AirXpanders

AIRXPANDERS, INC. (ABN 28 604 398 423)

Prospectus

Initial Public Offering Of 73,027,989 CHESS Depositary Interests (CDIs) at an Issue Price of A$0.50 per CDI

LEAD MANAGER TO THE ISSUE

CANACCORD Genuity

Important notices

General
AirXpanders, Inc. (**AirXpanders; Company**) is a company incorporated in the State of Delaware in the US and registered in Australia as a foreign company (ABN 28 604 398 423; ARBN 604 398 423). Applicants purchasing CHESS Depositary Interests (**CDIs**) in the Company under the Public Offer will receive a holding statement for CDIs in the Company. Please refer to Sections 7 and 11 for further information about CDIs.

Defined terms and abbreviations (including technical terms and abbreviations) used in this Prospectus have the meanings given in the Glossary in Section 13.

Public Offer
The Public Offer contained in this Prospectus is an invitation to acquire CDIs (representing Shares) in the Company.

Expiry date
No CDIs will be allotted or issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

Prospectus
This Prospectus is dated 11 May 2015 and a copy of this Prospectus was lodged with ASIC on that date. Neither ASIC, the ASX nor any of their officers take any responsibility for the contents of this Prospectus or for the merits of the investment to which this Prospectus relates.

A paper copy of this Prospectus is available to Australian residents, free of charge, by calling the Offer Information Line on 1300 634 423 (from within Australia) or +61 3 9415 4624 (from outside Australia) during the Offer Period. This Prospectus is also available in electronic form to any Australian resident at www.airxpandersipo.com. The Public Offer constituted by this Prospectus in electronic form is only available to persons in Australia. It is not available to persons in other jurisdictions (including the US and US Persons). Persons who access the electronic version of this Prospectus should ensure that they download and read the entire Prospectus. If you are unsure about the completeness of this Prospectus received electronically, or a print-out of it, you should contact the Company.

Applications for CDIs under this Prospectus may only be made on the Application Form attached to or accompanying this Prospectus in its hard copy form, or its soft copy form which must be downloaded in its entirety from www.airxpandersipo.com. By making an Application, you declare that you were given access to this Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus. Refer to Section 7 for further information about Applications.

Application for admission and quotation on the ASX
Within seven days after the date of this Prospectus, the Company will apply to be admitted to the Official List of the ASX and for quotation of the CDIs on the ASX. The fact that the ASX may admit the Company to the Official List is not to be taken in any way as an indication of the merits of the CDIs, the Public Offer or the Company.

Exposure Period
The Corporations Act prohibits the Company from processing Applications in the seven day period after the date of lodgement of this Prospectus with ASIC (**Exposure Period**). This period may be extended by ASIC for a further period of up to seven days. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds under the Public Offer. The examination may result in the identification of certain deficiencies in this Prospectus, in which case Applications may need to be dealt with in accordance with section 724 of the Corporations Act.

Applications received under this Prospectus during the Exposure Period will not be processed until after the expiry of the Exposure Period.

Note to US residents
The CDIs offered under this Prospectus have not been registered under the *Securities Act* of 1933 (US) (as amended to date and the rules and regulations promulgated thereunder) (**US Securities Act**) and may not be offered or sold in the US absent registration or an applicable exemption from registration under the US Securities Act and applicable state securities laws. This Prospectus does not constitute an offer to sell, or the solicitation of an offer to buy, nor will there be any sale of the CDIs in any of the US or any state or other jurisdiction in which such offer, solicitation or sale would be unlawful. In addition, any hedging or similar transactions in the CDIs may not be conducted unless in compliance with the US Securities Act.

Foreign Ownership Restrictions (FOR) US
The Public Offer is being made available to investors in reliance on the exemption from registration contained in Regulation S of the US Securities Act for offers which are made outside the US.

As a result of relying on the Regulation S exemption, the CDIs which are issued under the Public Offer will be 'restricted securities' under Rule 144 of the US Securities Act. This means that you will not be permitted to sell the CDIs issued to you under the Public Offer into the US or to a US Person for a period of 12 months from the date of allotment of the CDIs under the Public Offer, unless the resale of the CDIs is registered under the US Securities Act or an exemption is available. Please refer to Section 12 for further information.

To enforce the above transfer restrictions, the Company has requested that all CDIs issued under the Public Offer bear a 'FOR US' designation on the ASX. This designation is designed to automatically prevent any CDIs from being sold on the ASX to US Persons. However, you will still be able to freely transfer your CDIs on the ASX to any person other than a US Person. Please refer to Section 12.1 for further information on the 'FOR US' restrictions which will be placed on the Company's CDIs.

Representations and warranties of non US Person status
All investors subscribing for CDIs under the Public Offer will be required to make certain representations and warranties regarding their non-US status in their Application for CDIs under the Public Offer. Please refer to Section 12.1(b) of this Prospectus for further information.

Other foreign jurisdictions
This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make an offer. No action has been taken to register or qualify the CDIs or the Public Offer under this Prospectus, or to permit a public offering of CDIs, in any jurisdiction other than Australia.

The Public Offer is not being extended to any investor outside of Australia, other than to certain Institutional Investors as part of the Institutional Offer in certain jurisdictions. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws. The return of a duly completed Application Form will be taken by the Company to constitute a representation and warranty made by the Applicant to the Company that there has been no breach of such laws and that all necessary approvals and consents have been obtained.

Financial information and amounts
The Historical Financial Information included in this Prospectus has been prepared and presented in accordance with US Generally Accepted Accounting Principles (**US GAAP**) and is expressed in US dollars, except where otherwise stated. Save as set out above, the financial amounts referred to in this Prospectus are expressed in US dollars unless stated otherwise.

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

Forward looking statements
This Prospectus may contain forward looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'expects', 'intends' and other similar words that involve risks and uncertainties which have not been based solely on historical facts but on the Company's expectations about future events and results.

You should consider that as such statements relate to future matters, they are subject to various inherent risks, uncertainties and assumptions that could cause actual results or events to differ materially from expectations described in the forward looking statement. Neither the Company, the Directors, nor any other person named, with their consent, in this Prospectus can assure you that any forward looking statement or implied result will be achieved.

Reliance
No person is authorised to give any information or make any representation in connection with the Offers that is not contained in this Prospectus. Investors should not rely on any information which is not contained in this Prospectus in making a decision as to whether to acquire securities in the Company under the Offers. Any information or representation not contained in this Prospectus may not be relied on as having been authorised by the Company, its Directors or any other person in connection with the Offers. The Company's business, financial condition, results of operations and prospects may have changed since the date of this Prospectus.

Privacy
By completing an Application Form, you are providing personal information to the Company and the Registry, which is contracted by the Company to manage Applications, and consent to the collection and use of that personal information in accordance with these terms. If you do not wish to provide this information, the Company may not be able to process your Application. The Company and the Registry will collect, hold and use your personal information in order to assess and process your Application, and if successful, administer security holdings in the Company.

The Company and the Registry may disclose your personal information, for purposes related to your investment, to their agents and service providers, including:

- the Lead Manager in order to assess your Application;
- the Registry for ongoing administration of the Company's registers;
- the printers and the mailing house for the purposes of preparation and distribution of statements and for handling of mail; and
- legal and accounting firms, auditors and other advisers for the purpose of administering and advising on the CDIs and Shares and for associated actions.

Under the *Privacy Act 1988* (Cth), you may request access to your personal information that is held by, or on behalf of, the Company. You can request access to your personal information or obtain further information about the Company's privacy practices by contacting the Company, or the Registry, details of which are set out elsewhere in this Prospectus.

The Company aims to ensure that the personal information it retains about you is accurate, complete and up-to-date. To assist with this, please contact the Company or the Registry if any of the details you have provided change.

References to time
All references to time in this Prospectus refer to the time in Sydney, Australia, unless stated otherwise.

Photographs and diagrams
Photographs used in this Prospectus which do not have any descriptions are for illustration only and should not be interpreted to mean that any person shown endorses this Prospectus or its contents or that the assets shown in them are owned by the Company.

Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available as at the date of this Prospectus.

Investment decision
The information in this Prospectus is not financial product advice or a recommendation to acquire securities in the Company and has been prepared without taking into account the objectives, financial situation or needs of individuals. This Prospectus should not be construed as financial, taxation, legal or other advice. The Company is not licensed to provide financial product advice in respect of its securities or any other financial products.

This Prospectus is important and should be read in its entirety prior to making an investment decision. If you do not fully understand this Prospectus or are in doubt as to how to deal with it, you should consult your stockbroker, solicitor, accountant or other independent professional adviser before deciding whether to invest in the CDIs. There are risks associated with an investment in the Company and the CDIs offered under this Prospectus should be regarded as a speculative investment. You should consider the risk factors set out in Section 4 of this Prospectus in light of your personal circumstances (including financial and tax issues). There may also be risk factors in addition to these that should be considered in light of your personal circumstances.

Except as required by law, and only to the extent so required, neither the Company nor any other person warrants or guarantees the future performance of the Company, or any return on any investment made pursuant to this Prospectus.

Regulation of AirXpanders
As AirXpanders is not established in Australia, its general corporate activities (apart from any offering of securities in Australia) are not regulated by the Corporations Act or by ASIC but instead are regulated by Delaware General Corporation Law and all applicable US securities legislation.

Currency conversions
Where an amount is expressed in this Prospectus in Australian dollars and US dollars, the conversion is based on the Indicative Exchange Rate (being A$1.00 = US$0.76). The amount when expressed in Australian dollars or US dollars may change as a result of fluctuations in the exchange rate between those currencies.

Table of Contents

Needle free
Controlled daily expansion
True anatomical shape
Easy to use
Shorter expansion time
Improved office efficiency

Key statistics about the Offers

Key Offer Statistics	
Company	AirXpanders, Inc.
Ratio of CDIs per Share	Each CDI is equivalent to a third of a Share
Number of Shares on issue immediately prior to Offers	41,745,547 (equivalent to 125,236,641 CDIs)
Total number of CDIs available under the Public Offer	73,027,989 (equivalent to 24,342,663 Shares)
Offer Price	A$0.50 per CDI (equivalent to A$1.50 per Share)
Gross cash proceeds from the Offers	Approximately US$29.7 million or approximately A$39.1 million
Total number of Shares on issue following the Offers	70,488,909[1] (equivalent to 211,466,727 CDIs)
Indicative market capitalisation immediately following the Offers (on an undiluted basis)	A$105.7 million
Options on issue immediately following the Offers	4,099,835 (equivalent to 12,299,505 CDIs)
Warrants on issue immediately following the Offers	469,970 (equivalent to 1,409,910 CDIs)
Indicative market capitalisation immediately following the Offers (on a fully-diluted basis)	A$112.6 million

1 See footnotes to table in Section 11.2(a).

Letter from the Chairman

11 May 2015

Dear Investor,

On behalf of the Board of Directors, it is with great pleasure that I invite you to consider becoming an investor in AirXpanders.

AirXpanders is a US based medical device company whose principal business is the design, manufacturing and distribution of the AeroForm® patient controlled tissue expander, a device that is specifically designed for use in breast reconstruction after mastectomy.

By employing a revolutionary patient-controlled expander, activated by a wireless remote control, AirXpanders believes the often painful process of recovering one's feminine shape after cancer can be significantly improved. In a series of clinical trials to date, this needle-free technology has enabled the patient to proceed to a permanent implant much faster than the current standard of care. In the future, the Company may also develop tissue expanders that can be used in other therapeutic areas, such as for burns and paediatrics. AirXpanders believes there is a very sizable market for AeroForm® throughout the world.

In October 2013, following successful Australian clinical trials, the Australian Therapeutic Goods Administration approved AeroForm® for use in Australia and in November 2014, AeroForm® was approved for reimbursement in Australia. AirXpanders has recently initiated the market release of AeroForm® in Australia with promising early results.

Further, AirXpanders was granted CE Mark approval for AeroForm® in October 2012 and has recently completed enrolment in its US pivotal clinical trial and plans to submit for US Food and Drug Administration (**FDA**) clearance by the middle of 2015.

AirXpanders is seeking to raise approximately US$29.7 million (approximately A$39.1 million) under the Offers, which will predominantly be used to fund the Company's full market launch and commercialisation of AeroForm® in Australia and the US.

Leading AirXpanders is an experienced Board and management team, with substantial expertise in bringing medical devices to the US and global markets.

While an investment in AirXpanders involves a number of risks, some of which are described in this Prospectus, it also represents an opportunity for you to share in the Company's exciting future and, in some way, contribute to the improved health and well-being of breast cancer patients.

On behalf of my fellow Directors, I encourage you to read this Prospectus in its entirety and, if you decide to invest, I look forward to welcoming you as an investor in AirXpanders.

Yours truly,

Barry Cheskin
Chairman

1.
Investment overview

1. Investment overview

Introduction	For more information
Company overview	Section 3

AirXpanders is a US based company focused on the design, manufacturing, sale and distribution of its AeroForm® tissue expander for breast reconstruction procedures following mastectomy. AirXpanders was founded with the purpose of developing a better method for breast tissue expansion than traditional saline tissue expanders.

AeroForm® uses a controlled delivery of small amounts of carbon dioxide (CO_2) gas to achieve the tissue expansion usually required for the placement of a permanent breast implant. AeroForm® eliminates the need for the needle injections required for traditional saline tissue expanders, gives patients the ability to control the expansion process themselves, and allows patients to achieve full expansion much faster than is achieved using traditional expanders.

The Company has TGA and CE Mark approval for AeroForm® and in January 2015, commenced an initial market release of AeroForm® in Australia.

In the US, the Company obtained FDA approval to conduct a pivotal trial called the XPAND trial. The XPAND trial commenced in 2012 and enrolment is now complete. The Company expects to use the final results from the XPAND trial for the submission of a 510(k) notification to the FDA by the middle of 2015, seeking marketing clearance for the US. Subject to receiving FDA clearance by the end of 2015, the Company expects to commercialise AeroForm® in the US from early 2016.

The Company has been predominantly funded to date by experienced Australian and US healthcare-focused institutional investment funds, each of which is investing further via the Offers.

Investment overview and details of the Public Offer	For more information
What are the key investment highlights?	Section 3

Helping breast cancer patients achieve faster, needle-free and less painful breast reconstruction

Breast cancer treatment often involves mastectomy, which is the entire removal of one or both breasts. Breast reconstruction is a surgical option for women who have had all or part of the breast removed. The most common form of breast reconstruction involves a two-stage breast implant process. The first stage involves using a temporary tissue expander implant so that the skin and underlying muscle tissue in the breast region is slowly stretched (over a period of weeks or months) to make room for a permanent breast implant. This typically requires patients to regularly attend their surgeon's office to receive injections of saline through the breast into the implanted tissue expander.

By comparison, AeroForm® is a needle free process that can be controlled by the patient herself (including at home or work) through a wireless remote control unit that provides better and less painful breast tissue expansion in a significantly shorter time frame. AirXpanders believes that this is the best innovation in tissue expander technology for many decades.

Strong clinical trial results to date

Since 2009, over 500 AeroForm® devices have been placed clinically and commercially in more than 350 patients. Final data from the Australian trials and preliminary data from the US trial shows that AeroForm® achieved the required tissue expansion in a significantly shorter time than is normally associated with traditional saline tissue expanders, and patients and surgeons have recorded overall satisfaction rates of 95%-100%.

Investment overview and details of the Public Offer	For more information
What are the key investment highlights? (continued)	Section 3
US pivotal trial results imminent and major regulatory approvals in place or near The Company has obtained regulatory approval for the sale of AeroForm® in Australia and Europe. In the US, the FDA has approved the Company conducting a multi-centre, prospective, randomised controlled, pivotal trial under the IDE regime. The XPAND trial, which commenced in 2012, enrolled 150 patients across 16 sites in the US. Preliminary trial results were published in May 2014. These results were highly encouraging and final trial results are expected in the middle of 2015. The Company anticipates seeking FDA clearance for commercialisation of AeroForm® by the middle of 2015, with the aim of obtaining FDA clearance by the end of 2015.	
Large existing market with regulated growth drivers The Company estimates that the current US market for tissue expanders is approximately 120,000 units per year, with a total addressable market in the US of approximately 350,000 units per year. There are several factors that are expected to drive growth. In particular, in response to reports that approximately two thirds of mastectomy patients were not being told of their breast reconstruction options at the time of mastectomy, the *Breast Cancer Patient Education Act* of 2013 (US) was introduced into the US Congress in May 2013. This bill, which has bipartisan support and is currently before the US Senate Sub-committee on Health, would if passed require physicians to make all women who are about to undergo mastectomy aware of their options for breast reconstruction.	
Existing reimbursement in both Australia and US In Australia, AirXpanders secured reimbursement for AeroForm® in November 2014. In the US, reimbursement codes already exist covering breast reconstruction procedures (including the use of tissue expanders) and, upon US market launch, it is expected that AirXpanders will immediately benefit from that existing reimbursement. In addition, the *Women's Health and Cancer Rights Act* of 1998 (US) requires both private health insurers who provide coverage for mastectomies and US Medicare to similarly provide reimbursement for breast reconstruction procedures. Most women in the US choose to have a reconstruction when made aware of this option at the time of mastectomy.	
Undertaking commercial launch of AeroForm® in Australia and the US AirXpanders aims to establish AeroForm® as a leading tissue expander device in the global breast reconstruction market. With clinical trials having been conducted in both Australia and the US, the Company plans to focus its initial sales and marketing activities in those two markets. The Company has already commenced an initial launch of AeroForm® in the Australian market with encouraging early sales. Pending clearance from the FDA, the Company is planning for a market launch in the US from early 2016.	
Competitive landscape – few players and little differentiation Tissue expanders have been used for breast cancer reconstruction for many years. While there have been some minor improvements over the years, there has been little innovation in expanders over the last 50 years. Other than AeroForm®, actively marketed tissue expanders typically require regular injections of saline through the breast at the surgeon's office in order to achieve tissue expansion.	
Strong register of supportive institutional investors Approximately US$33.8 million has been invested into AirXpanders to date and the Company's investors include experienced healthcare-focused institutional investment funds in Australia and the US. A number of the Existing Holders recently invested again at the same price as the Public Offer and have committed to subscribe for further equity totalling approximately US$3 million or approximately A$3.95 million at the Offer Price via the Offers.	

