group is currently exploring investment with strategic partners for future product development;
- the Group is due to receive \$3.8M from the R&D tax incentive scheme in relation to FY2018 during Q1 FY19, \$1.6M of which will go to paying down the loan held with R&D Capital;
- the Group is moving positively towards receiving a significant strategic investment in Q4 CY2018; and
- the Board is of the opinion that the Group has sufficient funds to meet the planned corporate activities, research and development activities and working capital requirements.

The Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recognised in the financial report as at 30 June 2018.

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

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

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

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Micro-X Ltd ('Group' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Micro-X Ltd and its subsidiaries together are referred to in these financial statements as the 'Group'.

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

Note 2. Significant accounting policies (continued)

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

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

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

Operating segments

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

Revenue recognition

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

Sale of goods

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

Contract revenue

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

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

Government subsidies

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

Interest

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

Other revenue

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

Income tax

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

Note 2. Significant accounting policies (continued)

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

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

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

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

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

Current and non-current classification

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

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

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

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

Cash and cash equivalents

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

Trade and other receivables

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

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

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

Note 2. Significant accounting policies (continued)

Inventories

Inventories, which include all raw materials and components, are stated at the lower of cost and net realisable value on a 'weighted average' basis. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

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

Associates

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Intangible assets

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

Note 2. Significant accounting policies (continued)

Research and development

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

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

Patents and trademarks

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

Impairment of non-financial assets

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

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

Trade and other payables (Note 13)

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

Borrowings

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

Convertible Notes

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position.

In order to classify this note, the Group assessed AASB139 Para. 9 and made assessment that the notes were derivative in nature as all characteristics under this sub-section were met.

The 'fixed for fixed' test per AASB139 Para 11(b)(ii) was then consequently assessed to determine whether the notes were of an equity or liability nature. This test was failed, causing the notes to be recognised as a financial liability and within scope of AASB 139.

In relation to the fair value of these notes, the Group has made the assessment to recognise the notes at the sum of consideration paid as at time of completion of convertible note capital raising.

A number of factors were assessed before making this conclusion. The notes are inherently complex in nature, which makes valuation difficult and furthermore current volatility in the Group's share price has further added to this complexity. Comparisons were made between The Group's share price at 30 June, in relation to floor cap and maximum conversion price of the Convertible Notes. The median between floor and maximum conversion prices was immaterially different from the 30 June share price, which has further supported the fair value chosen. Lastly it is noted that post-30 September 2018, if a qualifying capital raising does not occur, then the fixed-for-fixed test as noted above will be passed and notes will be recognised as equity in nature instead.

Finance costs

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

Note 2. Significant accounting policies (continued)

Provisions

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

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

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

Share-based payments

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

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

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

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

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

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

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

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

Note 2. Significant accounting policies (continued)

Fair value measurement

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

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

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Micro-X Ltd, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to consider the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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

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

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

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

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

Foreign Currency Translation

Functional and presentation currency:

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

Foreign currency transactions and balances:

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

Note 2. Significant accounting policies (continued)

Foreign operations:

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

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2018. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace AASB 139 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets.

A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. There were no other categories of financial assets which applied to the Group at 30 June 2018.

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

The Group will adopt this standard from 1 July 2018. An assessment was made during FY18 of the potential impact of its adoption, and it is considered by the Group that changes in classification and measurement models will not have an impact on the entity going forward.

Furthermore, the Group has assessed potential ECL on its trade receivables, using a combination of forward-looking factors and historical customer default rates and has determined that no significant impact will be likely on these balances going forward. Continual assessment will be maintained at FY19 reporting dates and onwards.

Note 2. Significant accounting policies (continued)

AASB 15 Revenue from Contracts with Customers

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

The standard will require:

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

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

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

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

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

Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer.

The Group will adopt this standard from 1 July 2018. An assessment was made during FY18 of the potential impact of its adoption, and it is considered by the Group that no change in recognition or measurement basis will exist for current revenue streams.

AASB 16 Leases

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

This standard:

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

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

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

Note 3. Critical accounting judgements, estimates and assumptions

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

Share-based payment transactions (Note 32)

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

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

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

Income tax

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

Recovery of deferred tax assets

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

Note 4. Operating segments

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

Major customers

During the year ended 30 June 2018 approximately \$845K or 53% (2017: \$233K or 35%) of the Group's external revenue was derived from sales to Carestream. During the year ended 30 June 2018 approximately \$762K or 47% (2017: \$420K or 64%) of the Group's external revenue was derived from sales to Defence Science and Technology Group of the Department of Defence.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2018

Note 5. Other income

	Consolidated	
	2018	2017
	\$'000	\$'000
Interest received	25	19
R&D tax incentive refund*	3,838	7,052
Net foreign exchange gain/(loss)	7	15
Government Grants	25	-
	<u>3,895</u>	<u>7,086</u>

*The R&D tax incentive refund is calculated based on combined eligible costs of \$8,827,427 (2017: \$16,169,907) which consist of direct development costs and direct employee compensation costs.