Investment overview and details of the Public Offer	For more information
What are the key investment highlights? (continued)	Section 3
Highly experienced and successful board and management team The Board and management of AirXpanders comprise highly credentialled medical device industry and business professionals with a wealth of collective experience in successful development, launch, sales and marketing of medical devices in the US and globally. Management and Board members have also overseen or had key person involvement in numerous medical device merger and acquisition transactions including with some of the largest US medical device companies.	
What are the key investment risks?	Section 4
You should consider the risk factors described below, together with information contained elsewhere in this Prospectus, and the detailed discussion on the risks as set out in Section 4 before deciding whether to apply for CDIs offered under this Prospectus. An investment in an early-stage medical device company, such as AirXpanders, involves substantial investment risk and you should consult your professional advisers before deciding whether to apply for CDIs.	
Reliance on the success of AeroForm® Assuming the Company obtains the required regulatory approvals in the US and certain other countries, AirXpanders expects to derive all of its revenue in the foreseeable future from sales of AeroForm®. The Company's ability to generate revenue will then largely depend on how effectively it can market and distribute this key product. If the Company is unable to successfully launch and achieve meaningful market penetration with AeroForm®, its commercial strategy will be unachievable and the Company will need to reconsider its business model.	
Regulatory risk Although the Company has received TGA and CE Mark approval for AeroForm®, it has not yet obtained FDA clearance to commercialise AeroForm® in the US. Whilst the Company is aiming to obtain this clearance by the end of 2015, there is uncertainty regarding the timing and outcomes of regulatory submissions. Any delays or barriers to the Company obtaining US clearance would limit the size of the market opportunity until such time (if any) that the Company was able to obtain such clearance of AeroForm®.	
Clinical trial risk The Company is relying on positive final data from the XPAND trial in order to obtain FDA clearance to commercialise AeroForm® in the US. Although the Company considers that the data on AeroForm® to date (including the preliminary data from the XPAND trial) demonstrates AeroForm®'s safety and effectiveness, the device may nonetheless fail to meet its end-points in the XPAND trial.	
Market adoption risk In order to achieve commercial success, the Company is reliant on the acceptance and promotion of AeroForm® by patients and surgeons. While the Company already has early good relationships with a number of leading surgeons in Australia and the US, this in itself does not ensure the widespread support of AeroForm® among surgeons.	
Competition risk The market for traditional tissue expander products in breast reconstruction procedures is dominated by two large pharmaceutical companies (Allergan, Inc. and Mentor Worldwide LLC, a division of Johnson & Johnson). The resources and scale of these two companies provide them with significant advantages in terms of financing, research and development, manufacturing and marketing resources and this may restrict the Company's ability to secure market share for AeroForm®.	

Investment overview and details of the Public Offer	For more information
What are the key investment risks? (continued)	Section 4
Sales and marketing risk The Company currently has limited marketing resources and will need to commit significant resources to developing sales, distribution and marketing capabilities. There is a risk that the Company will be unable to develop these capabilities sufficiently to effectively commercialise AeroForm®.	
Reimbursement risk AirXpanders has secured reimbursement for AeroForm® in Australia and upon commercial launch in the US, it is expected that AeroForm® will benefit from existing reimbursement codes for breast reconstruction procedures. However, no assurance can be given that reimbursement amounts in the US will be sufficient to enable the Company to sell AeroForm® on a profitable basis. Moreover, the Company cannot predict what changes may be made in the future to third party coverage and reimbursement in Australia or the US and what impact any such changes may have on its ability to sell AeroForm®. Outside of Australia and the US, the Company may not obtain international coverage and reimbursement approvals in a timely manner, if at all.	
Intellectual property risk The protection of the intellectual property relied upon by the Company is critical to its business and commercial success. If the Company is unable to protect or enforce the intellectual property rights embodied in AeroForm®, there is a risk that other companies will incorporate the intellectual property into their technology, which could adversely affect the Company's ability to compete in the market for tissue expanders.	
Manufacturing risk The Company intends that most of its manufacturing of AeroForm® will be located in Costa Rica. While the Company also plans to retain the ability to manufacture AeroForm® at its California location, there are inherent risks in relying on outsourced contract manufacturers outside of the US. Should the manufacturer's operations be disrupted for any reason or production halted, the Company may not be able to have enough AeroForm® devices manufactured in a timely manner to satisfy product demand.	
Supplier risk As the Company moves further into its commercialisation phase, the Company will increasingly rely on key suppliers for AeroForm® components. A disruption at any key supplier could cause a substantial delay in the availability of AeroForm®. In addition, the Company is currently undertaking a validation process to establish a new supplier of barrier film to be used in the production of AeroForm®, as the Company is not able to secure future supply from its former provider. This will also require updates to the Australian and European marketing approvals and an update to the FDA approval to pursue the XPAND trial in the US. The Company believes that its existing stores of barrier film are sufficient for the change in supplier (including obtaining the updates to the regulatory approvals) to not interrupt the Company's anticipated production schedule.	
Additional or different requirements for capital The Company is not currently profitable. Proceeds from the Offers will primarily be used to fund commercial rollout of AeroForm® in Australia and the US. The Company may need to use the proceeds of the Offers differently to its current plans or raise further capital in the future (or both), including if there are delays in regulatory approvals, manufacturing ramp up or slower than anticipated market adoption.	

Investment overview and details of the Public Offer	For more information
What is AirXpanders' business plan?	Section 3
Regulatory clearance in the US The Company is focused on securing FDA clearance of AeroForm® in order to gain access to the US market, which is by far the largest and most important market for medical devices in the world. The Company expects to use the final results from its IDE pivotal trial (the XPAND trial) for the submission of a 510(k) notification to the FDA by the middle of 2015, seeking marketing clearance for the US.	
Commercial launch The Company intends to undertake a full commercial launch of AeroForm® in Australia in the middle of 2015 and subject to obtaining FDA clearance by the end of 2015, commercialise AeroForm® in the US from early 2016. The Company plans to focus its initial sales and marketing activities in Australia and the US. Once sales are established in the US, the Company will then look to expand its presence into Europe, where it has already obtained approval to market and sell AeroForm®.	
Transfer of manufacturing The Company is in the process of planning the transfer of its main manufacturing to a certified contract manufacturer in Costa Rica to support full commercial launch. It is expected that manufacturing transfer will begin in the second half of 2015 and be completed in the middle of 2016.	
Additional products The Company is developing prototypes of other tissue expansion products and intends in the future to offer a range of additional products that can utilise the Company's CO_2 concept for tissue expansion in other applications such as for burn, paediatric and trauma patients.	
What are the Offers?	Sections 7.1 and 7.2
The Public Offer is an initial public offering by invitation to acquire a total of 73,027,989 CDIs at A$0.50 per CDI. CDIs will represent shares of Class A common stock (**Shares**) in AirXpanders, with each CDI representing an interest in a third of a Share. The Public Offer comprises: > the Broker Firm Offer, which is open to Retail Investors in Australia who have received a firm allocation from their broker; > the General Public Offer, which is open to Retail Investors in Australia; and > the Institutional Offer, which consists of an invitation to certain Institutional Investors in Australia, Hong Kong, Singapore, the United Kingdom and certain other overseas jurisdictions. AirXpanders is also conducting a concurrent private placement of 1,709,969 Shares* (equivalent to 5,129,907 CDIs) to certain accredited investors in the US pursuant to Regulation D of the US Securities Act (**US Private Placement**). The US Private Placement will be at the equivalent price per Share as the Offer Price (but in US dollars). The Public Offer and the US Private Placement are together referred to in this Prospectus as the **Offers** and are expected to raise total gross proceeds of approximately US$29.7 million (approximately A$39.1 million).	

* Based on the Indicative Exchange Rate. The actual number of Shares will depend on the prevailing exchange rate at the time of the investment.

Investment overview and details of the Public Offer	For more information

Are the Offers underwritten?

For more information: Section 7.9

The Public Offer is fully underwritten by the Lead Manager.

The US Private Placement is not underwritten. However, at the date of this Prospectus, the Company has received firm commitments from certain Existing Holders in the US to subscribe for 1,709,969* Shares under the US Private Placement.

What is the capital structure and market capitalisation of the Company following the Offers?

For more information: Section 11.2

The table below sets out AirXpanders' indicative capital structure immediately prior to and immediately following the Offers.

	Pre-Offers[1]		Post-Offers	
	Number of securities	Equivalent in CDIs	Number of securities	Equivalent in CDIs
Shares held by Existing Holders	41,745,547	125,236,641	41,745,547[2]	125,236,641
Indicative number of Shares to be issued on conversion of Convertible Notes and accrued interest[3]	–	–	2,690,730	8,072,190
Shares to be issued under the Offers[4]	–	–	26,052,632	78,157,896
Total Shares (undiluted basis)	**41,745,547**	**125,236,641**	**70,488,909[5]**	**211,466,727**
Options	4,099,835	12,299,505	4,099,835[6]	12,299,505
Warrants	469,970	1,409,910	469,970[6]	1,409,910
Total Shares (fully-diluted basis)	**46,315,352**	**138,946,056**	**75,058,714**	**225,176,142**

1 After the Restructuring (described in Section 11.4).

2 Does not include Shares or CDIs which the Existing Holders may subscribe for under the Offers, nor does it include any Shares which will be issued to certain Existing Holders on conversion of the Convertible Notes (and accrued interest), which is separately dealt with in this table.

3 The number of Shares (and equivalent CDIs) to be issued is indicative only as it assumes a conversion price of US$1.14 per Share (based on an Offer Price of A$1.50 per Share and the Indicative Exchange Rate applying) and a conversion date of 12 June 2015. The Convertible Notes and accrued interest will convert at the Offer Price converted into US dollars at the prevailing A$:US$ exchange rate as reported by Bloomberg at the time of conversion.

4 Shares issued under US Private Placement assume the Indicative Exchange Rate applies. The actual number of Shares issued will depend on the prevailing A$:US$ exchange rate at the time of the investment

5 Total number of Shares and equivalent CDIs is indicative as final numbers depend on the number of Shares issued under the US Private Placement and on conversion of the Convertible Notes (and accrued interest) – see footnotes 3 and 4 above.

6 Assumes no change to the number of Options and Warrants held pre- and post- close of Offers.

Based on the Offer Price of A$0.50, the indicative market capitalisation of the Company immediately following the Offers (on a fully diluted basis) will be A$112.6 million.

* Based on the Indicative Exchange Rate. The actual number of Shares will depend on the prevailing exchange rate at the time of the investment.

Investment overview and details of the Public Offer	For more information

How will the proceeds be used?

Section 7.4

AirXpanders expects to receive approximately US$29.7 million (approximately A$39.1 million) of gross proceeds from the Offers. The table below sets out the proposed use of proceeds from the Offers.

Use of proceeds from the Offers	US$'000	A$'000
Sales and marketing costs	5,924	7,795
Establishing commercial-scale manufacturing capability	5,311	6,988
General and administration	5,270	6,933
Repayment of GE line of credit (see Section 12.5(b))	3,250	4,276
Clinical trials	1,987	2,615
Research and development	1,582	2,082
Other working capital	3,576	4,705
Cost of the Offers	2,800	3,685
TOTAL	**29,700**	**39,079**

The expected use of proceeds represents AirXpanders' current intentions based upon AirXpanders' present plans and business conditions. The amounts and timing of the actual expenditures may vary significantly and will depend on numerous factors, including the timing and success of AirXpanders' commercialisation activities and revenue from sales.

Following completion of the Offers, the Company will have a total pro forma cash balance as at 31 December 2014 of approximately US$31.6 million (having applied the pro forma adjustments described in Section 5.4(b)). The Directors believe that the Company's current cash reserves plus the net proceeds of the Offers will be sufficient to fund the Company's key objectives of regulatory clearance in the US and a presence in Australia and the US until at least December 2017, even if there are no sales of AeroForm® during that period.

Any future capital requirements will depend on a number of factors, including the quantum of revenue that may be generated following these planned market launches in Australia and the US.

What are the key dates of the Offers?

The key dates for the Offers are as follows:

Event	Target date
Date Prospectus lodged with ASIC	11 May 2015
Opening Date for Applications	25 May 2015
Closing Date for Applications (at 5.00pm, Sydney time)	9 June 2015
Expected Allotment Date for the CDIs	12 June 2015
Despatch of holding statements	17 June 2015
Commencement of trading on a normal settlement basis on the ASX	22 June 2015

The above dates are indicative only. The Company reserves the right to vary the dates and times of the Public Offer, which includes closing the Public Offer early, extending the close of the Public Offer, or accepting late Applications, either generally or in particular cases, without notifying any recipients of this Prospectus or any Applicants. Any variations to the dates and times of the Public Offer will require the consent of the Lead Manager (not to be unreasonably withheld).

Investment overview and details of the Public Offer	For more information
How can I apply for CDIs? Broker Firm Offer If you are a Retail Investor applying under the Broker Firm Offer, you should complete and lodge your Application Form with the relevant Application Monies, with the broker from whom you received your firm allocation. General Public Offer If you are a Retail Investor applying under the General Public Offer, you may apply for CDIs by mailing your completed paper Application Form with your Application Monies (using a cheque or money order denominated in Australian dollars) in accordance with the instructions set out on the Application Form.	Section 7.6
What are CDIs? The ASX uses an electronic system called CHESS for the clearance and settlement of trades on the ASX. AirXpanders is incorporated in the state of Delaware in the US, which does not recognise the CHESS system of holding securities. Accordingly, to enable companies such as AirXpanders to have their securities cleared and settled electronically through CHESS, depositary instruments called CDIs are issued. CDIs represent beneficial interests in the underlying Shares and are traded in a manner similar to shares of Australian companies listed on the ASX. Due to certain US securities laws, you will not be able to sell CDIs into the US or to US Persons for a period of 12 months from the Allotment Date, unless the resale of the CDI is registered under the US Securities Act or an exemption is available.	Sections 7.5, 11.5 and 12.1
Will the CDIs be listed? AirXpanders intends to apply, within seven days after the date of this Prospectus, to be admitted to the Official List of the ASX and for the CDIs to be granted official quotation on the ASX under the ticker AXP. If AirXpanders is not admitted to the Official List and the CDIs are not granted official quotation within three months after the date of this Prospectus, all Application Monies will be refunded to Applicants (without interest) as soon as practicable.	Section 7.12
What are the tax implications of investing in CDIs under the Public Offer? The tax implications of the Public Offer will depend on the individual circumstances of the Applicant. Applicants should obtain their own tax advice prior to investing.	Section 10
Where do I find out more information about this Prospectus or the Public Offer? Section 7 contains further information about the Public Offers, including an explanation of the allocation policy under the Public Offer (in Section 7.5) and the minimum application size (in Section 7.6). In addition, you can call the Offer Information Line on: Within Australia: 1300 634 423 Outside Australia: +61 3 9415 4624 Hours of operation: 8.30am to 5.00pm (Sydney time), Monday to Friday during the Offer Period.	Section 7.15

Experience and background of the Directors and Key Managers		For more information
Who are the Directors of AirXpanders and what is their expertise?		Section 6.1
Upon the completion of the Offers, the Directors will be as follows.		
Mr Barry Cheskin *Co-Founder, Chairman of the Board and Non-executive Director*	> Mr Cheskin has over 25 years of experience, primarily in the general management of medical device enterprises in the US. > Mr Cheskin is currently President and CEO of the medical device company PowerVision, Inc.	
Mr Scott Dodson *President, Chief Executive Officer and Executive Director*	> Mr Dodson has been the President and CEO of AirXpanders since 2010. > Mr Dodson has held various executive management and leadership positions, including with The Boston Scientific Corp., Orthofix Orthopedics, BarrX Medical, and Avantis Medical.	
Ms Brigitte Smith *Non-executive Director*	> Ms Smith is Co-Founder and Managing Director of GBS Venture Partners, one of Australia's leading life science investment fund managers. > Ms Smith has been managing investments for GBS's A$400 million life science specialised investment funds for the last 15 years and is on the board of several GBS portfolio companies.	
Dr Albert Cha *Non-executive Director*	> Dr Cha is a Managing Partner at Vivo Capital where he manages investments in private and public biopharmaceutical and medical device companies. > Dr Cha currently serves on the board of several public and privately held biopharmaceutical and medical device companies including Ascendis Pharma, ProNAi Therapeutics, Aclaris Therapeutics, Carbylan Therapeutics, Minerva Surgical, and Tria Beauty.	
Mr Teddy Shalon *Co-Founder and Non-executive Director*	> Mr Shalon is the sole shareholder and Chief Executive Officer of Shalon Ventures. > Mr Shalon is an entrepreneur, executive, and investor focusing on life science-oriented ventures, with 30 years of experience in medical device and medical product development with privately held companies such as Renew Medical, Airflow Medical, ThinOptics, Guard Medical and Theracaine.	
Mr Dennis Condon *Non-executive Director*	> Mr Condon is CEO and President of Nuvesse Skin Therapies, an institutional investor backed cosmeceutical skincare company that has launched 12 products into the US medical device market. > Mr Condon has 30 years of experience in key executive roles in the plastic surgery market, including as the former President and CEO of Mentor Aesthetics, a global leader in the breast implant market, and Merz Aesthetics, Inc.	

Experience and background of the Directors and Key Managers		For more information
Who are the Key Managers of AirXpanders and what is their expertise?		Section 6.2
Mr Scott Dodson *President and Chief Executive Officer*	> Refer to Mr Dodson's biography above.	
Mr F. Mark Payne *Director of Research & Development*	> Mr Payne has over 20 years' leadership experience in research and development with a focus on the execution of innovative technologies. > Mr Payne has held senior research and management positions in the aerospace industry, submitted several patent disclosures and is the inventor or co-inventor of four issued patents.	
Ms Kathy Kelley *Director of Clinical Affairs*	> Ms Kelley has over 20 years of experience in the clinical, quality, and risk management fields and 15 years of experience in medical device research. > Ms Kelley has previously managed multiple successful trials for Cardiovascular Consultants, Revascular Therapeutics (acquired by Boston Scientific), and Zeltiq.	
Mr Tony Morefield *Sr. Director of Operations*	> Mr Morefield has over 17 years of medical device and aerospace experience. > Mr Morefield most recently held senior positions at Avantis Medical Systems and for eight years in varying leadership roles with Align Technology.	
Mr John Lai *Director of Finance*	> Mr Lai has been a director at Montgomery Professional Services Corporation in San Jose for the past 12 years. > Mr Lai has expertise across financial planning, audit, forecasting, investment strategies, financial modelling and downstream accounting activities.	
Ms Naghmeh Nouri *Sr. Director of Quality and Regulatory*	> Ms Nouri has over 20 years of medical device experience with an expertise in national and international quality systems, products assurance and regulations and for a range of medical devices and systems. > Ms Nouri previously served as the Vice President of Quality and Regulatory at Asante Solutions, and prior to that at Health Hero Network and Radiant Medical.	

Experience and background of the Directors and Key Managers	For more information
Medical Advisers	Section 6.4

AirXpanders has engaged select Medical Advisers who are leading researchers in the field of plastic surgery and radiation oncology.

> Daniel Jacobs, FACS, MD/Co-Founder of Company, Chief, General, Vascular, and Plastic Surgery at Kaiser Permanente, San Jose, California US;

> Anthony Connell, FACS, MD/Australian Principal Investigator, Chief of Plastic Surgery at The Mount Hospital, Perth Australia;

> Jeffrey Ascherman, FACS, MD/US Principal Investigator, Chief of Plastic Surgery at Columbia Presbyterian Medical Center, New York, New York US;

> Kamakshi Zeidler, FACS, MD/Site Principal Investigator, Plastic Surgeon at Good Samaritan Hospital, San Jose, California US;

> Vernon LeRoy Young, FACS, MD/Chairman of Data Safety Monitoring Committee, Chief of Plastic Surgery at Mercy Health Research, Saint Louis, Missouri US; and

> James Rembert, MD/Practicing Radiation Oncologist at Alta Bates Summit Cancer Centre, Berkeley, California US.

Significant interests of key persons	For more information
What significant benefits and interests are payable to the Directors and other persons connected with AirXpanders or the Offers?	Section 6.4

Key people	Interest or benefit	For more information
Key Managers	> Remuneration > Options or eligible to participate in 2015 Plan in the future (or both)	Sections 6.5 and 6.6
Non-executive Directors	> Fees for Chairman of the Board and Chairman of each Board committee > Options or eligible to participate in 2015 Plan in the future (or both) > Certain other interests referred to in Section 6.5	Sections 6.5 and 6.6
Lead Manager	> Fees for services	Sections 6.5(h), 7.9 and 12.4
Other advisers	> Fees for services	Section 6.5(h)

Who are the Existing Holders and are they retaining an interest in AirXpanders on completion of the Offers? — Section 11.2(d)

Existing Holders	Retained interest in Shares on completion of the Offers
Vivo Ventures Fund VII, L.P. and Vivo Ventures VII Affiliates Fund, L.P.	23.95%
GBS Venture Partners Pty Ltd as Trustee for the GBS Bioventures IV Trust	22.89%
Prolog Capital II, L.P.	9.62%
Heron Capital Venture Fund I, L.P.	4.02%
Correlation Ventures, L.P.	3.58%
Other Existing Holders	2.70%

Key financial information

For more information: Section 5

Set out below is a summary of selected financial information of AirXpanders. Summaries of the audited financial statements of AirXpanders are presented in Section 5 for the years ended 31 December 2012, 2013 and 2014. The audited financial information is prepared in accordance with US GAAP and is therefore presented in US dollars, with an unaudited convenience conversion into Australian dollars. An unaudited, pro forma balance sheet as at 31 December 2014 has also been included.

All amounts disclosed in the summary are rounded to the nearest US$1,000. As with the rest of this Prospectus, the summary assumes that the Indicative Foreign Exchange Rate (A$1.00 = US$0.76) applies.

The financial information below should be read in conjunction with the summary of significant accounting policies in Section 5.6, the risk factors in Section 4, the discussion of the use of the proceeds of the Offers in Section 7.4(a), the pro forma financial information in Section 5.4 and the other information contained in this Prospectus.

Summary of the historical statement of operations

December year end	FY2012 Audited US$'000	FY2013 Audited US$'000	FY2014 Audited US$'000
Research and development	(1,009)	(766)	(1,171)
Clinical trials	(3,592)	(3,120)	(2,949)
Selling, general and administrative	(1,897)	(1,986)	(2,191)
Total operating expenses	**(6,498)**	**(5,872)**	**(6,311)**
Other income, net	161	46	(45)
Depreciation and amortisation[1]	(77)	(50)	(61)
Interest expense	(223)	(190)	(561)
Net profit /(loss) before tax	**(6,637)**	**(6,066)**	**(6,978)**

1 The audited financial accounts do not show depreciation and amortisation as a separate item. Please refer to the footnotes to the historical statement of operations contained in Section 5.2 for further information.

Summary of the historical and pro forma balance sheet

	Audited as at 31 Dec 2014 US$'000	Pro forma as at 31 Dec 2014 US$'000	Pro forma as at 31 Dec 2014 A$'000
Total current assets	1,870	31,816	41,863
Non current assets	268	268	353
Total assets	**2,138**	**32,084**	**42,216**
Total current liabilities	1,590	1,590	2,093
Total long term liabilities	2,735	2, 573	3,385
Total liabilities	**4,325**	**4,163**	**5,478**
Net assets	**(2,187)**	**27,921**	**36,738**

Case Study

Name: *Barbara Baxter*

Age: *60*

Residence: *Brooklyn, New York, United States*

Occupation: *Multimedia artist*

Diagnosis: *Stage two breast cancer*

My name is Barbara Baxter. I was diagnosed with stage two breast cancer in September 2011. Fortunately I was living in New York City where some of the best doctors and hospitals in the world exist.

I was told by my doctor that I had two options: 1) a lumpectomy followed by radiation or 2) the dreaded mastectomy. I initially decided to have the lumpectomy, but the surrounding margins within the remaining tissue could not be clearly identified as cancer-free so I then had to have the dreaded mastectomy.

As the surgery was being set up, I was referred to Dr Jeffrey Ascherman, a top plastic surgeon, specialising in breast reconstruction and also affiliated with New York-Presbyterian Hospital.

He was participating in a study trial for a new tissue expanding device called the AeroForm® that was intended to: 1) eliminate painful saline injections by the doctor, 2) expand the breast tissue in a continual, more fluid manner so it takes less time overall and there is less trauma to the body... and finally, 3) have the patient ultimately controlling the expansion process under the direction of her doctor... that is, I would have an actual hand in the healing process.

My doctor asked me if I would be interested in participating in the trial. Should I agree, I would be a 'pioneer' because it was just in the beginnings of being tested on actual persons and in the future it would make a difference in the lives of others. I was the very first test subject in the trial... and therefore I would forever have the distinction of being 'Patient #1'.

I loved the idea. I loved the opportunity of advancing breast cancer research and, in my own small way, of helping to improve the lives of others in a similar or worse predicament. And of course I loved the fact that ultimately I had less pain for me, less visits to the doctor's office and less time overall before I would have my brand new, shiny breast implants and finally be able to put this whole chapter behind me.

In retrospect, although I wouldn't wish it on anyone, it's been an interesting, even a fruitful journey. I will never forget that I had fantastic doctors working together for me, at the cutting edge... committed to knowledge and improving my life and the lives of others.

2.
Industry overview

2. Industry overview

2.1 Breast cancer and breast removal – mastectomy

Breast cancer is the second leading cause of death in women globally. In the US alone, of the approximately 300,000 new diagnoses of female breast cancer every year, 36% of early-stage patients and 60% of late-stage patients receive a mastectomy. Mastectomies are also performed on a proportion of previously diagnosed patients who originally had a form of breast-conserving surgery, as well as on women undertaking mastectomy as a preventative measure prior to any cancer diagnosis. Approximately 60% of mastectomies in the US involve the removal of both breasts. With increasing awareness, earlier detection and the emerging practice of pre-emptive breast removal surgery, death rates from breast cancer have been declining since the late 1980s, particularly in women younger than 50 years of age.

Most women being treated for breast cancer undergo some type of surgery to address the primary breast tumour. The purpose of the surgery is to remove as much of the cancer as possible. Breast-conserving surgery (also known as 'lumpectomy' or 'partial mastectomy') can be sufficient for early-stage breast cancer patients. However, for those patients who have more advanced breast cancer or who have a genetic predisposition for developing breast cancer, treatment often requires mastectomy which is the removal of one or both breasts.

Although a traumatic and painful procedure, mastectomy has also become increasingly accepted and adopted as a pre-emptive measure to prevent breast cancer. Women who have been diagnosed with cancer in one breast may elect to have the other breast removed as a precautionary measure. Similarly, prophylactic (preventative) surgery to remove both breasts is an increasingly sought after option for women with a strong family history of breast cancer or who have been identified as having disease causing mutations in certain genes (e.g. the BRCA1 or BRCA2 gene), which predispose them to a significantly elevated risk of developing breast cancer.

2.2 Breast reconstruction following mastectomy

Breast reconstruction is a surgical option for women who have had all or part of their breast removed. The surgery rebuilds the breast mound to the desired size and shape following the removal of the natural breast. Breast reconstruction can either be immediate (commencement of reconstruction process at time of mastectomy) or delayed (commencement of reconstruction process being weeks, months or years after mastectomy).

Not all women undergo breast reconstruction following mastectomy. Whilst the decision as to whether to undergo breast reconstruction is a very personal one, a significant percentage of mastectomy patients in Australia and the US who are advised of their reconstruction options choose to have some form of breast reconstruction to aid in recovering the physiology and aesthetics of their previous shape.

There are several alternative types of breast reconstruction procedures which can be considered by the patient and her surgeon. These typically fall into one of three categories, as follows.

(a) Flap procedures

Flap procedures involve tissue and skin being taken from other parts of the body and used to recreate the breast. Reconstruction that uses skin and soft tissue flaps from one's own body tends to look and feel more like a natural breast when compared to reconstruction with implants. However, flap procedures are more complex and invasive than breast implants and usually require a longer hospital stay and post-surgery recovery time. They also leave scars both on the breast and in the area of the body where the donor tissue was taken (donor site). For these reasons, tissue-flap based reconstructions are much less common than implant-based procedures.

(b) Direct to implant surgery

Direct to implant surgery is when the surgeon places a permanent implant under the post-surgical skin envelope following mastectomy (i.e. without expanding the tissue as an initial step). However, as most patients have insufficient breast tissue remaining after their mastectomy to support a permanent breast implant, direct to implant surgery is usually not viable for patients.

Direct to implant surgery requires less extensive surgical time than flap procedures. Compared to flap surgery, the process leaves fewer scars at breast site and, unlike flaps, there are no scars resulting from the removal of tissue at a donor site. Also, the time in surgery and length of hospital stay for direct to implant procedures are both shorter. Direct to implant procedures can however produce higher rates of complications such as erosion and wound healing issues.

(c) Breast implants via tissue expanders – current standard of care

The most common form of breast reconstruction involves a two-stage breast implant process. Firstly, the skin and underlying muscle tissue in the breast region is slowly stretched using a temporary tissue expander implant, in order to improve breast tissue quality and to make room for a permanent breast implant. Once the skin and muscle has been sufficiently stretched, the temporary tissue expander implant can be surgically removed and a permanent breast implant can be placed in the pocket.

The traditional tissue expander is a temporary device that is surgically inserted on the chest wall, behind the chest muscle. The placement of the tissue expander can take place either at the time of mastectomy (for an immediate implant) or at a later date (for a delayed implant).

The traditional tissue expander contains a 'fill port' that is built into the front of the device. When it is first positioned and attached onto the chest wall, the tissue expander contains a small volume of saline. Within a few weeks of the initial insertion surgery, once the tissue has healed, the expansion process commences. This expansion process involves:

> accessing the fill port via a needle through the skin in order to incrementally increase the volume of saline in the expander;

> injecting 50 to 100ml of saline into the expander per incremental expansion session;

> injecting the expander with saline in one, two or three week intervals over a period of several months (depending on other treatments being undertaken by the patient during the expansion period);

> numerous attendances at the surgeon's office to receive the regular saline injections; and

> a further surgical procedure to exchange the expander for a permanent breast implant once the skin and muscle has been sufficiently stretched by the expansion process.

Patients who are only having a single breast reconstruction (referred to as a unilateral breast reconstruction) often require an adjustment procedure on the opposite breast in order to achieve symmetry of their breasts. For patients undergoing the reconstruction of both breasts (referred to as a bilateral reconstruction), symmetry using tissue expanders and breast implants is more readily achieved.

2.3 Large and growing market for tissue expanders

In the US alone, of the approximately 300,000 new diagnoses of female breast cancer every year, 36% of early-stage patients and 60% of late-stage patients receive a mastectomy. Mastectomies are also performed on a proportion of previously diagnosed patients who originally had a form of breast-conserving surgery, as well as on women undertaking mastectomy as a preventative measure prior to any cancer diagnosis.

According to 2013 statistics, approximately 72% of breast reconstruction procedures performed in the US involve the use of tissue expanders prior to the placement of permanent implants. In 2014, there were approximately 102,000 breast cancer reconstruction procedures performed in the US. Also in the US, it is estimated that around 60% of breast reconstructions are bilateral (i.e. the reconstruction of both breasts). Accordingly, the Company estimates that the current US market for tissue expanders is approximately 120,000 units per year, with a total addressable market in the US of approximately 350,000 units per year.

With an addressable market well in excess of the current market, there are several factors that are expected to drive significant growth in the current US tissue expander market. These include:

(a) Breast Cancer Patient Education Act of 2013 (US)

A study of US patients published in 2008 found that approximately two-thirds were not made aware by their surgeon of the availability of breast reconstruction surgery at the time of mastectomy. In particular, women of colour and of lower socioeconomic means were less likely to be offered breast reconstruction as an option. In response, the *Breast Cancer Patient Education Act* of 2013 (US) was introduced into the US Congress in May 2013. This bill, which has bipartisan support and is currently before the US Senate Sub-committee on Health, would if passed require dissemination of the following information by physicians to all breast cancer patients undergoing mastectomy:

- breast reconstruction is possible at the time of breast cancer surgery or at a later time;
- prostheses or breast forms may be available;
- federal law mandates that both public and private health plans include coverage of breast reconstruction and prostheses;
- the patient has a right to choose the provider of reconstructive care, including the potential transfer of care to a surgeon that provides breast reconstructive care; and
- the patient may opt to undergo breast reconstruction some time after the time of breast cancer surgery for personal or medical reasons, during treatment or after completion of all other breast cancer treatments.

Certain states in the US have not waited for the Federal legislation and have already implemented State based legislation that requires physicians to make women who are about to undergo mastectomy aware of their options for breast reconstruction. Other states are in various stages of considering or developing their own legislation.

Most women in the US choose to have a reconstruction when made aware of this option at the time of mastectomy.

(b) Mandatory reimbursement

The *Women's Health and Cancer Rights Act* of 1998 (US) secures mandatory reimbursement coverage through US Medicare and private insurers for the medical costs associated with breast cancer. These include the costs associated with breast reconstruction following mastectomy including reimbursement coverage of breast reconstruction for women who decide to have preventative mastectomy of a non-affected breast due to genetic risk, family history or as a result of cancer in the other breast. This legislation means that both US Medicare and private insurers, where they provide coverage for mastectomies, must also provide a breast cancer patient with reimbursement coverage for a breast reconstruction procedure. The Company is not aware of any major insurance plans in the US that do not provide coverage for mastectomies.

(c) Increasing awareness and adoption of preventative mastectomies

With increasing awareness of breast cancer, more women are electing to have preventative mastectomies in order to reduce their future risk of cancer. In particular, the availability of genetics tests such as for the BRCA1 and BRCA2 genes, which can identify women who have a significantly higher lifetime risk of developing breast cancer, has driven an increasing trend for preventative mastectomies. In addition, women from families with a history of breast cancer or women who have developed cancer in one breast are increasingly nominating to have preventative mastectomies. While the clinical benefit of these preventative mastectomies has yet to be established, this trend is likely to continue with the development of additional breast cancer tests and as a result of the peace of mind it provides. Awareness of preventative mastectomies has recently increased dramatically following some high profile cases (such as Angelina Jolie) and associated public awareness campaigns.

2.4 Competitive landscape – few players and little differentiation in product offerings

Tissue expanders have been used for breast cancer reconstruction for many years. While there have been some minor improvements over the years such as reinforcing the outer shell and the addition of securing tabs to prevent movement of the expander, there has been little innovation in expanders over the last 50 years. Other than AeroForm®, actively marketed tissue expanders for breast reconstruction typically still involve placing a silicone bag under the chest muscle and expanding it by periodically injecting saline via a needle inserted through the patient's chest and into the device.

The tissue expander market is currently dominated by two key players who sell breast implants for breast augmentation (cosmetic) procedures and also offer a range of tissue expanders for breast reconstruction:

> Allergan, Inc. with a 55% estimated market share in the US; and

> Mentor Worldwide, LLC. (a Johnson & Johnson company) with a 40% estimated market share in the US.

In addition, there are a number of smaller players who sell tissue expanders for breast reconstruction in the US, Europe and other international markets. These include:

> Silimed Indústria de Implantes Ltda.;

> Eurosilicone S.A.S.;

> Nagor Ltd;

> Specialty Surgical Products, Inc.; and

> Sientra, Inc.

Case Study

Name: *Sofia Quintero*
Age: *44*
Residence: *Bronx, New York, United States*
Occupation: *Writer and producer*
Diagnosis: *Ductal carcinoma in situ (DCIS)*

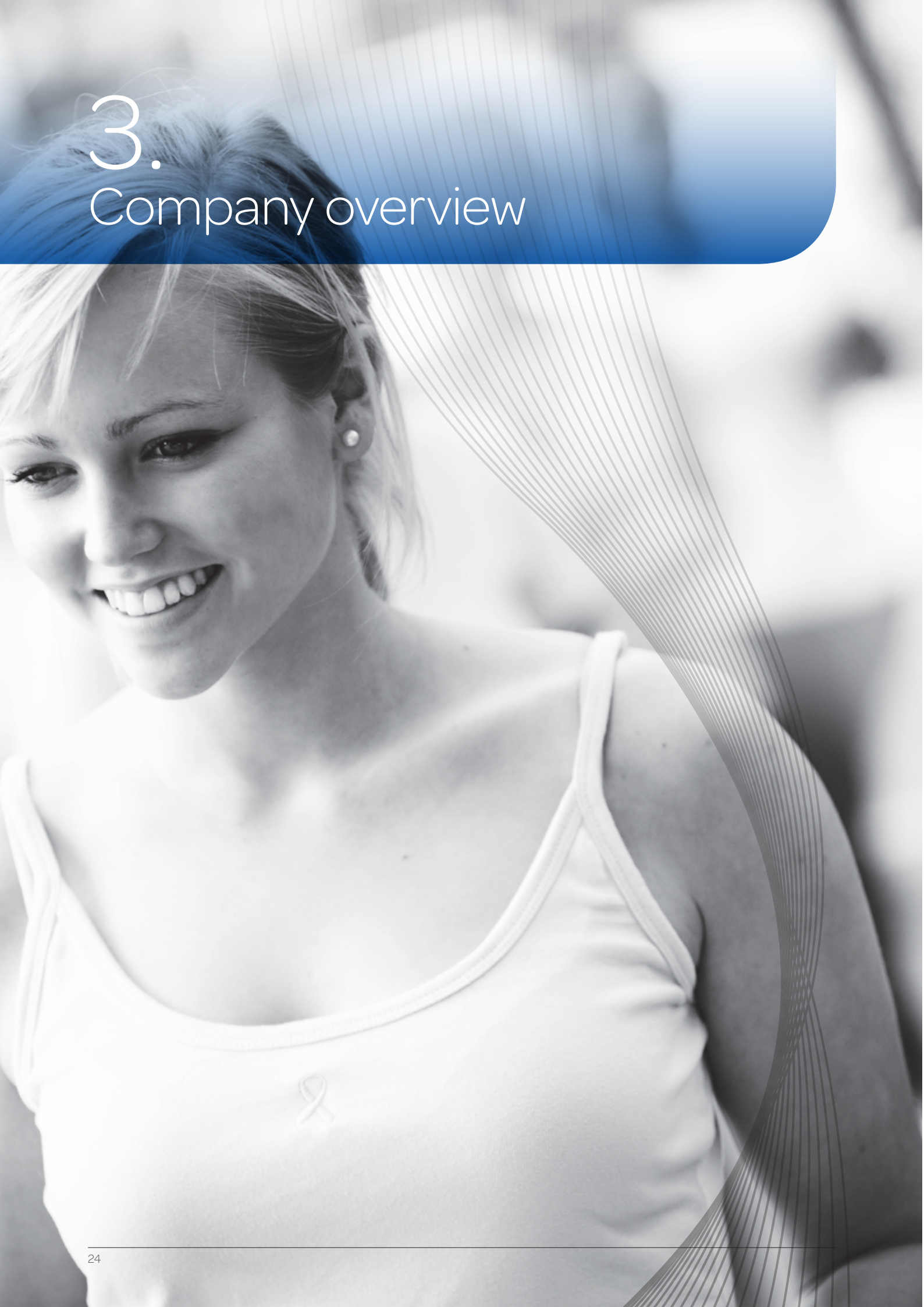
My name is Sofia Quintero and I was diagnosed with DCIS at age 42. I was in the midst of getting my second master's degree when the mammogram I had several weeks earlier revealed an abnormality in my left breast. I had a biopsy done and a week later I got the call. 'It's cancer.'