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Share of profits of associates accounted for using the equity method	<u>(248)</u>	<u>(491)</u>

Note 7. Income tax

	Parent	
	2018	2017
	\$'000	\$'000
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax expense	<u>(16,618)</u>	<u>(12,920)</u>
Tax at the statutory tax rate of 30%	(4,985)	(3,876)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	91	158
Share of profits - associates	74	147
R&D tax incentive income	(1,151)	(2,110)
Feedstock adjustment	47	23
Other non-deductible expenses	-	(9)
R&D expenditure	2,648	4,851
Impairment of investment in associate	<u>2,053</u>	<u>-</u>
	(1,223)	(816)
Current year tax losses not recognised	1,057	807
Current year temporary differences not recognised	<u>166</u>	<u>9</u>
Income tax benefit	<u>-</u>	<u>-</u>

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2018

Note 8. Current assets - trade and other receivables

	Consolidated	
	2018	2017
	\$'000	\$'000
Trade receivables	533	199
R&D tax incentive refund	3,840	7,034
Other receivables	25	-
Deposits	4	4
GST receivable	65	422
	<u>4,467</u>	<u>7,659</u>

Note 9. Non-current assets - investments accounted for using the equity method

	Consolidated	
	2018	2017
	\$'000	\$'000
Investment in associate - XinRay Systems Inc.	<u>1,911</u>	<u>8,765</u>

Refer to note 28 for further information on interests in associates.

Note 10. Non-current assets - property, plant and equipment

	Consolidated	
	2018	2017
	\$'000	\$'000
Leasehold improvements - at cost	244	244
Less: Accumulated depreciation	(46)	(21)
	<u>198</u>	<u>223</u>
Plant and equipment - at cost	132	75
Less: Accumulated depreciation	(49)	(26)
	<u>83</u>	<u>49</u>
Fixtures and fittings - at cost	67	60
Less: Accumulated depreciation	(38)	(22)
	<u>29</u>	<u>38</u>
Motor vehicles - at cost	28	-
Less: Accumulated depreciation	(1)	-
	<u>27</u>	<u>-</u>
Computer equipment - at cost	154	91
Less: Accumulated depreciation	(98)	(43)
	<u>56</u>	<u>48</u>
	<u>393</u>	<u>358</u>

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2018

Note 10. Non-current assets - property, plant and equipment (continued)

Reconciliations

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

Consolidated	Leasehold improvements \$'000	Plant & equipment \$'000	Fixtures & fittings \$'000	Computer Equipment \$'000	Motor vehicles \$'000	Total \$'000
Balance at 1 July 2016	34	50	32	49	-	165
Additions	210	13	20	29	-	272
Depreciation expense	(21)	(14)	(14)	(30)	-	(79)
Balance at 30 June 2017	223	49	38	48	-	358
Additions	-	57	6	63	29	155
Depreciation expense	(24)	(23)	(16)	(55)	(2)	(120)
Balance at 30 June 2018	<u>199</u>	<u>83</u>	<u>28</u>	<u>56</u>	<u>27</u>	<u>393</u>

Note 11. Non-current assets - intangibles

	Consolidated	
	2018	2017
	\$'000	\$'000
Development - at cost	<u>1,980</u>	<u>1,980</u>
Patents and trademarks - at cost	<u>259</u>	<u>147</u>
	<u>2,239</u>	<u>2,127</u>

Reconciliations

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

Consolidated	Capitalised development costs \$'000	Patents & Trademarks \$'000	Total \$'000
Balance at 1 July 2016	1,980	37	2,017
Additions	-	110	110
Balance at 30 June 2017	1,980	147	2,127
Additions	-	112	112
Balance at 30 June 2018	<u>1,980</u>	<u>259</u>	<u>2,239</u>

Capitalised development costs

Note 11. Non-current assets - intangibles (continued)

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

	Consolidated	
	2018	2017
	\$'000	\$'000
DRX Revolution Nano	1,980	1,980

Recoverability of development costs

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

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

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

The Group uses discounted cash flow projections to measure estimated fair value and used the following inputs:

- period over which cash flows were projected: 5 years;
- growth rate used to extrapolate cash flow projections: 5%; and
- discount rate applied to cash flow projections: 14.5% post-tax WACC.