The first person I reached out to immediately responded and encouraged me to get a second opinion at New York-Presbyterian Hospital. After meeting with the competent and compassionate doctors there – especially plastic surgeon Dr Jeffrey Ascherman – I knew that was the best place for treatment.

At my first visit with Dr Ascherman, he told me that I was a candidate for the XPAND clinical trial. After I researched traditional reconstruction with needles, constant trips to doctor, the pain and discomfort, I realised this was an invitation to be a powerful lantern to light a new path for women. I'm an activist and so anything that can serve the larger good appeals to me. No matter what I do or experience, my deepest desire is to be of inspiration and support to other women as they express their best selves.

I hope that the AeroForm® becomes the standard of care for all breast cancer survivors in the very near future. No woman who has to face this illness should be denied this path to reconstruction. Having so much control over the expansion process enabled me to keep living fully during treatment. I continued to do everything I love including my work as a teaching artist.

3. Company overview



3. Company overview

3.1 Company overview

AirXpanders, Inc. is a medical device company that incorporated in the US in the State of Delaware in 2005. Its operations are centred in Palo Alto, California. The Company's principal activity is the design, manufacturing, sale and distribution of its AeroForm® tissue expander for breast reconstruction procedures after mastectomy.

As set out in the industry overview in Section 2, tissue expanders have been in use by surgeons for decades in preparing breast cancer patients for permanent breast implants following mastectomy. The use of tissue expanders has, to date, been a cumbersome and often traumatic process, which, following insertion of an expander by the surgeon, typically requires the breast reconstruction patient to attend her surgeon's office regularly for a period of weeks or months to receive frequent needle injections of saline into the breast to fill the tissue expander and stretch the breast tissue.

AirXpanders' AeroForm® device significantly changes and improves the tissue expansion process for women undergoing breast reconstruction. A needle free process, AeroForm® uses the controlled delivery of small amounts of carbon dioxide (CO_2) gas to achieve the tissue expansion usually required for the placement of a permanent breast implant. Compared to traditional saline expanders, AeroForm® has shown that it can provide improved and less painful tissue expansion in a significantly shorter time frame and without the added inconvenience of frequent visits to the surgeon, as the patient uses a remote control to trigger the tissue expansion herself.

Since 2009, over 500 AeroForm® devices have been placed clinically and commercially in more than 350 patients. The device has already been granted regulatory approval for sale in both Australia and Europe. In the US, AirXpanders recently completed enrolment of its FDA approved pivotal trial of AeroForm® called XPAND. The Company expects to use the final results from the XPAND trial for the submission of a 510(k) notification to the FDA by the middle of 2015, seeking marketing clearance for the US.

In the US, it is expected that AeroForm® will be covered under existing US Medicare codes. Reimbursement coverage for reconstructive breast procedures by both US Medicare and private insurers is mandated in the US under the *Women's Health and Cancer Rights Act* of 1998 (US). In addition, AirXpanders has already established reimbursement for AeroForm® in Australia.

Approximately US$33.8 million has been invested into AirXpanders to date and the Company's investors include healthcare-focused institutional investment funds in Australia and the US. A number of those investors have recently invested again in the Convertible Notes, which will convert into Shares at the equivalent price per Share as the Public Offer and have committed to subscribe for further equity totalling US$3 million at the Offer Price via the Offers.

The Company recently commenced an initial market launch of AeroForm® in the Australian market and, pending clearance from the FDA by the end of 2015, is planning its market launch of AeroForm® in the US market from early 2016.

The Company's Board and management team have a wealth of experience in successfully commercialising medical devices in the US and globally. Their skills cover all major areas of successful commercialisation including clinical, regulatory, reimbursement, sales & marketing, licences and mergers & acquisitions.

AirXpanders believes that AeroForm® is the best innovation in tissue expander technology for many decades and that there is a large market opportunity for AeroForm®, which AirXpanders believes has clear and obvious benefits for the patient, surgeon and hospital over traditional tissue expanders. The commercial launch of AeroForm® in the US coincides with an increasing awareness of breast cancer and increasing legislative focus to ensure that women are made aware of the available treatment options, and have access to those treatment options with the costs of breast reconstruction being covered by public and private reimbursement.

3.2 Company history

AirXpanders was founded in 2005 by Dr Daniel Jacobs, a California based plastic surgeon and Teddy Shalon, a Silicon Valley entrepreneur.

In the early 2000s, Dr Jacobs developed the idea to utilise a small container of CO_2 within the implanted tissue expander to gradually expand the tissue expander when prompted by an external remote control. It was thought that if the tissue expansion device was expanded slowly, but on a daily basis, the patient might reach full expansion faster, with less pain and disruption to daily life, as well as free of needle anxiety.

In 2005 and 2006, early conceptual designs were produced and surgeon feedback was collected. Barry Cheskin, Co-Founder and current Chairman of the Board, was brought on to help the Company progress. Seed capital was raised through Shalon Ventures and a small full-time technical team was hired in 2007 to focus on design of the AeroForm® device.

In the period until 2008, AirXpanders raised US$5.6 million from institutional investment funds. This investment helped support the initiation of a comprehensive series of testing and pre-clinical trial work on AeroForm® in the US.

In 2009, the first human clinical trial of AeroForm® (the PACE 1 trial) was undertaken in Perth, Australia by Dr Tony Connell, a plastic surgeon at The Mount Hospital. The results were impressive with a 100% treatment success rate and no adverse events. An additional US$1.5 million was raised from existing investors.

In 2010, Mr Scott Dodson was hired as CEO. The Company raised a further US$5.4 million, with Australian specialist healthcare institutional investor GBS Venture Partners Pty Ltd as a new lead investor.

In 2011, the results from the PACE 1 trial were published in the journal Plastic and Reconstructive Surgery, a second clinical trial was initiated in Australia (the PACE 2 trial) and the US FDA gave its approval for the Company to commence a registration-directed pivotal trial of AeroForm® in the US (the XPAND trial).

In 2012, the Company secured a CE Mark for AeroForm® in Europe. The PACE 2 trial was completed and a third clinical trial (the ASPIRE trial) was initiated in Australia and a further US$11.3 million was raised.

In October 2013, TGA approval for AeroForm® was secured in Australia and a series of upgrades were made to AeroForm®.

In 2014, the Company secured reimbursement in Australia. The existing shareholders invested a further US$1 million for the scale up of manufacturing to support the anticipated demand in Australia and to prepare for the build out of a pilot commercial manufacturing line and for general working capital.

In January 2015, the Company commenced an initial market release of AeroForm® in Australia. In February 2015, the Company completed enrolment of its US pivotal trial (the XPAND trial) under its IDE. In March 2015, the existing shareholders invested approximately a further US$3 million under the Bridge Financing and the Company commenced its preparations for the Offers and listing on the ASX.

3.3 AirXpanders – objective and strategies

AirXpanders' objective is to become a global market leader in the development and commercialisation of devices for tissue expansion for breast reconstruction after mastectomy and for other medical uses.

The Company's principal strategies to achieve its objective include the following.

(a) Convert the existing tissue expander market to AeroForm®

The traditional method for expanding tissue to accommodate implants for breast reconstruction has not changed significantly in over 50 years. Many women experience severe discomfort and pain every time they visit their surgeon's office in order to have an injection through the muscle in their breast so that saline can be injected into their tissue expander. To achieve the necessary amount of stretching of the skin and muscle required to accommodate a permanent breast implant, these women may need to visit their surgeon's office for an injection every one to three weeks for up to several months. The Company believes that existing companies in this space have undertaken little, if any, innovation and they have therefore left themselves vulnerable to the emergence of new and better products.

AeroForm® provides a new approach to tissue expansion that enables the patient to avoid needle sticks altogether and to manage their expansion in the comfort of their own home or place of work. The Company's clinical trials to date have shown that women can complete the expansion process with AeroForm® in a significantly shorter time than traditional tissue expanders (17 days versus 50+ days on average). Surgeons also benefit as AeroForm® reduces patient visits during the expansion phase of the procedure, allowing surgeons more time for more profitable activities. AirXpanders will market AeroForm® to capitalise on these compelling benefits and aims to capture significant share of the existing market. For further information on the Company's proposed marketing strategy, see the remainder of this Section 3.3 and Section 3.9.

(b) Expand the breast reconstruction market through general awareness

There are exceptional additional opportunities to grow the existing base of patients seeking breast reconstructive surgery.

A study of US patients published in 2008 found that approximately two-thirds were not made aware by their surgeon of the availability of breast reconstruction surgery at the time of mastectomy. Ensuring this segment is made aware of reconstruction options early in their diagnosis and treatment programme could result in a rapid and significant increase in the size of the current breast tissue expander market in the US.

In addition, there are many mastectomy patients who opt not to have surgery due to the negative press surrounding traditional saline expanders or alternative procedures like flap surgery. Other patients elect not to have surgery due to the sheer number of decisions that they have to make at one time when given their cancer diagnosis, but after a while, regret that they did not initially choose to recover their feminine shape.

As tissue expander based reconstruction is performed close to 72% of the time that reconstruction is chosen in the US, educating the market about the existence and availability of breast reconstruction options through effective and targeted communication with patients and surgeons has the potential to greatly expand the patient base. Additional work with the National Organization of Women, The Black Women's Health Imperative and the Oncology Nurse Navigator Society can help the Company gain access to the very people who can influence policy, information distribution and advocacy to a large and motivated breast cancer constituency.

(c) Utilise traditional and social media to inform patients about AeroForm®

Despite the proportion of mastectomy patients not being informed of reconstruction options by their surgeon at the time of their mastectomy, breast cancer patients as a whole are emerging as one of the most information-seeking and experience-sharing patient groups. They have proven adept at taking news and current events such as Angelina Jolie's decision to have a double prophylactic mastectomy with reconstruction and use it as a catalyst to seek and understand more about their own personal situation. By using today's online medical information channels such as WebMD, Mybreastcancer.com, Breastcancer.org, women's health and beauty literature and portals such as Facebook and Twitter, AirXpanders believes that it can reach tens of thousands of patients, advocates and information seekers to educate them on the availability and benefits of AeroForm® before or at the time of their mastectomy, when breast reconstruction decisions are most commonly made.

(d) Leverage exceptional clinical results

The Company considers that it has generated exceptional and extensive clinical results which have supported nine peer reviewed clinical manuscripts, numerous clinical papers and over 15 podium presentations at leading industry and clinical meetings where AeroForm® was selected among all of the emerging technologies from within plastic surgery. AirXpanders believes that it already enjoys a high profile within the breast reconstruction industry, with many potential surgeon customers waiting on the commercial release of AeroForm®. The Company is confident that it will be able to convert the performance of AeroForm® in the clinic into demand from surgeons and patients.

(e) Seek strong margins through increased production volumes and manufacturing automation in a lower cost of labour environment

The standard production cost per device for AeroForm® begins to drop dramatically at relatively low unit volumes. This reduction in manufacturing costs comes from both a reduction in the cost of materials and from the implementation of process efficiency initiatives that significantly reduce the labour requirements.

The Company has developed an automation plan which is being implemented to significantly reduce the time required to produce each unit. In addition, the Company is in the process of planning the transfer of its main manufacturing to a certified contract manufacturer in Costa Rica, which will reduce labour costs. The Company believes that the automation of the production process and transferring manufacturing to a lower cost of labour market in Costa Rica will enable it to realistically target gross margins from AeroForm® in the order of over 80%, which are quite typical of medical devices in the US.

(f) Obtain broad product distribution via a hybrid (direct and indirect) sales force in the US

AirXpanders plans to commercialise AeroForm® in the US utilising a direct group of sales and regional managers, and manage a group of independent representatives. The direct team will be responsible for sales execution, team training and overall sales goal achievement and the indirect team will be compensated on a commission only basis. As a particular territory nears a targeted level of sales, consideration will be made to inserting a direct representative to manage that particular maturing and developing territory.

(g) Explore potential additional applications for AirXpanders' tissue expander technology (burns, paediatrics and trauma)

In addition to breast reconstruction, tissue expanders have been used for a variety of other procedures for decades. When a patient experiences a severe burn or trauma based injury or fracture, they often have to have a fresh layer of skin stretched to cover the defect. The traditional tissue expansion devices used in this area are typically saline filled and come in shapes ranging from rectangular, crescent and round. Similarly, in children, there are multiple congenital defects that require the production of additional skin such as nevi, port stains and other skin based anomalies. The AirXpanders core technology is a controlled and precise release of CO_2 from a reservoir and valve mechanism that is remotely enabled and safe. Prototypes and models have been developed showing that the system can be downsized to accommodate different sizes of tissue expanders for other potential uses, which opens up the possibility of using it for many additional medical applications. See Section 3.12 for details on the other products being developed by the Company.

3.4 The AeroForm® tissue expander

(a) Overview

AeroForm® is equipped with a remote dosage controller that activates an internal CO_2 gas reservoir in the temporary tissue expander implant. With the push of a button, the patient is able to trigger the release of a small amount of gas to increase the volume of the implanted expander. This expansion process is non-invasive as it does not involve needles for injections, and enables the tissue expansion process to be undertaken in a shorter time frame and by the patient herself in the comfort of her home or place of work.

As the controlled release of gas does not require the regular involvement of a surgeon or attendance at a clinic, the expansion of AeroForm® can be achieved with a larger number of smaller expansions. The system is designed to allow a maximum of three 10ml expansions each day with a three hour lock out between doses. By comparison, expansion with saline expanders typically involves administration of a 50ml-100ml volume of saline by a surgeon every one to three weeks. In addition to the greater convenience of AeroForm®, expansion using a larger number of smaller expansion volumes is significantly more comfortable and less painful for the patient and results in patients achieving the required expansion in approximately a third of the time (17 days versus 50+ days on average).

(b) AeroForm® system components

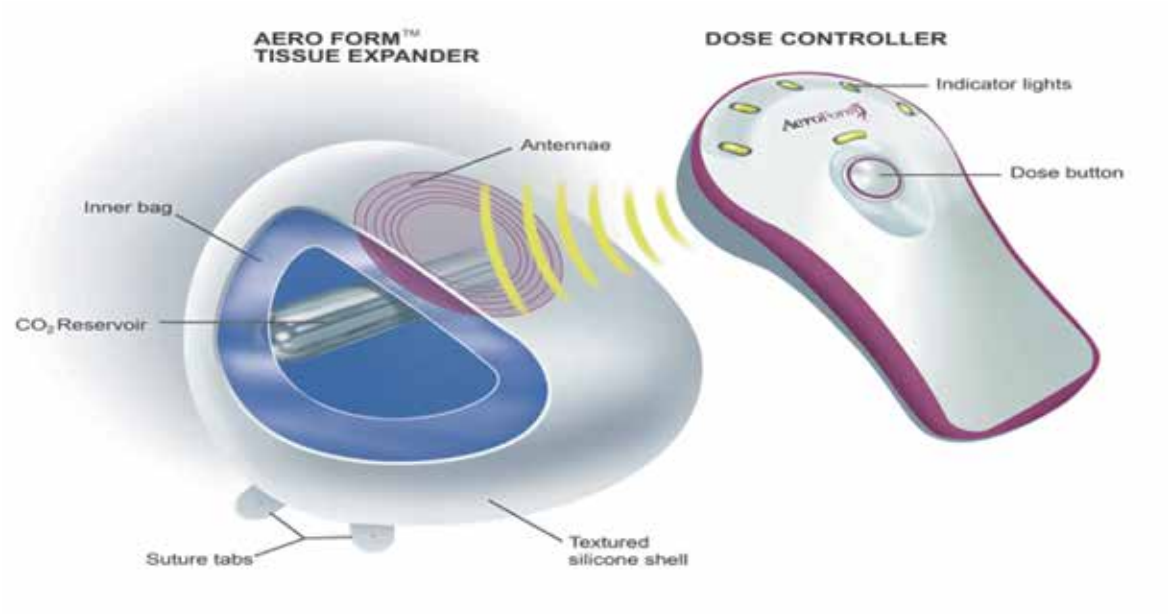
AeroForm® is comprised of three components:

> the Tissue Expander;

> the Dosage Controller; and

> the Physician Master Key.

Device component	Description
Tissue Expander (expander)	Implant that contains an outer textured silicone shell, inner gas barrier, reservoir of compressed CO_2 gas and a receiving antennae.
Dosage Controller (controller)	Device that includes batteries, a transmitting antenna, and circuitry to initiate and provide power to the antenna (in the expander).
Physician Master Key (key)	The Physician Master Key bonds the controller to a specific expander when initially inserted into the controller and allows the surgeon to administer additional doses above the pre-set limits of the controller.



(c) AeroForm® system – simple and easy to use

Using AeroForm® is simple and the surgical procedures are consistent with those for implanting traditional saline devices.

Step 1 – Implant the expander

The surgeon creates a pocket under the chest muscle and implants the tissue expander.

Step 2 – Close

The surgeon will close the muscle over the implant and then close the associated skin envelope.

Step 3 – Turn the controller 'on'

The surgeon or the patient presses and releases the centre button on the controller to turn the controller on.

Step 4 – Locate the expander

The controller is placed by the surgeon or the patient over the top of the breast to detect the expander antennae. Once four to five green lights appear together with an accelerating tone, the device is ready to dose.

Step 5 – Dose

The dose button on the controller is pressed and released whilst holding the controller in place. A steady tone accompanies dosing and a 'success' tone signals the user that a successful dose has been delivered. The dosing process takes less than three seconds.

Initially, AeroForm® can be activated multiple times by the surgeon throughout the implanting procedure to insure that the communication signal is strong and that the pocket is adequately filled. When the patient is then using the controller, the use is guided by pre-set limits.

(d) Monitoring AeroForm® during expansion period

Once the patient has AeroForm® implanted, they are able to dose at home or work, resulting in fewer trips to their surgeon's office. The Company's post-approval and commercial experience in Australia has demonstrated that post-surgical patient visits are dramatically cut compared to traditional saline expanders.

(e) AeroForm®'s safety features

AeroForm® has the following safety features:

Patient dosing limits:

> the controller is programmed to prevent over-inflation using pre-set limits:
  - one dose = 10ml;
  - maximum of three doses per day = 30ml; and
  - three-hour lockout between doses;
> the controller will stop dosing when the expander is full; and
> if these limits are exceeded, the controller lights will flash combined with an 'unhappy' buzzing tone. The controller will also shut itself off.

Power protection:

The valve mechanism within the CO_2 reservoir is not powered and always remains in a closed position. The controller provides the power that is required to open the valve to release the expansion dose of CO_2. The valve is designed to prevent the CO_2 from being released without that power, making the device very safe against the risk of valve failure or any unwanted release of CO_2.

3.5 AeroForm®'s compelling advantages

The mechanism used in AeroForm® is the same as traditional saline-filled expanders, in that it stretches the skin and muscle tissues by gradual increases in its volume. Over time, the skin and muscle tissues are sufficiently stretched to accommodate a permanent breast implant. However, by using the gradual release of compressed gas rather than less frequent injections of larger volumes of liquid saline, AeroForm® provides some significant advantages over traditional saline expanders:

> for patients:
  - needle free filling;
  - reduced time to a permanent implant;
  - patient controlled dosing (at home or work versus surgeon office expansion); and
  - less schedule disruption due to fewer surgeon office visits being required;
> for surgeons:
  - faster expansion and earlier reconstruction than when using traditional saline devices;
  - decreased number of post-operative visits to the surgeon's office;
  - increased office productivity; and
  - less use of costly in office disposables used to fill saline devices; and
> for the site of service:
  - more efficient; and
  - reduced resource requirements.

An additional advantage is that the pre-formed shape of AeroForm® when expanded is more representative of a true breast shape than the shape produced by traditional saline expanders. This shape cannot readily be deformed or compressed by the overlying muscle and therefore maintains a pronounced and more natural shape. By comparison, traditional expanders are essentially silicon bags filled with saline and often distort or move when compressed by muscle (like a balloon filled with water). This can lead to significant discomfort during the expansion process and can result in a more deformed shape as it seeks the path of least resistance when saline is pushed into it. It is not uncommon for saline tissue expanders to expand up under the clavicle, the arm or towards the midline during the lengthy filling process.

	Traditional saline expanders	AeroForm
Average surgeon visits over expansion period	6-16	1 or 2
Average time required to complete expansion	50+ days	17 days
Fill technique	Needle	Remote control
Fill venue	Surgeon's office	Home or work
Pain	High	Low
Patient controlled	No	Yes
Pre-determined anatomical shape	No	Yes

Information contained in this table is reflective of the results achieved during the PACE, ASPIRE and XPAND trials (which are discussed in Section 3.6), and the post-approval and commercial experience in Australia.

3.6 Clinical trials to date

AirXpanders has conducted extensive clinical trials in Australia and the US, demonstrating the safety, efficacy and convenience of AeroForm®.

(a) Australia

The first trial of AeroForm® was conducted in 2009 and 2010 in Perth, Australia. Known as the PACE 1 trial, it was conducted by a well published plastic surgeon, Dr Tony Connell. The trial involved ten AeroForm® devices implanted in seven patients, which produced positive results including:

> 100% treatment success (i.e. successful expansion leading to a permanent implant exchange);

> no device related adverse events;

> average expansion time of 15 days; and

> 100% patient and surgeon satisfaction.

Following the success of the PACE 1 trial, the Company proceeded with the larger PACE 2 clinical trial in Australia, involving 33 patients and the implant of 61 AeroForm® devices. The trial, which was completed in 2012, was again conducted by Dr Tony Connell in Perth, Australia, and produced outstanding results including:

> 100% treatment success (i.e. successful expansion leading to a permanent implant exchange);

> no device related adverse events;

> average expansion time of 17 days; and

> 98% patient and surgeon satisfaction.

During the PACE 1 and PACE 2 trials, some minor manufacturing changes were implemented to improve the strength of the inner bag assembly. The successful data of both trials enabled the Company to successfully apply for and obtain TGA and CE Mark approval for the Australian and European markets respectively.

After the Company obtained TGA and CE Mark approval for AeroForm®, it conducted a further clinical trial in Australia, known as the ASPIRE trial. This trial allowed for broader inclusion criteria than the earlier studies and allowed for and successfully demonstrated the use of concurrent radiotherapy and air travel with AeroForm® in place.

The ASPIRE trial involved the recruitment of 21 patients who had 34 devices implanted. Five patients flew with AeroForm® in place and two patients received concurrent radiotherapy without incident.

Key outcomes of the ASPIRE trial included:

> 94% treatment success. (Two devices were removed due to inadequate wound healing. Both patients who had devices removed went on to have successful delayed procedures);

> average expansion time of 22.2 days; and

> 95% patient and surgeon satisfaction.

(b) US

In the US, approval was sought and obtained from the FDA for the Company to conduct a multicentre, prospective, randomised controlled, pivotal trial under the Investigational Device Exemption (**IDE**) regime. The XPAND trial, which commenced in 2012, enrolled 150 patients across 16 sites in the US. Enrolment for the trial is now complete and final trial results are expected to be available in the middle of 2015.

Patients were divided in two groups and randomised in a 2:1 ratio:

> AeroForm® Expander Group – 98 patients received 168 AeroForm® expanders as opposed to traditional saline filled expanders. All AeroForm® patients were provided with the usual standard of care for breast reconstruction from a surgeon but completed the expansion process at home using AeroForm®.

> Saline Expander Group – 52 patients received 89 traditional saline filled expanders. Like the AeroForm® expander group, all patients were provided with the usual standard of care for breast reconstruction from a surgeon but completed the expansion process by regularly attending their surgeon's office to receive needle injections into the breast to fill the saline expander.

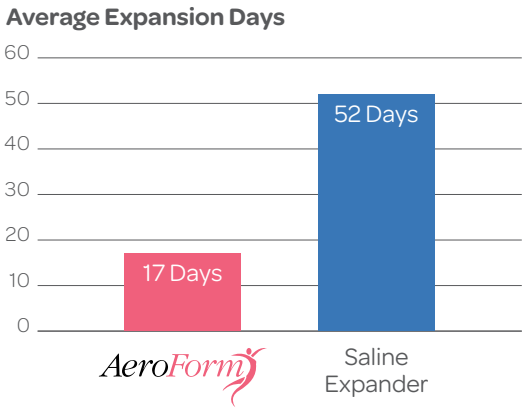
Preliminary trial results were recently published in relation to the first 58 patients, indicating faster and more convenient expansion via AeroForm® than with traditional saline expanders. Trial observations to date include:

> absence of needles;

> marked reduction in office visitations for expansion;

> significantly decreased days required for expansion; and

> high patient and surgeon satisfaction.



During the XPAND trial, additional modifications and improvements were made to AeroForm®. In addition, the trial was briefly delayed so that a silicone adhesive could be removed from the manufacturing process when it was traced to causing a malfunction issue in four devices. The removal of the silicone adhesive corrected the malfunction, and the product and manufacturing modifications were reviewed by the FDA to its satisfaction.

The Company expects to use the final results from the XPAND trial for the submission of a 510(k) notification to the FDA by the middle of 2015, seeking marketing clearance for the US.

The Company is also planning to implement a 'Continued Access Trial', which allows for the continued use of AeroForm® (and continued data collection) at a select number of sites in the US whilst the Company's 510(k) submission is under review by the FDA.

3.7 Regulatory approvals achieved and pending

The regulatory framework for medical device companies varies in different countries and regions. Each location has its own regulatory body.

The regulatory and approval process for AeroForm®'s primary markets is outlined below:

(a) Australia

The Australian Therapeutic Goods Association (**TGA**) is responsible for assessing the quality, safety, and performance of medical devices before they can be supplied in Australia. Medical devices must be included in the Australian Register of Therapeutic Goods (**ARTG**) unless specifically exempted.

The Company obtained TGA approval for AeroForm® in October 2013 and the device has been successfully registered on the ARTG with two distinct numbers: one for the tissue expander implant and one for the dose controller.

(b) US

In the US, the FDA regulates medical devices under the *Federal Food, Drug, and Cosmetic Act* of 1938 (US) to ensure that products distributed across the US are safe and effective for their intended uses.

The FDA classifies medical devices as Class I, II, or III based on the risks posed by the device. The risk level increases in each class (i.e. Class I is low risk and Class III is high risk), with Class III devices requiring a more burdensome clinical trial pathway. AeroForm® has been classified as a Class II device (with special controls) by the FDA.

As discussed in Section 3.1, the Company has completed enrolment for its IDE pivotal clinical trial (the XPAND trial) to support the marketing submission. The Company anticipates completing the XPAND trial and submitting its 510(k) notification to the FDA seeking US marketing clearance by the middle of 2015, with the aim of obtaining that clearance by the end of 2015. If the marketing clearance is obtained, the Company must ensure ongoing compliance with the FDA regulations so that such clearance can be maintained.

(c) Europe

In order to be marketed in Europe, the Company's products are required to have CE Mark certification, confirming compliance with the European MDD and signifying that the products are allowed to be sold commercially. The Company obtained CE Mark certification to market AeroForm® in October 2012.

(d) Other international markets

AirXpanders plans to file regulatory applications in Canada, Japan, China, South Korea, Taiwan and key Latin American markets following receipt of FDA clearance of AeroForm®, with a view to selling AeroForm® in those markets. In order to obtain regulatory approval in some of those markets, in-country clinical data may have to be produced to supplement the expansive data set already available via trials in Australia and the US.

3.8 Reimbursement for AeroForm®

(a) Australia

AirXpanders secured Australian reimbursement for AeroForm® in November 2014 by having both AeroForm®'s tissue expander and the dose controller listed on the Prostheses List. The Prostheses List covers all private health insurance plans in Australia. The fully reimbursed selling price in Australia is currently A$2,450.

(b) US

For any new medical device entering the US market, obtaining US Medicare reimbursement and private health insurance coverage for the use of the device is critical to the prospects and speed of market adoption and success. For many new medical devices, there is a long period of time where the device company must rely on the self-pay (out-of-pocket) market, whilst it applies for reimbursement status from the public and/or private health systems for the device. In some instances, reimbursement is never obtained.

AirXpanders is fortunate in that reimbursement codes already exist in the US that provide broad reimbursement coverage for breast reconstruction procedures (including tools and devices used in those procedures, such as tissue expanders) and, upon market launch, it is expected that AirXpanders will immediately benefit from that reimbursement. In addition, due to the *Women's Health and Cancer Rights Act* of 1998 (US), which federally mandates reimbursement of breast reconstruction procedures, private insurers

who provide reimbursement for mastectomies (which the Company understands to be all major private insurers in the US) are required to also provide reimbursement for procedures for breast reconstruction (inclusive of the use of tissue expanders such as AeroForm®). The increasing US policy focus on ensuring awareness of and access to breast reconstruction options for all breast cancer patients has ensured that public or private health systems broadly reimburse for tissue expansion, with the rates of reimbursement (reimbursement amount per procedure for surgeons and sites of service) increasing every year since 2010.

(c) Europe

In Europe, reimbursement is a lengthy country-by-country process. The Company will look to focus its European reimbursement efforts to first obtain reimbursement in those countries where reimbursement is reasonably achievable in a timely manner.

3.9 Full commercial launch in Australia and the US in 2015/2016

AirXpanders aims to establish AeroForm® as a leading tissue expander device in the global breast reconstruction market. The Company plans to focus its initial sales and marketing activities in Australia and the US. Once sales are established in the US, the Company will then look to expand its presence into Europe, where it has already obtained approval to market and sell AeroForm®.

(a) Australian market launch 2015

Following Australian reimbursement being granted in November 2014, the Company commenced an initial targeted launch of AeroForm® in Australia in January 2015. The initial market release is with three of Australia's leading breast reconstruction surgeons (one in each of Sydney, Melbourne and Perth). As at 31 March 2015, the Company had already shipped over 100 units for a total revenue of over A$250,000. The three surgeons used AeroForm® in between 80% and 100% of their patients requiring breast tissue expansion.

Over the initial five month release period, those surgeons will assist the Company with:

> establishing adoption patterns in a market release environment;

> assessing the objective of establishing a minimum 30% share of tissue expanders used by each surgeon;

> gathering information on any additional sizes and shapes of AeroForm® expander required for the market;

> ensuring best integration of AeroForm® with concurrent chemotherapy and radiation treatments and with lifestyle requirements of patients (e.g. plane travel);

> optimising packaging, labelling and inventory requirements;

> refining at-site marketing tools such as patient training and surgeon and patient outreach; and

> preparing for full market release to all certified plastic surgeons in Australia from the middle of 2015.

The Company's initial focus will be on tissue expanders in the private health system, as they represent approximately 75% of tissue expanders purchased in Australia.

The Company has recently recruited a National Business Manager in Australia who is responsible for driving adoption and sales at the three initial commercial sites and the Company's preparations for a full market release, which is planned for the middle of 2015.

(b) US market launch 2016

For all medical devices, the US is by far the largest and therefore the most important market.

AirXpanders is targeting FDA clearance of AeroForm® by the end of 2015, which will pave the way for the commercial launch of AeroForm® in the US from early 2016.

In preparation for the US launch, the Company will recruit a VP of Sales and Marketing as well as three to five direct sales managers across the US. The Company has had participation by 16 US hospitals in the pivotal US clinical trial (the XPAND trial). This initial sales force will be responsible for converting these clinical trial hospitals to full commercial customers throughout 2016 and for driving AeroForm® adoption and sales through all surgeons operating at those hospitals.

At the same time as driving adoption and sales at these already experienced hospitals, the initial direct sales team will be responsible for hiring, training and developing indirect sales representatives (distributor sales) across the US to enable accelerated sales and marketing across the US. Direct and indirect sales efforts will be supported by concentrated information campaigns to be conducted by the Company through both traditional and social media. Social media patient support sites are a much relied upon tool for breast cancer patients. The Company believes that AeroForm® is a step change in tissue expanders for the benefit of breast cancer patients and that social media will be an invaluable awareness tool when AeroForm® is released in the US.

The reimbursement price for breast reconstruction in the US is well established with existing codes for unilateral or bilateral procedures. Traditional tissue expanders in the US sell for between US$1,700 and US$2,400. The Company believes that this will be the minimum price achievable for AeroForm® and that the clear patient and overall cost advantages offered by AeroForm® (e.g. the need for fewer attendances with a surgeon) will enable AeroForm® to command a price in excess of US$2,500.

(c) Europe and other markets

The Company expects to launch AeroForm® in certain markets in Europe after sales are established in the US. Achieving successful scale in the US and transferring its main manufacturing to Costa Rica will better position the Company to compete more effectively in the more price sensitive markets of Europe and other regions around the world.

While the US will utilise a hybrid sales distribution model, the Company intends that most other markets (including Europe) will use established distributors who have plastic surgery expertise with exceptional market relationships and reimbursement experience.

3.10 Manufacturing, operations and quality

AirXpanders currently outsources the manufacturing of AeroForm® components to a small number of qualified suppliers and performs the final assembly of AeroForm® devices in the AirXpanders' facility in Palo Alto, California. All of the critical suppliers and processes undergo strict monitoring and validation to control delivery and quality of the products. AirXpanders was awarded ISO 13485:2012 certification on 10 April 2012 and has maintained the status with multiple successful surveillance audits. The California facility will have the capacity to produce approximately 3,000 to 4,000 units per year at this scale although the unit production cost at this facility is relatively high.

Manufacturing transfer planning is currently underway in preparation for full commercial release. The Company is currently arranging for high volume final assembly to be performed by an FDA registered and ISO certified contract manufacturer in Costa Rica. The Company is in late stage negotiations with a candidate to be the Company's contract manufacturer in Costa Rica and expects to formalise arrangements with the candidate prior to the transfer of the manufacturing. It is expected that manufacturing transfer will begin in the second half of 2015 and be completed by the middle of 2016.

The Costa Rica manufacturer will be provided with a highly automatable process by the Company and will have the capacity to produce 10,000 units per annum at a much lower per unit cost which will enable the Company to target 80%+ gross margins from AeroForm® in the US. The plan is for this facility to ultimately ramp up production capacity up to 100,000 units per annum at an even lower production cost per unit.

Costa Rica is an established and well accepted producer of Class I to Class III medical devices, serving markets globally. Costa Rica is now the second largest exporter of medical devices in Latin America and among the top seven suppliers to the US market. Products of six of the twenty largest medical device companies in the world are manufactured in Costa Rica.

3.11 Intellectual property

AirXpanders protects key areas of invention for its products and technology through a combination of patents, copyright, trade secrets, trade mark law and confidentiality agreements.

The Company closely monitors intellectual property developments of both its own products and those of its competitors. The Company actively seeks to file additional patent applications as warranted by research and development activities. It also regularly monitors patents and applications of interest of its competitors on an on-going basis and analyses their relevance to the Company and the Company's products.

AirXpanders has sought patent protection of its technology in many of the countries and industries that are presently identified as target markets. The Company's patent portfolio comprises:

- three issued patents and two pending patent applications in the US;
- two issued patents and one pending patent application in Australia;
- one issued patent in Japan;
- one patent pending in Europe; and
- numerous additional patent applications filed in various geographies for a range of applications (including potential applications) of the AirXpanders technologies.