As a result of the impairment assessment at 30 June 2018, the directors and management of the Group determined that the recoverable amount of the Development Cost intangible assets, recorded in the Nano CGU, as estimated from the discounted cash flows and other measurement techniques, was not impaired.

Management and the board assessed the requirement to start amortising the intangible over the life of the product. Finalisation of product development continued up and until 30 June 2018 and as such management and the Board determined that the product was not capable of operating in the manner intended as per AASB138. Therefore, the product was not ready for sale and begin amortising over the life of the product. The Group evaluated the value in use and fair value of the intangible and has determined the carrying value is reasonable.

There was no reasonably possible change of factors on which management has based its determination of the Nano CGU that would indicate the requirement to start amortising the intangible.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2018

Note 12. Current liabilities - trade and other payables

	Consolidated	
	2018	2017
	\$'000	\$'000
Trade payables	3,528	4,225
Accrued payroll	64	46
PAYG	196	149
Other payables	1,533	2,657
	<u>5,321</u>	<u>7,077</u>

Refer to note 20 for further information on financial instruments.

Note 13. Current liabilities - borrowings

	Consolidated	
	2018	2017
	\$'000	\$'000
South Australian Financing Authority (SAFA)/R&D Capital Loans	<u>4,600</u>	<u>3,000</u>

Refer to note 20 for further information on financial instruments.

Financing arrangements

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Total facilities		
South Australian Financing Authority (SAFA) Loan	3,000	3,000
R&D Capital Loan	3,200	-
	<u>6,200</u>	<u>3,000</u>
Used at the reporting date		
South Australian Financing Authority (SAFA) Loan	3,000	3,000
R&D Capital Loan	1,600	-
	<u>4,600</u>	<u>3,000</u>
Unused at the reporting date		
South Australian Financing Authority (SAFA) Loan	-	-
R&D Capital Loan	1,600	-
	<u>1,600</u>	<u>-</u>

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2018

Note 14. Current liabilities - provisions

	Consolidated	
	2018	2017
	\$'000	\$'000
Annual leave	257	136
Deferred lease incentives	(5)	(12)
Payroll tax	11	15
	<u>263</u>	<u>139</u>

Note 15. Non-current liabilities - provisions

	Consolidated	
	2018	2017
	\$'000	\$'000
Long service leave	20	5
Deferred lease incentives	165	160
Warranties	13	-
	<u>198</u>	<u>165</u>

Note 16. Equity - Issued capital

	Consolidated			
	2018	2017	2018	2017
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	<u>144,350,698</u>	<u>144,350,698</u>	<u>48,024</u>	<u>48,024</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2016	119,409,725		38,720
Issue of shares - placement	18 April 2017	13,000,000	\$0.400	5,200
Issue of shares - entitlement offer	9 May 2017	11,940,973	\$0.400	4,776
Capital raising cost - placement	18 April 2017	-	\$0.000	(324)
Capital raising cost - entitlement offer	9 May 2017	-	\$0.000	(348)
Balance	30 June 2017	<u>144,350,698</u>		<u>48,024</u>
Balance	30 June 2018	<u>144,350,698</u>		<u>48,024</u>

Ordinary shares

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

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

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

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2018

Note 16. Equity - Issued capital (continued)

Capital risk management

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

Note 17. Equity - Foreign currency translation reserve

	Consolidated	
	2018	2017
	\$'000	\$'000
Exchange differences on translating foreign operations	426	186

Note 18. Equity - Share based payments reserve

	Consolidated	
	2018	2017
	\$'000	\$'000
Share-based payments reserve	1,621	1,317

Share-based payments reserve

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

Movements in reserves

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

Consolidated	Share-based payment reserve \$'000	Total \$'000
Balance at 1 July 2016	791	791
Share option expense	526	526
Balance at 30 June 2017	1,317	1,317
Share option expense	304	304
Balance at 30 June 2018	1,621	1,621

Note 19. Equity - dividends

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

Note 20. Financial instruments

Financial risk management objectives

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

Note 20. Financial instruments (continued)

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

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

Market risk

Foreign currency risk

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

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

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

All other financial assets and liabilities in the form of receivables and payables are non-interest bearing. The Group does not engage in any hedging or derivative transactions to manage interest rate risk.

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

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

Cash at bank of \$4.1M (2017: \$5.6M). The sensitivity of the cash at bank balance to changes in interest rate (of +/-1%) equates to +/- \$40,680 (2016: +/- \$55,726). The sensitivity of 1% is based on reasonable, possible changes, over a financial year, using the observed range of actual historical short-term deposit rate movements and management's expectation of future movements.

Credit risk

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

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

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

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

Liquidity risk

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

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

Trade payables are generally payable on 30-day terms.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2018

Note 20. Financial instruments (continued)

Remaining contractual maturities

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

Consolidated - 2018	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Interest-bearing - fixed rate</i>						
SAFA Loan*	5.75%	3,087	-	-	-	3,087
R&D Capital Loan**	9.00%	1,696	-	-	-	1,696
Total non-derivatives		4,783	-	-	-	4,783
Derivatives						
Convertible notes payable***	-	5,000	-	-	-	5,000
Total derivatives		5,000	-	-	-	5,000

* No debt covenants exist in relation to this facility.

Refer Note 13 for further disclosure of facility.

** Facility taken out with R&D Capital in relation to a prepayment loan on FY18 R&D refund from ATO.

No principle repayment due until the Group receives its FY18 refund or 31 October 2018, whichever is first.

Interest @ 1.25%/month for amounts drawn, @ 0.25%/month for amounts undrawn.

No debt covenants exist in relation to this facility.

Refer Note 13 for further disclosure of facility.

*** No debt covenants exist in relation to this facility.

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

Refer Note 2 for further disclosure of facility.

Consolidated - 2017	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Interest-bearing - fixed rate</i>						
SAFA Loan	5.75%	3,157	-	-	-	3,157
Total non-derivatives		3,157	-	-	-	3,157

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

Fair value of financial instruments

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

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2018

Note 21. Key management personnel disclosures

Compensation

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

	Consolidated	
	2018	2017
	\$	\$
Short-term employee benefits	675,205	658,137
Post-employment benefits	52,001	41,148
Share-based payments	84,691	177,071
	<u>811,897</u>	<u>876,356</u>

Note 22. Remuneration of auditors

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

	Consolidated	
	2018	2017
	\$	\$
<i>Audit services - Grant Thornton Audit Pty Ltd</i>		
Audit or review of the financial statements	<u>87,000</u>	<u>50,000</u>
<i>Other services - Grant Thornton Audit Pty Ltd</i>		
Other services	<u>30,500</u>	<u>12,500</u>
	<u>117,500</u>	<u>62,500</u>

Note 23. Contingent liabilities

The Group has no contingent liabilities as at 30 June 2018.

Note 24. Commitments and contingencies

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	317	182
One to five years	2,262	1,010
More than five years	<u>1,063</u>	<u>715</u>
	<u>3,642</u>	<u>1,907</u>

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2018

Note 24. Commitments and contingencies (continued)

Operating lease commitments includes contracted amounts for a non-cancellable operating commercial property lease of a purpose-designed facility at Tonsley, South Australia. The lease will have a term of 10 years, with a 10-year option to renew. Annual lease payments are approximately \$188,000 and there is a 3.5% annual rent increase.

During the period, a contract was signed for an expansion of current office & production facilities at Tonsley, South Australia. The lease variation will fall in line with lease terms already standing for a period of 10 years, with a 10-year option to renew. Annual lease payments for this extension are approximately \$220,000 and there is a 3.5% annual rent increase.

Note 25. Related party transactions

Subsidiaries

Interests in subsidiaries are set out in note 27.

Associates

Interests in associates are set out in note 28.

Key management personnel

Disclosures relating to key management personnel are set out in note 21 and the remuneration report included in the directors' report.

Transactions with related parties

During the year XinRay Systems Inc. (a director-related entity) was engaged by the Group to develop the Carbon-Nano Tube for the DRX Revolution Nano. During the year the Group was invoiced under the Design and Development Agreement \$5.5M (2017: \$5.7M). The outstanding balance of \$2.0M (2017: \$2.7M) due to XinRay Systems Inc. is included in trade and other payables.

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

Receivable from and payable to related parties

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

Loans to/from related parties

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

Note 26. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2018	2017
	\$'000	\$'000
Loss after income tax	(16,618)	(12,920)
Total comprehensive income	(16,378)	(12,734)

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2018

Note 26. Parent entity information (continued)

Statement of financial position

	Parent	
	2018	2017
	\$'000	\$'000
Total current assets	10,105	14,455
Total assets	14,648	25,705
Total current liabilities	10,215	10,216
Total liabilities	15,400	10,381
Equity		
Issued capital	48,025	48,024
Foreign currency translation reserve	425	186
Share-based payments reserve	1,621	1,317
Accumulated losses	(50,823)	(34,203)
Total equity/(deficiency)	(752)	15,324

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

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 2018.

Contingent liabilities

The parent entity had no contingent liabilities as at 2018 and 2017.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 2018 and 2017.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.