The patent portfolio includes patents and pending patent applications owned by Shalon Ventures and exclusively licenced to the Company, patents and a pending patent application co-owned by the Company and Shalon Ventures, as well as patent applications developed by and owned solely by the Company. AirXpanders pays royalties to Shalon Ventures in respect of the licensed patents and patent applications under a licence agreement. For more information, see Section 12.5(a).

AirXpanders protects its AIRXPANDERS, AIRXPANDER (in Australia) and AEROFORM trade marks by maintaining the registration of those marks for use in connection with surgical implants in Australia, the US, European Union, Canada and Japan.

A report on AirXpanders' patent portfolio, prepared by AirXpanders' patent counsel, ShayGlenn LLP, is contained in Section 9 of this Prospectus.

3.12 Additional Products

The Company is developing prototypes of other tissue expansion products and intends in the future to offer a range of additional products that can utilise the Company's CO_2 concept for tissue expansion in other applications such as for burn, paediatric and trauma patients. However, the Company cannot guarantee that it will in fact offer additional products in the future. If the Company does offer additional products, any devices developed by the Company for these applications will have to go through the FDA clearance process.

Tissue expanders for paediatric burns is a particular area of potential opportunity. Today, over 15,000 burn cases present in the US alone. In markets outside of the US, particularly in less developed countries, the incidence is much higher. Many of these burns currently require tissue expansion via saline expanders for treatment. The prospect of sticking a needle in a device placed under the skin of a burns patient can be horrifying, particularly to a child. By employing the Company's needle free technology, the process of tissue expansion has the potential to be greatly simplified and improved for potentially many applications. Other possible applications include:

- round, rectangular or crescent shaped expanders to address congenital deformities such as nevi or where additional skin is needed to cover a defect; and
- non-breast shaped devices to aid in expanding tissue and skin surface area for other reconstructive purposes.

The Company has applied for further patents to include uses of its core technology for many applications throughout the body.

Case Study

Name: *Marcy B*

Age: *61*

Residence: *San Jose, California, United States*

Occupation: *Homemaker*

Diagnosis: *Pre-cancerous tumour*

My name is Marcy B. I was diagnosed in October 2012 with an atypical pre-cancerous tumour and it was recommended that I take a wait and see approach. 'Waiting' was not an option for me. I have one sister who is a five year breast cancer survivor and I lost my youngest sister to ovarian cancer just months before my diagnosis. I had already seen the devastation that cancer can cause.

I immediately started interviewing surgeons looking for a more proactive approach than just 'waiting'. All surgeons agreed that my request for a prophylactic mastectomy was a reasonable one. My question to one oncologist was 'Is my request for a prophylactic mastectomy too radical?' His response was, 'all the women in my waiting room awaiting their chemotherapy treatment would love to trade places with you'.

I was impressed with the professionalism of my plastic surgeon, Dr Zeidler. Her thorough explanation of my reconstruction options including the opportunity to use the AeroForm® expander for my reconstruction gave me a sense of peace about my decision.

The AeroForm® expander allowed me to continue my usual activities without numerous doctor appointments and the discomfort of the injections required with traditional saline expanders. I was also in charge of my own expansion. I could expand in the privacy of my own home and expand to my desired size. I've expanded while on vacation, in the car coming home from the airport, and even after a day of roller coaster rides. The words 'mastectomy', 'expansion' and 'reconstruction' were not going to define me...living a full and active life is more my style.

I have reached my one-year anniversary of my reconstruction and I am just as positive today as I was the day I started this journey. I am a cheerleader for the AeroForm® expander and so thankful that I had an opportunity use it. My life would have been different without this experience. The word 'grateful' is the one I keep in my heart and mind every single day.

4. Risk factors

4. Risk factors

4.1 Introduction

An investment in AirXpanders is speculative and involves a number of risks.

Risks that the Board of Directors considers to be key risks are detailed in Section 4.2 below. These key risks are the strategic and operational risks that the Directors and management team focus on when managing the business. These risks may have a reasonable prospect of occurring, can be difficult to mitigate, and if they did occur, could have a very significant negative effect on the Company's financial position and the value of your investment. Other risks which may have a significant effect on the Company's business are detailed in Section 4.3 below.

There are also risks that are common to all investments in equity securities and which are not specific to an investment in AirXpanders – for example, the general volatility of share prices in Australia and overseas, and risks associated with other external events which are not related to the usual course of the Company's business, such as changes in tax regulations or accounting standards, general economic conditions, acts of terrorism, natural disasters or war.

4.2 Key risks

The Company's business model will depend heavily on the success of AeroForm® for breast reconstruction procedures

Assuming the Company obtains the required regulatory approvals in the US and certain other countries, AirXpanders expects to derive all of its revenue in the foreseeable future from sales of AeroForm® for breast reconstruction procedures. The Company's ability to generate revenue will then largely depend on how effectively it can market and distribute this one key product after obtaining necessary regulatory approvals. If the Company is unable to successfully launch and achieve meaningful market penetration with AeroForm®, its commercial strategy will be unachievable and the Company will need to reconsider its business model.

The Company may not be able to pass the regulatory hurdles and gain the necessary approvals and clearances to sell AeroForm® in the US and certain other countries

The Company has received TGA and CE Mark approval for AeroForm®, allowing it to commence sales to the Australian and European markets respectively. In the US, the Company is pursuing a 510(k) clearance pathway. This submission, which the Company plans to make in the middle of 2015, must demonstrate that AeroForm® is substantially equivalent to predicate devices in safety and effectiveness. Whilst the Company is aiming to obtain 510(k) US marketing clearance by the end of 2015, there is uncertainty regarding the timing and outcomes of regulatory submissions that may delay the Company's approvals and clearances.

In other jurisdictions, AeroForm® is still at various pre-commercialisation phases. The Company cannot guarantee that it will receive all necessary regulatory approvals, nor can the Company accurately predict the product approval timelines, or other requirements that may be imposed by regulators (e.g. further clinical trials or other requirements proving safety and effectiveness of AeroForm®). Further, there may be changes to regulatory standards, which could delay or prevent the Company from obtaining the necessary regulatory approvals. In addition, any future changes to AeroForm® may require separate clearance or approval.

Any delays or barriers to the Company obtaining necessary regulatory clearances would limit the size of the market opportunity until such time (if any) that the Company was able to obtain such clearances for AeroForm®.

The Company's business is dependent on its clinical trials demonstrating the safety and effectiveness of AeroForm®

To date AirXpanders has conducted clinical trials in Australia and the US demonstrating the safety, efficacy and convenience of AeroForm® for sales in the Australian market. However the success of these earlier clinical trials may not necessarily be predictive of the results of the XPAND trial or any future clinical trials.

Trial results can also be susceptible to varying interpretations and analyses. Although the Company considers that the data on AeroForm® to date (including the preliminary data from the XPAND trial) demonstrates AeroForm®'s safety and effectiveness, there is no assurance that the device will meet its end-points in the XPAND trial or that the FDA will agree that AeroForm® is sufficiently safe and effective to support US marketing clearance. This would limit the size of the market opportunity for AeroForm® until FDA clearance was able to be obtained and would adversely affect the Company's potential revenues until that time.

If the Company undertakes additional clinical trials for AeroForm® in the future, those trials may be impacted by a number of factors including failure to recruit a sufficient number of patients, failure to meet trial end-points, lack of product effectiveness during the trial, safety issues and modifications to trial protocols or changes to regulatory requirements for trials. Clinical trials may also be delayed, suspended or terminated due to decisions by the institutional review board responsible for overseeing the study at a particular site.

The Company is reliant on the acceptance, promotion and safe usage of AeroForm® by surgeons and their patients

Regulatory approval and clearance of AeroForm®, including in Australia and the US, will not guarantee market adoption. In order to achieve commercial success, the Company is reliant on the acceptance and promotion of AeroForm® by patients and surgeons. Reasons that patients and surgeons may be slow to adopt AeroForm® include (but are not limited to):

- preference for the products of competitors due to familiarity with those products or for various other reasons;
- limited clinical data illustrating the benefits of AeroForm® to patients and surgeons;
- concern over the potential liability risks involved in using a new product; and
- any delay in the qualification of AeroForm® for reimbursement from relevant healthcare funding bodies in jurisdictions where approved reimbursement codes or reimbursement status for similar products does not already exist.

While the Company already has early good relationships with a number of leading surgeons in Australia and the US, this in itself does not ensure the widespread support of AeroForm® among surgeons. If a significant number of surgeons in the Company's key markets do not adopt or recommend AeroForm®, or continue to promote and use the products of competitors, this would adversely impact or delay the Company's ability to generate revenue and achieve profitability.

The Company may be unable to compete successfully with current tissue expanders in the market for breast reconstruction

The market for traditional tissue expander products in breast reconstruction procedures is well established and dominated by two large pharmaceutical companies (Allergan, Inc. and Mentor Worldwide LLC, a division of Johnson & Johnson) that have been market leaders for a number of years. AirXpanders' AeroForm® will compete against the established traditional saline expanders which have been used for many years, are supported by clinical data, and have significantly greater brand recognition. Further, the resources and scale of the two dominant players in the tissue expander market provides them with significant advantages in terms of financing, research and development, manufacturing and marketing resources and this may restrict the Company's ability to secure market share for AeroForm®.

The Company has limited sales, marketing and distribution resources

The Company currently has limited marketing resources and will need to commit significant resources to developing sales, distribution and marketing capabilities. The Company intends to utilise a hybrid sales distribution model in the US but most other markets will likely entail the use of a distributor. The Company will need to ensure compliance with all legal and regulatory requirements for sales, marketing and distribution in each relevant market. There is a risk that the Company will be unable to develop sufficient sales, marketing and distribution capacity to effectively commercialise AeroForm®.

Third party payers, including government authorities and private health insurers, may not provide sufficient levels of reimbursement or any form of reimbursement for AeroForm®

Purchasers of tissue expanders for breast reconstruction procedures generally rely on third party payers, particularly government health administration authorities and private health insurers, to subsidise the cost of the products. AirXpanders has to date secured reimbursement for AeroForm® in Australia and upon commercial launch in the US, it is expected that AeroForm® will benefit from existing reimbursement codes for breast reconstruction procedures in the US. Although rates of reimbursement for breast reconstructions in the US have been increasing in recent years, no assurance can be given that reimbursement amounts will continue to increase or that the amounts will be sufficient to enable the Company to sell AeroForm® on a profitable basis in the US. Moreover, the Company cannot predict what changes may be made in the future to third party

coverage and reimbursement in Australia or the US and what impact any such changes may have on its ability to sell AeroForm®.

Reimbursement and healthcare payment systems in international markets vary significantly by country. Outside of Australia and the US, the Company may not obtain international coverage and reimbursement approvals in a timely manner, or at all.

In Australia, the report of the Competition Policy Review released on 31 March 2015 (commonly known as the Harper Report) stated that the regulation of prostheses should be further examined 'to see if pricing and supply can be made more competitive'. However, it is not known whether any further review of prostheses regulation will occur and if it does occur, how resultant regulatory changes (if any) will affect the future reimbursement of AeroForm® in Australia.

The Company is dependent on the protection and enforcement of its intellectual property rights

The protection of the intellectual property relied upon by the Company is critical to its business and commercial success. If the Company is unable to protect or enforce the intellectual property rights embodied in AeroForm®, there is a risk that other companies will incorporate the intellectual property into their technology, which could adversely affect the Company's ability to compete in the market for tissue expanders.

The Company's patent portfolio comprises six granted patents (two in Australia, three in the US and one in Japan) and 10 pending patent applications. No assurance can be given that the pending applications will result in granted patents. Furthermore, there is a risk that the Company's granted patents could be found by a court to be invalid or unenforceable or revoked before their planned expiry as a result of court action. There is also the risk that the granted patents may not provide the Company with sufficient protection against competitive products and therefore the Company may not be able to prevent competitors from copying its products and technology, marketing products similar to the Company's products or designing around the Company's products.

In addition, some of the key patents related to AeroForm® are co-owned by the Company and Shalon Ventures (includes US patents), or licensed to the Company exclusively by Shalon Ventures (non-US patents only). Although the licence agreement between the Company and Shalon Ventures may only be terminated by a party in limited circumstances, if Shalon Ventures was to terminate the licence agreement it could affect the Company's ability to produce and sell AeroForm® outside the US. See Section 12.5(a) for more information about this licence agreement.

4.3 Other risks

(a) Risks related to the company's business

The Company has a limited operating history and may face difficulties encountered by companies early in their commercialisation

The Company has a limited operating history upon which to evaluate its business and forecast future net sales and operating results. In assessing the Company's business prospects, you should consider the various risks and difficulties frequently encountered by companies early in their commercialisation in competitive markets, particularly companies that develop and sell medical devices. These risks include the Company's ability to:

- implement and execute its business strategy;
- expand and improve the productivity of its sales force and marketing programs;
- increase awareness of its brand and build loyalty among surgeons;
- manage expanding operations;
- respond effectively to competitive pressures and developments; and
- successfully implement design changes to refine AeroForm® over time and obtain any updates to regulatory approvals related to the changes.

The Company relies on key suppliers for product components

The Company's contracts with key suppliers are generally standard in nature, in the form of purchase order arrangements that are common to medical device firms in the early stages of commercialisation, with no minimum purchase orders required. As the Company moves further into its commercialisation phase, the Company will increasingly rely on key suppliers for AeroForm® components. A disruption at any key supplier

could cause a substantial delay in the availability of AeroForm®, leading to a potential loss of sales. Development of key manufacturing processes along with process validation testing, device verification testing, and regulatory approvals required for a manufacturing change could take up to six months to complete. However, the Company believes that alternative suppliers could ultimately be located, qualified and approved for all critical system components within the six month timeframe.

In addition, the Company is currently undertaking a validation process to establish a new supplier of barrier film to be used in the production of AeroForm®, as the Company is not able to secure future supply from its former provider. This will also require updates to the Australian and European marketing approvals and an update to the FDA approval to pursue the XPAND trial in the US. The Company believes that its existing stores of barrier film are sufficient for the change in supplier (including obtaining the updates to the regulatory approvals) to not interrupt the Company's anticipated production schedule.

The Company intends to rely on a third party in Costa Rica to manufacture AeroForm

It is intended that the main manufacturing of AeroForm® will eventually be managed by a contract manufacturer located in Costa Rica. While the Company also plans to retain the ability to manufacture AeroForm® at its California location, there are inherent risks in relying on outsourced contract manufacturers – particularly where the manufacturer is located outside of the US. These risks include the risks of economic change, recession, labour strikes or disruptions, political turmoil, changes in tariffs or trade barriers, and lack of contract enforceability.

Should the manufacturer's operations be disrupted for any reason or production halted, the Company may not be able to have enough AeroForm® devices manufactured in a timely manner to satisfy product demand. While an alternative manufacturer could be appointed, it would take some time to transfer the manufacturing process. If such a disruption were to occur, it would adversely affect the Company's ability to sell AeroForm® and customers might instead purchase competing tissue expander products. There may also be an ongoing sales impact in the form of a reduction of goodwill as a result of the Company being unable to supply hospitals and surgeons in a timely manner.

The Company intends to rely on an automated manufacturing process to increase production volumes of AeroForm®

AeroForm® has not yet been produced on a large scale. The Company has developed an automation process for the production of AeroForm® which should significantly reduce the time required to produce each unit and allow for AeroForm® to be produced in much greater volumes at a lower cost. It is intended that the automation process will be validated in the California location and then implemented by the Company's contract manufacturer in Costa Rica, meaning that the Company will only have limited control over the process. The implementation of the automation process by the manufacturer may encounter unforeseen problems or production delays beyond the Company's control. If the Company is unable to keep up with demand for AeroForm®, the Company's revenues could be impaired and market acceptance of AeroForm® may be adversely affected. In particular, should the manufacturer's operations be disrupted for any reason or production halted, the Company may not be able to have enough AeroForm® devices manufactured in a timely manner to satisfy product demand.

Furthermore, if the automated manufacturing process is unsuccessful, this may adversely impact the gross margins that the Company can achieve for AeroForm®.

The Company is exposed to the risk of product liability claims and product recalls

The Company is exposed to the risk of product liability claims as a company that sells products to the public. This is a particularly sensitive issue for healthcare companies, and the medical device market has a history of product recalls and litigation. The Company may be exposed to the risk of product liability claims, which are inherent in the design, manufacturing, marketing, and use of medical devices. Furthermore, the Company must comply with medical device reporting and vigilance requirements in each jurisdiction in which AeroForm® and any future products are marketed.

Any product liability claim, with or without merit, may cause damage to the Company's reputation and business. The Company has sought to minimise this risk by taking out product liability insurance, but this may not be sufficient if a large damages claim is awarded. If the Company is called as a defendant in a product liability suit, this could be a costly activity that may also divert management focus away from the key strategic initiatives of the business, potentially adversely impacting financial performance and damaging the Company's reputation.

Off-label use of AeroForm® may harm its image or lead to substantial penalties

The Company is only permitted to market AeroForm® for the uses indicated on the labelling cleared by the relevant regulatory bodies in each market. The Company cannot prevent a surgeon or other third party from using or recommending the use of AeroForm® for purposes outside of their approved intended use. This may lead to the increased likelihood of an adverse event, or the inadequate treatment of a patient's condition, which could harm the Company's reputation in addition to potential claims for damages. If the Company is deemed to have marketed AeroForm® for off-label use, the Company could be subject to fines, damage claims, injunctions or other penalties, and the Company's reputation within the industry may be damaged.

There is a risk that the Company's current capital reserves (plus the net proceeds of the Offers) may not be adequate for the Company's future funding requirements or may need to be applied differently to the Company's current plans

The Company has generated very little commercial revenue to date and is not currently generating a positive cash flow due to the numerous funding requirements of manufacturing, completing clinical trials, seeking regulatory approvals and commercialising AeroForm®. The Company does not expect to become profitable until after achieving successful FDA clearance and US commercialisation of AeroForm® to allow sufficient sales revenue to fund ongoing company operations. The Company may decide to use the proceeds of the Offers differently to its current plans, or may need to obtain additional funding to continue operations (or both), including if there are delays in regulatory approvals, manufacturing ramp up or slower than anticipated market adoption.

If the Company raises additional funds by issuing equity securities, Shareholders may experience dilution. Debt financing, if available, may involve covenants restricting AirXpanders' operations or its ability to incur additional debt. The Company cannot guarantee the future availability of funds or that the funds will be available on terms which are favourable to it. If the Company requires additional funding and is unable to raise these funds, it could adversely impact the Company's business.