Note 27. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018	2017
		%	%
Micro-X Incorporated	USA	100%	-

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2018

Note 28. Interests in associates

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
XinRay Systems Inc.	United States of America	30%	30%

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

- it has a 30% shareholding in XinRay, and is one of 2 shareholders the other being Xintek Inc.; and
- Whilst XinRay has contractual work with multiple customers during the previous 12-month period Micro-X contract payments accounted for more than half of XinRay's contractual revenues.

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

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

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

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2018

Note 28. Interests in associates (continued)

Summarised financial information

	2018 \$'000	2017 \$'000
<i>Summarised statement of financial position</i>		
Current assets	2,878	4,368
Non-current assets	4,746	6,785
Total assets	7,624	11,153
Current liabilities	1,226	3,324
Non-current liabilities	28	1,425
Total liabilities	1,254	4,749
Net assets	<u>6,370</u>	<u>6,404</u>
<i>Summarised statement of profit or loss and other comprehensive income</i>		
Revenue	5,662	5,966
Expenses	(5,951)	(6,847)
Loss before income tax	(289)	(881)
Other comprehensive income	-	-
Total comprehensive income	<u>(289)</u>	<u>(881)</u>
<i>Reconciliation of the Group's carrying amount</i>		
Closing net assets	6,370	6,404
Group's share in %	30	30
Group's share in \$	1,911	1,921
Goodwill	6,844	6,844
Impairment Gain/(Loss)*	(6,844)	-
Closing carrying amount	<u>1,911</u>	<u>8,765</u>

* The Group has made an assessment during the current financial year of impairment indicators per AASB 139, para. 59 and has determined that the XinRay investment is impaired. This determination was made on review of estimated future cash flows for the entity with the revenue effect of the Group's planned future products not included in these assessments.

As per AASB 136, the recoverable amount was determined by the Group to be the fair value of the investment less costs to sell, being the Group's share in net assets (30%).

In conclusion, the Group has made the assessment to impair the carrying amount of the XinRay investment to the Group's share in net assets (30%). Impairment charge has been recognised within the Statement of Profit and Loss and Other Comprehensive Income as an 'other expense' item in line with AASB 136.

It should be noted that this impairment is a non-cash impairment charge and will have no future cash-flow impacts.

Note 29. Events after the reporting period

No matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2018

Note 30. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2018	2017
	\$'000	\$'000
Loss after income tax expense for the year	(16,595)	(12,920)
Adjustments for:		
Depreciation and amortisation	120	79
Share of loss - associates	248	491
Share-based payments	304	526
Lease Incentive	12	148
Impairment of investments	6,844	-
Increase in Warranties	13	-
Change in operating assets and liabilities:		
Decrease in trade and other receivables	3,192	1,277
Increase/(decrease) in trade and other payables	(1,758)	958
Increase in employee benefits	136	119
Increase in Inventories	(354)	(1,196)
Net cash used in operating activities	<u>(7,838)</u>	<u>(10,518)</u>

Note 31. Earnings per share

	Consolidated	
	2018	2017
	\$'000	\$'000
Loss after income tax attributable to the owners of Micro-X Ltd	<u>(16,595)</u>	<u>(12,920)</u>
	Cents	Cents
Basic earnings per share	(11.50)	(10.44)
Diluted earnings per share	(11.50)	(10.44)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>144,350,698</u>	<u>123,779,236</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>144,350,698</u>	<u>123,779,236</u>

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

The total number of options granted is 12,719,340 of which 8,612,669 were vested at 30 June 2018.

The potential number of shares on conversion of the mandatorily convertible notes ranges from 21,739,130 ordinary shares to 12,500,000 ordinary shares based on conversion prices ranging from \$0.23 (Floor Cap) to \$0.40 (Ceiling Cap) respectively.

Note 32. Share-based payments

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

Note 32. Share-based payments (continued)

The general terms and conditions of the Award Options are:

- basis for issues of options:
- issues to Executive Directors (Peter Rowland and Richard Hannebery) - in accordance with respective executive contracts with the Group;
- issues to Non-Executive Directors and other employees - to incentivise performance and further align interests with shareholders;
- issues to consultants - award for contribution to product development of the DRX Revolution Nano;
- no amount was payable by the holders on the issues of the options;
- vesting arrangements:
- issues to Executive Directors:
 - one third (Tranche 1) vested immediately upon IPO;
 - one third (Tranche 2) vested on 1 September 2016, provided the holder remains employed by the Group on that date;
 - one third (Tranche 3) vested on 1 September 2017, provided the holder remains employed by the Group on that date;
- issues to Non-Executive Directors and other employees:
 - one third (Tranche 1) vested on 21 December 2016, provided the holder remains employed by the Group on that date;
 - one third (Tranche 2) vested on 21 December 2017, provided the holder remains employed by the Group on that date;
 - one third (Tranche 3) vest on 21 December 2018, provided the holder remains employed by the Group on that date;
- issues to consultants:
 - one third (Tranche 1) vested on 21 December 2016;
 - one third (Tranche 2) vested on 21 December 2017;
 - one third (Tranche 3) vest on 21 December 2018;
- exercise prices:
 - Tranche 1: \$0.575 (57.5 cents) per option;
 - Tranches 2 and 3: \$0.625 (62.5 cents) per option;
- all of the above options expire on 31 December 2019;
- issues to Non-Executive Directors (during 2017 financial year):
 - one half (Tranche 1) vest on 1 December 2018, provided the holder remains employed by the Group on that date;
 - one half (Tranche 2) vest on 1 December 2019, provided the holder remains employed by the Group on that date;
- exercise price for Tranche 1 and 2 is \$0.625 (62.5 cents) per option.
- these options expire on 1 December 2020;
- issues to other employees (during 2017 financial year):
 - one third (Tranche 1) vested on 1 April 2018, provided the holder remains employed by the Group on that date;
 - one third (Tranche 2) vest on 1 April 2019, provided the holder remains employed by the Group on that date;
 - one third (Tranche 3) vest on 1 April 2020, provided the holder remains employed by the Group on that date;
- issues to consultants (during 2017 financial year):
 - one third (Tranche 1) vested on 1 April 2018;
 - one third (Tranche 2) vest on 1 April 2019;
 - one third (Tranche 3) vest on 1 April 2020;
- exercise prices to other employee and consultants issued during the year for Tranche 1, 2 and 3 is \$0.625 (62.5 cents) per option
- these options expire on 1 April 2021;

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2018

Note 32. Share-based payments (continued)

- issues to Non-Executive Directors (during the period):
- one half (Tranche 1) vest on 11 September 2019, provided the holder remains employed by the Group on that date;
- one half (Tranche 2) vest on 11 September 2020, provided the holder remains employed by the Group on that date;
- exercise price for Tranche 1 and 2 is \$0.625 (62.5 cents) per option.
- these options expire on 1 September 2021;
- all options will be settled by issues of fully paid ordinary shares in the Group.

During the year the share-based payments expense recognised was \$304K.

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

2018							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/09/2014	31/12/2019	\$0.575	1,393,112	-	-	-	1,393,112
01/09/2014	31/12/2019	\$0.625	2,786,228	-	-	-	2,786,228
21/12/2015	31/12/2019	\$0.575	2,050,000	-	-	(250,000)	1,800,000
21/12/2015	31/12/2019	\$0.625	4,100,000	-	-	(500,000)	3,600,000
05/12/2016	01/12/2020	\$0.625	320,000	-	-	-	320,000
01/04/2017	01/04/2021	\$0.625	2,500,000	-	-	-	2,500,000
11/09/2017	01/09/2021	\$0.625	-	320,000	-	-	320,000
			13,149,340	320,000	-	(750,000)	12,719,340
Weighted average exercise price			\$0.612	\$0.625	\$0.000	\$0.608	\$0.612
2017							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/09/2014	31/12/2019	\$0.575	1,393,112	-	-	-	1,393,112
01/09/2014	31/12/2019	\$0.625	2,786,228	-	-	-	2,786,228
21/12/2015	31/12/2019	\$0.575	2,050,000	-	-	-	2,050,000
21/12/2015	31/12/2019	\$0.625	4,100,000	-	-	-	4,100,000
05/12/2016	01/12/2020	\$0.625	-	320,000	-	-	320,000
01/04/2017	01/04/2021	\$0.625	-	2,500,000	-	-	2,500,000
			10,329,340	2,820,000	-	-	13,149,340
Weighted average exercise price			\$0.608	\$0.612	\$0.000	\$0.000	\$0.612

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

Grant date	Expiry date	2018 Number	2017 Number
01/09/2014	31/12/2019	4,179,340	1,393,112
21/12/2015	31/12/2019	3,599,997	2,049,998
		<u>7,779,337</u>	<u>3,443,110</u>

Note 32. Share-based payments (continued)

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.81 years (2017: 2.76 years).

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
11/09/2017	01/09/2021	\$0.350	\$0.625	65.01%	-	2.51%	\$0.127

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

- options issued to the Executive Directors: from 1 September 2014, being the commencement date of their executive contracts with the Group, to the respective vesting dates; and
- all other options: from grant dates in December 2015, December 2016, April 2017 and September 2017 to the respective vesting dates.

Micro-X Ltd
Directors' declaration
For the year ended 30 June 2018

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the directors



Patrick O'Brien
Non-Executive Chairman

29 August 2018

Independent Auditor's Report

To the Members of Micro-X Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Micro-X Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- a giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Material uncertainty related to going concern

We draw attention to Note 2 in the financial statements, which indicates that the Group incurred a net loss of \$16.6 million during the year ended 30 June 2018, and as of that date, the Group's liabilities exceeded its assets by \$0.727 million. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

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

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment in associate – Notes 3, 9, 25 and 28 <p>The Group owns an investment making up 30% of its associate's shares, which was impaired during the year. The investment in XinRay is required to be measured in accordance with AASB 128 <i>Investments in Associates and Joint Ventures</i>.</p> <p>The entire carrying amount of the investment must be tested for impairment in accordance with accounting standard AASB 136 <i>Impairment of Assets</i>, as a single asset, by comparing its recoverable amount with its carrying amount, whenever application of <i>AASB 139 Financial Instruments</i>, Recognition and Measurement indicates that the investment may be impaired.</p> <p>The fair value of the Group's investment is reliant upon the fair value of the associate's investment in a joint venture. The process to measure this investment is complex, and requires significant judgment from management.</p> <p>This area is a key audit matter due to the valuation complexities of the investment being a significant risk.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • reviewing the measurement of profits and losses captured in the investment against the requirements of AASB 128, including the elimination of profit on related party sales; • making enquiries of the XinRay statutory auditor on procedures performed over significant balances for the 31 December 2017 audit, as well as the audit opinion issued; • obtaining management's evaluation of impairment indicators in accordance with AASB 136 and: <ul style="list-style-type: none"> – engaging a valuation specialist to assess the methods applied to determine the recoverable amount measured at fair value less costs to sell; – critically assessing the reasonableness of the inputs supporting the recoverable amount; and – assessing the appropriateness of the recorded impairment for reasonableness in comparison to the recoverable amount; and • assessing the adequacy of disclosures in the financial statements.

Key audit matter

How our audit addressed the key audit matter

Valuation of intangible assets – Notes 2, 3 and 11

Given the nature of the industry in which the Group operates, there is a risk that there could be a material impairment to intangible asset balances.

Determination as to whether an impairment exists relating to an asset or Cash Generating Unit (CGU) involves significant judgment about the future cash flows and plans for these assets and CGUs.

These judgements include:

- identifying the existence of impairment indicators;
- determining the appropriate CGUs;
- forecasting future cash flows; and
- determining the relevant assumptions such as discount and growth rates.

This area is a key audit matter due to the abovementioned judgments involved in preparing a value-in-use model for determining recoverable amount in management's impairment assessments.

Our procedures included, amongst others:

- assessing management's identification of each of the Group's CGUs based on our understanding of the nature of the Group's business and cash flows;
- engaging a valuation specialist to assess the impairment models and evaluate the reasonableness of key assumptions including the discount rate, terminal growth rates and forecast growth assumptions;
- assessing the reasonableness of the approved cash flow projections used in the impairment models as well as the Group's historical ability to forecast accurately;
- challenging management's assumptions and estimates used to determine the recoverable value of its CGUs, including those relating to forecast revenue, costs, and discount rates, and where available, corroborating the key market-related assumptions to external data; and
- assessing the adequacy of disclosures in the financial statements.

Recognition of research and development tax incentive – Notes 2, 5 and 8

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

Management have performed a detailed review of the Group's total R&D expenditure to determine the potential claim under the R&D tax incentive legislation. The receivable at year-end for the incentive was \$3.8 million. This represents an estimated claim for the period 1 July 2017 to 30 June 2018.

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

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

Our procedures included, amongst others:

- enquiring with management to obtain and document an understanding of the process to estimate the claim;
- evaluating the competence, capabilities and objectivity of management's expert;
- utilising an R&D tax expert to consider the nature of the expenses against the eligibility criteria of the R&D tax incentive scheme to form a view about whether the expenses included in the estimate were likely to meet the eligibility criteria;
- comparing the nature of the R&D expenditure included in the current year estimate to the prior year claim;
- comparing the eligible expenditure used in the receivable calculation to the expenditure recorded in the general ledger;
- considering the Group's history of successful claims;
- inspecting copies of relevant correspondence with AusIndustry and the Australian Tax Office related to the claims; and
- assessing the adequacy of disclosures in the financial statements.

Key audit matter

How our audit addressed the key audit matter

Financial instruments – Notes 13 and 20

In April 2018 the Group issued 50,000 convertible notes with a collective face value of \$5.0 million.