The Company may be subject to future third party intellectual property rights disputes

The Company does not believe that its activities infringe any third party's intellectual property rights. To date, no third party has asserted this to be the case. However, in the future the Company may be subjected to infringement claims or litigation arising out of patents and pending applications of its competitors, or additional proceedings initiated by third parties or intellectual property authorities to re-examine the patentability of licensed or owned patents. The defence and prosecution of intellectual property claims and litigation, and related legal and administrative proceedings are costly and time-consuming to pursue, and their outcome is uncertain. If the Company infringes the rights of third parties, the Company could be prevented from selling AeroForm® or any future products and be forced to defend against litigation and to pay damages.

The Company must attract and retain skilled staff to pursue its business model

The Company's long term growth and performance is dependent on attracting and retaining highly skilled staff. The medical device industry, and the San Francisco Bay area where the Company maintains its headquarters, has strong competition for highly skilled workers (including senior researchers, clinical staff, and management) due to the limited number of people with the appropriate skill set.

The Company currently employs, or engages as consultants, a number of key management and scientific personnel. There is a risk that the Company will be unable to attract and retain the necessary staff to pursue its business model. In particular, if Mr Scott Dodson, the Company's President and CEO, were to leave AirXpanders, it would lose significant technical and business expertise, and the Company may not be able to find a suitable replacement. This would affect how efficiently the Company operates its business and its future financial performance could be impacted.

The Company has structured incentive programs for its key personnel (refer to Section 6.6 for further details of the Company's equity incentive plan). Despite these measures, there is no guarantee that the Company will be able to attract and retain suitable qualified personnel, which could negatively affect the Company's ability to reach its goals.

(b) Risks specific to the industry

The Company may be adversely affected by healthcare reform legislation in the US and other countries

In recent years, there have been numerous initiatives at the US federal and state levels for comprehensive reforms affecting the payment for, the availability of and reimbursement for healthcare services. Recent legislation and many of the proposed bills include funding to assess the comparative effectiveness of medical devices. It is unclear what impact the comparative effectiveness analysis will have on the Company's products or its financial performance. If significant reforms are made to the healthcare system in the US, or in other jurisdictions, those reforms could adversely affect the Company's financial condition and operating results.

In March 2010, the US Congress enacted comprehensive healthcare reform legislation known as the *Patient Protection and Affordable Care Act* of 2010 (US) (the **ACA**), as modified by the *Health Care and Education Reconciliation Act* of 2010 (US). The ACA imposes significant taxes on medical device manufacturers. Complying with the ACA could significantly increase the Company's costs. The Company's operations may be impacted by the ACA, which imposes a 2.3% excise tax on sales of medical devices.

The manufacturing facilities for AeroForm® must comply with stringent regulatory requirements

The manufacturing facilities for AeroForm® must meet stringent standards. As the Company intends to outsource its main manufacturing to a contract manufacturer located in Costa Rica, the Company will have limited direct control over the compliance of the facility which manufactures AeroForm®. If the manufacturer does not comply with any relevant requirements, this may adversely affect the Company's ability to sell AeroForm®. The FDA routinely inspects all medical device companies, including any contract manufacturers, for compliance with the Quality Systems Regulation, or QSR. Furthermore, to maintain the CE Mark, National Standards Authority of Ireland, the Company's Notified Body, will regularly audit the Company's suppliers and manufacturers. Failure to comply with the applicable regulatory requirements can result in, among other things, temporary manufacturing shutdowns, product recalls, product shortages, ban on imports and exports and a damaged brand name.

The Company's presence in the international marketplace exposes it to foreign operational risks

As discussed in Section 3.7(d), the Company will seek to sell AeroForm® in markets across Australia, the US, Europe, Canada, Latin America and Asia. As it is intended that the main manufacturing of AeroForm® will be performed in Costa Rica, the Company will be exposed to risks of foreign regulations in Costa Rica and national trade laws, including import and export laws as well as customs regulations and laws. There are potentially high compliance costs associated with these laws and failure to comply with any applicable law or regulatory obligations could result in penalties and/or enforcement action (for example, stoppages or delays in clearing the Company's products through customs).

(c) Risks related to an investment in CDIs and the Public Offer

The Company's Existing Holders could collectively exert control over AirXpanders and may not make decisions that are in the best interests of all Shareholders

Immediately after the Offers, the Existing Holders are expected to beneficially own approximately 66.77% of the Shares. In total there are 89 Existing Holders, most of whom are unrelated to each other, however if these Existing Holders were to act together, they would be able to exert a significant degree of influence over the Company's management and affairs and over matters requiring Shareholder approval, including the election of Directors and approval of significant corporate transactions. Accordingly, there is a risk that the Existing Holders may make collective decisions that do not accord with, or are not in the best interests of, other Shareholders and CDI Holders. For example, the Existing Holders could, through their concentration of ownership, delay or prevent a change of control, even if a change of control is in the best interests of AirXpanders' other Shareholders and CDI Holders.

The ability to achieve a return on an investment in AirXpanders will largely depend on an appreciation in the market price of the CDIs

Any potential investor should be aware that subscribing for CDIs involves various risks. The CDIs to be issued pursuant to the Public Offer carry no guarantee with respect to the payment of dividends, return of capital or market value. As the Company does not currently intend to pay dividends on its Shares (see discussion in Section 11.5), investors' ability to achieve a return on their investment in AirXpanders will depend on an appreciation in the market price of the CDIs. There is no guarantee that the CDIs will appreciate in value or even maintain the same level as the Offer Price. Further, an active market in the CDIs may not develop or be sustained.

In such circumstances, there is a risk that investors may have difficulty selling their CDIs. Accordingly, there is a risk that investors may not achieve any return on their investment and could lose some or all of their investment.

The Company will incur exchange rate risks relating to the pricing of the Public Offer and listing on the ASX

The proceeds of the Public Offer will be received in Australian dollars, while the Company's functional currency is US dollars. The Company is not currently hedging against exchange rate fluctuations, and consequently it will be at the risk of any adverse movement in the US dollar-Australian dollar exchange rate between the pricing of the Public Offer and the closing of the Public Offer. If the Australian dollar falls during this period, the net proceeds of the Public Offer, after being converted to US dollars, will be reduced, meaning the Company will have less money to spend on the purposes set out in Section 7.4(a).

The CDIs will be listed on the ASX and priced in Australian dollars. However, the Company's reporting currency is US dollars. As a result, movements in foreign exchange rates may cause the price of the Company's securities to fluctuate for reasons unrelated to the Company's financial condition or performance and may result in a discrepancy between the Company's actual results of operations and investors' expectations of returns on securities expressed in Australian dollars.

Provisions of the Company's Certificate of Incorporation, its Bylaws and Delaware law could make an acquisition of AirXpanders more difficult and may prevent attempts by Shareholders to replace or remove the current members of the Board

Certain provisions of the Company's Certificate of Incorporation and Bylaws could discourage, delay or prevent a merger, acquisition or other change of control that Shareholders and CDI Holders may consider favourable, including transactions in which CDI Holders might otherwise receive a premium for their CDIs. Furthermore, these provisions could prevent or frustrate attempts by Shareholders and CDI Holders to replace or remove members of the Board. These provisions could also limit the price that investors might be willing to pay in the future for the CDIs, thereby depressing the market price of the CDIs. There is also a risk that Shareholders and CDI Holders who wish to participate in these transactions may not have the opportunity to do so. A summary of these provisions in the Company's Certificate of Incorporation and Bylaws is set out in Section 11.6.

In addition, the Company is governed by the provisions of section 203 of the Delaware General Corporation Law, which may, unless certain criteria are met, prohibit large Shareholders, in particular those owning 15% or more of the voting rights on Shares, from merging or combining with AirXpanders for a prescribed period of time. This is described in item 18 of the table in Section 11.6.

The costs and management time involved in complying with Delaware laws, Australian laws and US reporting requirements are likely to be significant

As a Delaware company with an ASX listing and a registration as a foreign company in Australia, the Company will need to ensure its continuous compliance with Delaware law and relevant Australian laws and regulations, including the Listing Rules and certain provisions of the Corporations Act. To the extent of any inconsistency between Delaware law and Australian law and regulations, the Company may need to make changes to its business operations, structure or policies to resolve such inconsistency. If the Company is required to make such changes, this is likely to result in interruptions to its operations, additional demands on Key Managers and extra costs.

In addition, as discussed at Section 12.2, the Company expects to become subject to the periodic reporting requirements of the US Exchange Act at some stage in the future which would require it to register the Shares with the US Securities and Exchange Commission (**SEC**) under the US Exchange Act. The Company will become a reporting company if, among other things, the Company has (i) assets of more than US$10 million and (ii) either 2,000 or more holders of any class of equity securities or 500 or more holders of any class of equity securities who are not 'accredited investors' as defined in Rule 501 of Regulation D of the US Securities Act.

This will involve the Company filing annual, quarterly, and current reports on Forms 10-K, 10-Q and 8-K. In the absence of a waiver from the Listing Rules, these SEC periodic reports will be in addition to AirXpanders' periodic filings required by the Listing Rules. The legal and accounting costs and management time that will be required to comply with these reporting requirements are expected to be significant.

5. Financial information

5. Financial information

5.1 Introduction

The financial information set out in this Section 5 contains the following financial information in relation to AirXpanders:

> summary historical statement of operations for FY2012, FY2013 and FY2014;

> summary historical statement of cash flows for FY2012, FY2013 and FY2014; and

> historical and pro forma balance sheets as at 31 December 2014 and the associated details of the pro forma adjustments,

(together, the **Historical Financial Information**).

The Historical Financial Information (other than the pro forma adjustments to the historical balance sheet as at 31 December 2014 and the results of those adjustments) has been derived from AirXpanders' audited financial statements for FY2012, FY2013 and FY2014. Those financial statements were prepared in US dollars and in accordance with US GAAP. A reconciliation between US GAAP and AIFRS is contained in Section 5.5.

The FY2012, FY2013 and FY2014 financial statements were audited by SingerLewak LLP, which issued unqualified audit opinions in respect of these periods. No modified audit reports were issued for AirXpanders in those periods. The Historical Financial Information has been reviewed by Grant Thornton Corporate Finance Pty Ltd, whose Independent Limited Assurance Report is contained in Section 8, however the Directors are responsible for the inclusion of all financial information in this Prospectus.

All amounts disclosed in this Section are rounded to the nearest US$1,000. As with the rest of this Prospectus, this Section 5 assumes that the Indicative Foreign Exchange Rate (A$1.00 = US$0.76) applies.

The Historical Financial Information has been prepared assuming the Company will continue as a going concern, which contemplates the realisation of assets and satisfaction of liabilities in the normal course of business for the foreseeable future. The Company's ability to achieve profitability is dependent primarily on its ability to successfully gain market share in Australia, obtain regulatory clearance in the US from the FDA and gain market share in the US. The regulatory approval process is expensive, time consuming, and uncertain, and any denial or delay of approval could have a material adverse effect on the Company. As such, the Company is dependent on the Offers to support operations through to US commercialisation for the Company to continue as a going concern. The Company intends to raise sufficient capital to finance its operations as set out in this Prospectus. (See Section 7.4(a) for further details.) As a result of the uncertainties regarding the achievability of the Company's plans to secure financing when needed or on terms satisfactory to the Company, no assurances can be given as to its ability to continue in existence if the Offers which are the subject of this Prospectus are not completed. The Historical Financial Information does not include any adjustments to reflect the possible future effects of the recoverability and classification of liabilities that may result from the possible inability to continue as a going concern.

The Historical Financial Information should be read together with the other information contained in this Prospectus, including:

> management's discussion and analysis set out in this Section 5;

> the risk factors described in Section 4;

> the description of the use of the proceeds of the Offers described in Section 7.4(a);

> the Independent Limited Assurance Report, set out in Section 8; and

> the indicative capital structure described in Section 11.2.

Please note that past performance is not an indication of future performance.

5.2 Historical statement of operations

The table below presents the summary historical statement of operations for FY2012, FY2013 and FY2014.

US$'000	Audited		
December year end	FY2012	FY2013	FY2014
Research and development expenses[1]	(1,009)	(766)	(1,171)
Clinical trials expenses[1]	(3,592)	(3,120)	(2,949)
Selling, general and administrative expenses[1]	(1,897)	(1,986)	(2,191)
Other income	161	46	(45)
Earnings before interest, tax, depreciation and amortisation[1]	**(6,337)**	**(5,826)**	**(6,356)**
Depreciation and amortisation[1]	(77)	(50)	(61)
Earnings before interest and tax	**(6,414)**	**(5,876)**	**(6,417)**
Net interest expense	(223)	(190)	(561)
Net profit /(loss) before tax	**(6,637)**	**(6,066)**	**(6,978)**
Income tax benefit/expense	–	–	–
Net profit /(loss) after tax	**(6,637)**	**(6,066)**	**(6,978)**

1 In the audited financial accounts for FY2012, FY2013 and FY2014, depreciation and amortisation is not shown as a separate item, but is included as part of the other expenses listed (see subparagraphs (a) to (c) below). As a result, the audited financial accounts for those years also do not show a figure for earnings before interest, tax, depreciation and amortisation, and the figures marked with a 1 above are unaudited figures. In addition:

(a) The audited financial accounts for FY2012 show research and development expenses of US$1,060,000, clinical trials expenses of US$3,601,000 and selling, general and administrative expenses of US$1,914,000, representing total operating expenses of US$6,574,000 (in each case, rounded to the nearest US$1,000).

(b) The audited financial accounts for FY2013 show research and development expenses of US$789,000, clinical trials expenses of US$3,122,000 and selling, general and administrative expenses of US$2,012,000, representing total operating expenses of US$5,922,000 (in each case, rounded to the nearest US$1,000).

(c) The audited financial accounts for FY2014 show research and development expenses of US$1,194,000, clinical trials expenses of US$2,949,000 and selling, general and administrative expenses of US$2,229,000, representing total operating expenses of US$6,371,000 (in each case, rounded to the nearest US$1,000).

(a) General factors affecting the operating results of AirXpanders

Below is a discussion of the main factors which affected AirXpanders' operations and relative financial performance in FY2012, FY2013 and FY2014, which AirXpanders expects may continue to affect it in the future. The discussion of these general factors is intended to provide a summary only and does not detail all factors that affected AirXpanders' historical operating and financial performance, nor everything which may affect AirXpanders' operations and financial performance in the future.

As AirXpanders only started selling AeroForm® in January 2015, AirXpanders' results for the year ended 31 December 2014 do not include any revenue. The expenses primarily relate to research and development, clinical trials, and selling, general and administrative activities.

(b) Research and development expenses

Research and development expenses have been predominantly related to preparing AeroForm® for commercialisation. The initial development of the design was nearing completion in FY2012 when AirXpanders received approval for use of the CE Mark. Since FY2012, AirXpanders' focus has shifted to positioning AeroForm® for commercialisation. As a result of the clinical trials, AirXpanders has undergone further development to refine AeroForm®.

Research and development expenses have related primarily to salaries and wages of in house researchers and consulting fees paid to external specialists brought in to assist with the development of AeroForm®.

(c) Clinical trials expenses

Clinical trials expenses relate primarily to costs to manufacture AeroForm® for use in the clinical trials, costs to administer the clinical trials, and regulatory approval and quality control costs related to the clinical trials.

As a result, clinical trials expenses have trended with the execution of the clinical trials for the TGA and FDA approvals. The series of Australian clinical trials (the PACE and ASPIRE trials) ended in FY2013. The XPAND clinical trials in the US continued throughout FY2012, FY2013 and FY2014, with a short suspension of new enrolments in the last quarter of FY2013 and first quarter of FY2014 as AeroForm® underwent an update, and the changes were properly administered for the trial.

(d) Selling, general & administrative expenses

Selling, general and administrative expenses relate to the general management of AirXpanders, and include management salaries, consulting fees, rent, professional fees, travel costs, utilities and promotional costs incurred in the course of operations. These costs are not directly attributable to research and development or clinical trials and as a result these costs have remained relatively consistent over FY2012, FY2013 and FY2014.

5.3 Historical statement of cash flows

The table below presents the summary historical statement of cash flows for FY2012, FY2013 and FY2014.

US$'000	Audited		
December year end	FY2012	FY2013	FY2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) before tax	(6,637)	(6,066)	(6,978)
Non cash adjustments:			
Depreciation and amortisation	77	50	37
Amortisation of debt discount	22	22	24
Accredited interest of long term debt	–	–	111
Change in fair value of warrant liabilities	(161)	63	50
Stock based compensation	43	84	108
Provision on inventory	–	–	160
Changes in assets and liabilities:			
(Increase)/decrease in working capital	18	132	(303)
Net cash outflow from operating activities	**(6,638)**	**(5,715)**	**(6,791)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(36)	(68)	(96)
Net cash outflow from investing activities	**(36)**	**(68)**	**(96)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings on notes payable, net of issuance costs	–	–	3,417
Principal payments on notes payable	(944)	(764)	(1,083)
Proceeds from issuance of preferred stock	9,329	8,745	979
Proceeds from exercise of options	–	2	–
Net cash inflow from financing activities	**8,385**	**7,983**	**3,313**
Net increase/(decrease) in cash held	**1,711**	**2,200**	**(3,574)**
Cash and cash equivalents at the beginning of the period	1,314	3,025	5,225
Cash and cash equivalents at the end of the period	**3,025**	**5,225**	**1,651**

(a) Operating and financing cash flows

AirXpanders only started selling AeroForm® in January 2015 and consequently AirXpanders' cash flows from operating activities until 31 December 2014 have been negative. This was primarily due to research and development, clinical trials and selling, general and administrative expenses. This is typical of a development stage medical device company.

The net cash outflows from operating activities have been funded through approximately US$33.8 million in equity funding from the Company's inception in 2005. The equity funding consisted of Series A preferred stock (US$5.5 million), Series B preferred stock (US$1.3 million), Series C preferred stock (US$5.4 million), Series D preferred stock (US$11.3 million) and Series E preferred stock (US$9.7 million). (These figures are net of the transaction costs of the respective funding rounds, which totalled US$0.6 million.) The net cash outflows from operating activities have also been funded through a US$3.5 million drawdown on the US$7 million line of credit from GE described in Section 12.5(b).

As at 31 December 2014, AirXpanders had cash on hand of US$1.7 million and the US$3.5 million undrawn balance of the line of credit from GE. The deadline for AirXpanders drawing on that balance is 30 June 2015.

(b) Investing cash flows

AirXpanders has historically had minimal investment in capital assets.

5.4 Historical and pro forma balance sheets

(a) Balance sheets

The table below sets out the historical balance sheet, the pro forma adjustments that have been made to it (further described in Section 5.4(b)) and the pro forma balance sheet as at 31 December 2014.

The pro forma balance sheet is provided for illustrative purposes only and is not represented as being necessarily indicative of AirXpanders' view of its future financial position.