Accounting for financial instruments under accounting standard AASB 139 *Financial Instruments: Recognition and Measurement* can be complex and involves management judgement. These judgements include:

- performing an assessment as to whether the instrument includes an embedded or standalone derivative to be separately accounted for;
- determining the fair value of the:
 - instrument as a whole
 - liability component;
 - conversion features; and, if applicable
 - derivative component
 upon initial recognition of the instrument;
- determining the fair value of each component at 30 June 2018; and
- determining the appropriate classification of the instrument within the financial statements as defined in accounting standard AASB 132 *Financial Instruments: Presentation*.

This area is a key audit matter due to the valuation complexities of the instrument being a significant risk.

Our procedures included, amongst others:

- obtaining the convertible note agreement to understand the terms and conditions of the contract;
- performing enquiries with management to understand the substance of the transaction in order to identify any surrounding circumstances that would influence the fair value of the convertible notes at 30 June 2018;
- assessing the appropriateness of management's classification of the financial instrument in accordance with AASB 132;
- assessing management's conclusions on identification of the separate components implied within the instrument;
- evaluating the reasonableness of management's assigned fair value of each component upon initial recognition of the instrument, as well as any subsequent measurement at the balance sheet date;
- engaging a valuation specialist to evaluate significant assumptions in the method applied by management for initial recognition and subsequent measurement;
- considering the impact of the instrument upon adoption of accounting standard AASB 9 *Financial Instruments* in the following year; and
- assessing the adequacy of disclosures in the financial statements.

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

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors' for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 11 to 19 of the Directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Micro-X Limited, for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Cunningham
Partner – Audit & Assurance

Melbourne, 29 August 2018

Micro-X Ltd
Shareholder information
For the year ended 30 June 2018

The shareholder information set out below was applicable as at 21 August 2018.

Distribution of equitable securities

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

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	19	-
1,001 to 5,000	249	-
5,001 to 10,000	135	-
10,001 to 100,000	483	-
100,001 and over	154	14
	1,040	14
Holding less than a marketable parcel	54	-

Equity security holders

Twenty largest equity security holders

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

	Ordinary shares % of total shares issued
Number held	
MR PETER ROBIN ROWLAND	11,950,000 8.28
CARESTREAM HEALTH INC	9,405,000 6.52
UBS NOMINEES PTY LTD	8,049,100 5.58
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	6,035,206 4.18
NATIONAL NOMINEES LIMITED	5,682,348 3.94
HARMAN NOMINEES PTY LTD (HARMANIS INVESTMENT)	5,071,585 3.51
LONSDALE NOMINEES PTY LTD (THE LONSDALE FUND A/C)	4,625,380 3.20
OBRIEN PF PTY LTD (OBRIEN PENSION A/C)	3,490,804 2.42
HAMMOND ROYCE CORPORATION PTY LTD (LEN DAVID SUPER FUND A/C)	3,388,287 2.35
WALES RIDING PTY LTD	2,481,400 1.72
MS ROBYN GOULD	2,394,250 1.66
MEDDISCOPE PTY LTD	2,375,000 1.65
BT PORTFOLIO SERVICES LIMITED (THE VABEN S/F A/C)	2,329,487 1.61
BRONTE INVESTMENTS PTY LTD (MCMAHON SUPERANNUATION A/C)	2,310,000 1.60
MR DAVID SYMONS	1,955,600 1.35
TITANIUM HOLDINGS (VIC) PTY LTD	1,873,450 1.30
BNP PARIBAS NOMS PTY LTD (DRP)	1,825,000 1.26
ANGLESEA INVESTMENTS PTY LIMITED (DAMIEN OBRIEN FAMILY A/C)	1,818,622 1.26
COMO GROUP HOLDINGS PTY LTD (KIRKWOOD SUPER FUND A/C)	1,465,378 1.02
J P MORGAN NOMINEES LIMITED	1,431,500 0.99
	79,957,397 55.40

Micro-X Ltd
Shareholder information
For the year ended 30 June 2018

Unquoted equity securities

	Number on issue	Number of holders
Unquoted options - Award options issued to directors and employees	12,969,340	14

Substantial holders

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

	Ordinary shares	
		% of total
	Number held	shares issued
Peter Robin Rowland and associates	12,425,000	8.61
Carestream Health Inc.	9,405,000	6.52
Thorney Technologies and associates	8,856,760	6.14

Voting rights

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

Ordinary shares

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

Shares subject to escrow (Restricted Securities)

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

Options

Options do not have voting rights attached.

There are no other classes of equity securities.