31 December 2014	Adjust-ments[1]	Audited US$'000	Pro forma adjustments US$'000	Reviewed pro forma US$'000	Reviewed pro forma A$'000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	(i), (ii), (iii), (iv), (v)	1,651	29,946	31,597	41,575
Inventory		172	–	172	226
Prepaid expenses and other current assets		47	–	47	62
TOTAL CURRENT ASSETS		1,870	29,946	31,816	41,863
NON CURRENT ASSETS					
Property and equipment		155	–	155	204
Other assets		113	–	113	149
TOTAL NON CURRENT ASSETS		268	–	268	353
TOTAL ASSETS		2,138	29,946	32,084	42,216
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable		402	–	402	529
Accrued expenses		195	–	195	257
Current portion of long term debt	(ii)	993	–	993	1,307
TOTAL CURRENT LIABILITIES		1,590	–	1,590	2,093
NON CURRENT LIABILITIES					
Warrant liabilities	(i)	164	(162)	2	2
Long term debt		2,571	–	2,571	3,383
TOTAL LONG TERM LIABILITIES		2,735	(162)	2,573	3,385
TOTAL LIABILITIES		4,325	(162)	4,163	5,478
NET ASSETS		(2,187)	30,108	27,921	36,738
STOCKHOLDERS EQUITY					
Share capital	(i), (ii), (iii), (iv)	135	82	217	285
Additional paid in capital	(ii), (iii), (iv), (v)	33,422	29,935	63,357	83,365
Deficit accumulated during the development stage	(ii)	(35,744)	91	(35,653)	(46,912)
TOTAL STOCKHOLDER EQUITY		(2,187)	30,108	27,921	36,738
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY		2,138	29,946	32,084	42,216

1 References to adjustments correspond to the paragraph numbering in Section 5.4(b).

(b) Description of pro forma adjustments

The following transactions and events had not occurred prior to 31 December 2014, but have taken place or will take place on or before the Allotment Date. The pro forma financial information in this Section 5 assumes that they occurred on or before 31 December 2014:

(i) the exercise of 48,902,445 Warrants into 48,902,445 Shares with cash proceeds of US$48,902;

(ii) the issue of Convertible Notes under the Bridge Financing to the value of approximately US$3 million and the subsequent conversion of those Convertible Notes and accrued interest into Shares (at the equivalent price per Share to the Offer Price, but in US dollars) or CDIs at the Offer Price (or the equivalent US dollar amount), assuming a conversion date of 12 June 2015;

(iii) the completion of the US Private Placement (being that part of the second tranche of the Bridge Financing relating to US Persons), raising approximately US$1.95 million and involving the issue of 1,709,969 Shares;[2]

(iv) the completion of the Public Offer (being that part of the second tranche of the Bridge Financing relating to GBS Venture Partners), raising approximately A$36.51 million (or approximately US$27.75 million) and involving the issue of 73,027,989 CDIs (representing 24,342,663 Shares); and

(v) expenses associated with the Offers (including advisory, legal, accounting and administrative fees as well as printing, advertising and other expenses), charged against additional paid in capital. The total amounts to an estimated US$2.8 million, none of which was paid prior to 31 December 2014.

In addition, the following transactions and events have taken place or will take place on or before the Allotment Date and are accounted for in the pro forma share capital calculations in Section 5.4(d):

(vi) the conversion of shares of Series E preferred stock into Shares and shares in Series E-1 preferred stock, Series E-2 preferred stock and Series E-3 preferred stock, in connection with the Bridge Financing;

(vii) the cashless conversion of shares of preferred stock into 150,562,111 Shares as part of the Restructuring; and

(viii) the 5:1 reverse stock split, which will be applied to all Shares, and outstanding Warrants and Options, reducing the number of outstanding Shares from 208,727,786 to 41,745,547.

(c) Calculation of pro forma cash position

The pro forma cash and cash equivalents shown in Section 5.4(a) are based on the following adjustments:

	Pro forma adjustments[1]	Reviewed pro forma US$'000
Cash and cash equivalents at 31 December 2014		1,651
Subsequent events:		
Exercise of Warrants	(i)	49
Issue of Convertible Notes	(ii)	2,997
		4,697
Pro forma transactions:		
US Private Placement	(iii)	1,949
Public Offer	(iv)	27,751
Costs of the Offers	(v)	(2,800)
Pro forma cash and cash equivalents		**31,597**

1 References to adjustments correspond to the paragraph numbering in Section 5.4(b).

2 See footnotes to table in Section 11.2(a).

(d) Calculation of pro forma share capital

The pro forma share capital and additional paid in capital shown in Section 5.4(a) are based on the following adjustments:

	Pro forma no. of Shares	Pro forma adjustments[1]	Reviewed pro forma US$'000
Share capital and additional paid in capital at 31 December 2014	4,508,329		(1,076)
Exercise of existing warrants	48,902,445	(i)	49
Conversion of Series E stock	4,754,901	(vi)	–
Conversion of preferred stock into Shares	150,562,111	(vii)	34,633
Shares outstanding before reverse stock split	208,727,786		33,606
5:1 reverse stock split	41,745,547	(viii)	33,606
Conversion of Convertible Notes and accrued interest into Shares	2,690,730	(ii)	3,068
US Private Placement	1,709,969	(iii)	1,949
Public Offer	24,342,663	(iv)	27,751
Costs of the Offers	–	(v)	(2,800)
Pro forma share capital and additional paid in capital	**70,488,909**		**63,357**

1 References to adjustments correspond to the paragraph numbering in Section 5.4(b).

5.5 Reconciliation between US GAAP and AIFRS

The Historical Financial Information contained in this Prospectus has been prepared in accordance with US GAAP which is different to AIFRS, the accounting principles generally accepted in Australia. AirXpanders will only be required to lodge US GAAP financials with ASIC as a foreign company in the future and the ASX has confirmed that AirXpanders may solely report in US GAAP once listed on the ASX (and the audit of those financial reports will be conducted in accordance with US auditing standards). Future financial information of AirXpanders will not be prepared under AIFRS.

The Directors have reviewed the differences between US GAAP and AIFRS as manifested in AirXpanders' Historical Financial Information. They identified the following material differences relevant to potential investors under the Offers.

(a) Research and development expenditure

AirXpanders has incurred US$10.6 million of research and development expenditure from inception to 31 December 2014 as well as US$12.4 million in clinical trials. Under US GAAP, these costs are expensed as incurred.

Under AIFRS, research costs are expensed and development costs may be capitalised providing the recognition criteria (based on achieving technical feasibility milestones) are met and are then amortised over the expected useful life of AeroForm®. As such, for a determination of research and development expenditure to be capitalised recognition criteria must be applied to the research and development expenditure attributable to the development of AeroForm®. Accordingly, if the Directors had historically reported in accordance with AIFRS at 31 December 2014, approximately US$12.1 million of development expenditure incurred and expensed could have been capitalised. Therefore the net assets and pro forma net assets set out in Section 5.4 would be US$12.3 million higher under AIFRS.

(b) Costs of the Offers

Under US GAAP, costs incurred in issuing stock and listing AirXpanders on the ASX are classified as a reduction of equity (or as an asset until the stock is issued). Under AIFRS, only those costs of the Offer directly attributable to additional issued Shares or CDIs under the Offers can be offset against equity. Expenses relating to listing AirXpanders for the benefit of existing securityholders are required to be expensed and costs relating

to all securityholders are split between equity and expenses based on the proportion of securityholding (on a fully diluted basis) of new and existing securityholders. Accordingly, if the Directors had prepared the pro forma balance sheet in Section 5.4 in accordance with AIFRS, approximately US$0.89 million of the estimated US$2.8 million cash offer costs would be treated as an expense through the statement of operations rather than an offset against stockholder's equity.

5.6 Significant accounting policies

The following is a summary of the significant accounting policies used in the preparation of the Historical Financial Information.

(a) Use of estimates

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

(b) Certain significant risks and uncertainties

Without limiting the risks described in Section 4, AirXpanders considers that its future financial position, results of operations, or cash flows could be materially adversely affected by unfavourable developments in: AirXpanders' ability to obtain future financing, advances and trends in new technologies and industry standards; regulatory decisions and market acceptance of AirXpanders' products; the development of sales channels; certain strategic relationships; litigation or claims against AirXpanders based on intellectual property, patent, product, regulatory, or other factors; and AirXpanders' ability to attract and retain employees necessary to support its growth.

(c) Concentrations of credit risk

Financial instruments that potentially subject AirXpanders to credit risk consist primarily of cash and cash equivalents. AirXpanders maintains all of its US cash balances at one financial institution, which at times may exceed the Federal Deposit Insurance Corporation (**FDIC**) limits of US$0.25 million for interest bearing accounts. Beginning 1 January 2013, deposits held in non-interest-bearing accounts will be aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total insured up to US$0.25 million. At 31 December 2014, AirXpanders had cash balances of approximately US$1.4 million and US$4.9 million that were in excess of the FDIC limits.

(d) Cash and cash equivalents

AirXpanders considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Restricted cash of US$25,000 at 31 December 2014, which serves as collateral for corporate credit cards, is included as 'other assets' in the historical balance sheet.

(e) Inventory

Inventory is valued at the lower of cost or market value, with cost determined by the first-in, first-out method. In 2014, the Company recorded a provision to reduce cost to the market value of US$0.16 million of its existing inventories to reflect its anticipated selling price which is below cost.

(f) Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight line method over the estimated useful lives of the assets, generally three to five years. Leasehold improvements and property and equipment under capital leases are depreciated over the shorter of estimated useful lives of the assets or the lease terms.

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

(g) Impairment of assets

AirXpanders' assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognised is measured as the amount by which the carrying amount of the asset exceeds its fair value. Through 31 December 2014, AirXpanders had not experienced impairment losses on its assets.

(h) Stock based compensation

Stock based compensation is measured at the grant date based on the fair value of the award.

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

In the case of Options, AirXpanders uses the Black Scholes option-pricing model as the method for determining the estimated fair value of Options, based on the following principles.

- Expected term

  AirXpanders' expected term represents the period that AirXpanders' stock based awards are expected to be outstanding and is determined using the simplified method.

- Expected volatility

  Expected volatility is estimated using comparable public companies volatility for similar terms.

- Expected dividend

  The Black Scholes model calls for a single expected dividend yield as an input. AirXpanders has never paid dividends and has no plans to pay dividends on its common stock (including Shares) in the foreseeable future.

- Risk free interest rate

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

AirXpanders recognises fair value of Options granted to non-employees as stock based compensation expense over the period in which the related services are received.

(i) Research and development

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

(j) Income taxes

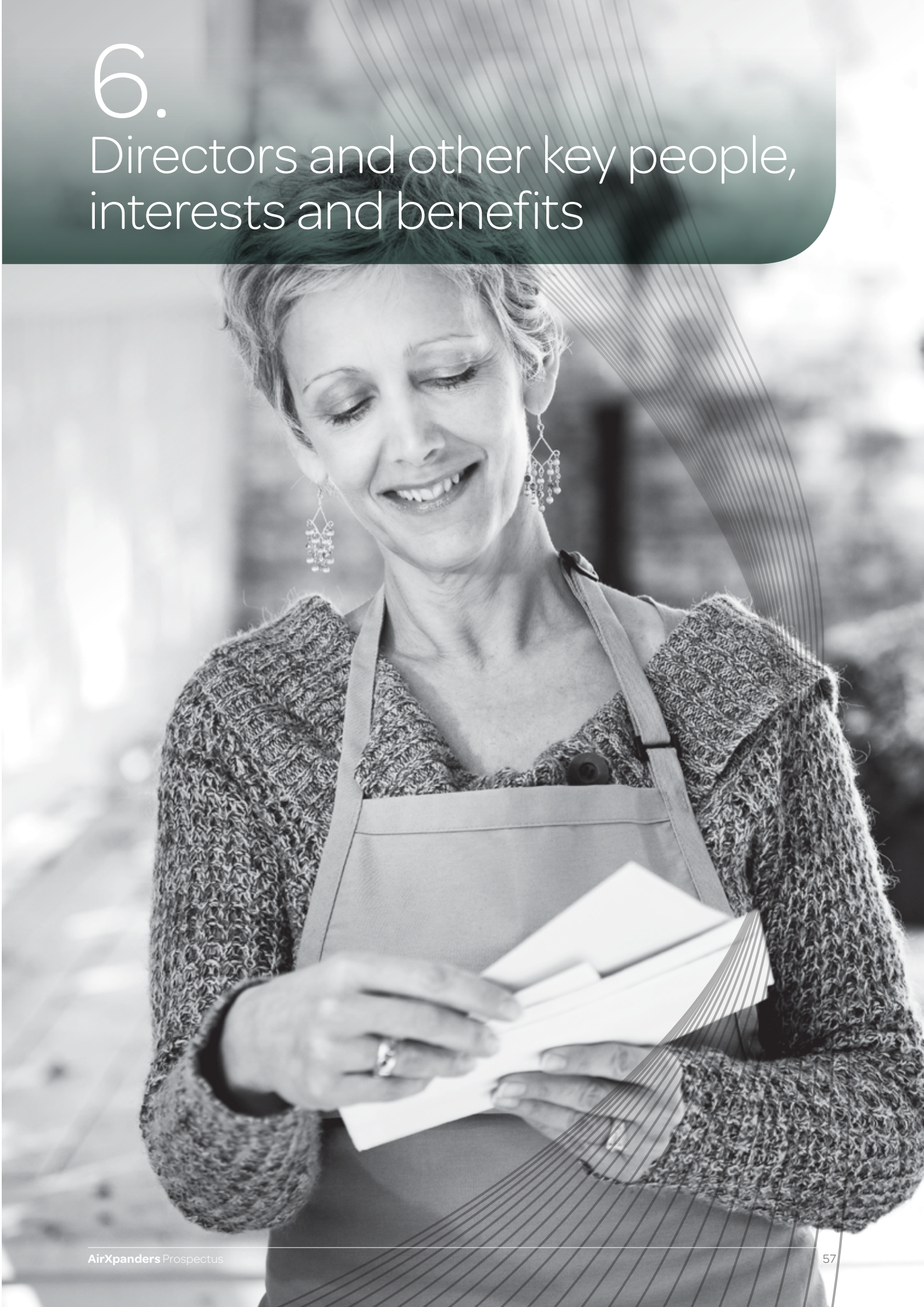
AirXpanders accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are recorded based on the estimated future tax effects of differences between the financial statement and income tax basis of calculating assets and liabilities. In addition, deferred tax assets are recorded for the future benefit of utilising net operating loss and credit carryovers. Deferred tax assets and liabilities are measured using the enacted tax rates applied to taxable income. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date. A valuation allowance is provided against AirXpanders' deferred income tax assets when it is more likely than not that the asset will not be realised.

Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, AirXpanders considers all available evidence, including past operating results, estimates of future taxable income and the feasibility of tax planning strategies. In the event that AirXpanders changes its determination as to the amount of deferred tax assets that are more likely than

not to be realised, AirXpanders will adjust its valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

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

6.
Directors and other key people, interests and benefits



6. Directors and other key people, interests and benefits

6.1 Board

The Directors of AirXpanders bring to the Board relevant expertise and skills, including industry and business knowledge, and financial management and corporate governance expertise.

(a) Directors' backgrounds

Upon the completion of the Offers, the Directors will be as follows.

Director

Mr Barry Cheskin, age 54

Co-Founder, Chairman of the Board, Non-executive Director
Chairman of the Remuneration and Nomination Committee

Mr Cheskin is a Co-Founder of AirXpanders and Chairman of the Board.

Mr Cheskin has over 25 years of experience, primarily in the general management of medical device enterprises in the US.

Mr Cheskin is a three-time medical device company CEO, having taken one company public (RITA Medical) and sold another (NanoGram Devices) to its competitor (Wilson Greatbatch) one year into his tenure. RITA Medical developed and marketed a minimally invasive radiofrequency ablation device used for cancer treatment. NanoGram Devices developed novel medical batteries based on a proprietary nanomaterials technology, with their first application directed at implantable defibrillators. Mr Cheskin is also currently President and CEO of the medical device company PowerVision, Inc.

Mr Cheskin holds degrees in Mechanical Engineering from MIT (BS) and Stanford (MS), as well as an MBA from Columbia Business School.

Mr Scott Dodson, age 50

President, Chief Executive Officer and Executive Director

Mr Dodson has been the President and CEO of AirXpanders since 2010 and is responsible for the overall management and strategic direction of the Company.

Mr Dodson has a track record over 25 years of driving results in companies throughout the medical device industry via various executive management and leadership positions.

From June 1996 to December 2000, Mr Dodson led the international expansion of The Boston Scientific Corp., a multi-billion dollar global company with diverse product holdings in cardiology, rhythm management, vascular, electrophysiology, endoscopy and women's health. He held significant roles in sales, marketing, operations, business development and market development in the Endoscopy and Women's Health business groups of the company, which represented over US$2 billion in annual revenue.

From May 2004 to March 2007, Mr Dodson was the President of Global Orthopedics and President of International at Orthofix Orthopedics, for the company's spine, orthopedic and sports medicine business groups. From March 2007 to August 2007, Mr Dodson served at BarrX Medical, a California based gastroenterology start-up for pre-cancerous treatment of the oesophagus, which was later sold to Covidien for US$340 million. From August 2007 to August 2010, Mr Dodson was the President and CEO of Avantis Medical, a California-based gastroenterology medical device start-up

Mr Dodson has a BS in Management from Indiana University in Bloomington, Indiana US and has completed the Executive Management Programs of both Columbia University and Babson College in the US.

Director

Ms Brigitte Smith, age 47

Non-executive Director
Member of the Remuneration and Nomination Committee
Nominee Director representing GBS Venture Partners as trustee for the GBS Bioventures IV Trust

Ms Smith is Co-Founder and Managing Director of GBS Venture Partners, one of Australia's leading life science investment fund managers.

Ms Smith has been managing investments for GBS's A$400 million life science specialised investment funds for the last 15 years and is on the board of several GBS portfolio companies. She has a total of twenty years of experience in venture capital, business strategy and start-up company operations.

Ms Smith is on the board of a number of public and private, US and Australian biopharmaceutical and medical device companies in the GBS portfolio, including Elastagen, Endoluminal Sciences, Neurovance and Viveve. In addition, Brigitte was the founding investor and chair of Pharmaxis.

Ms Smith is Chair of the AVCAL Venture Capital committee and a member of the board of the Centre for Eye Research Australia.

Ms Smith has a B Chem Eng (Honours) from the University of Melbourne, an MBA (Honours) from the Harvard Business School as a Fulbright Scholar, and a MALD from the Fletcher School of Law and Diplomacy in Boston, US. Ms Smith has also been an adjunct lecturer in entrepreneurial finance at Melbourne Business School.

Dr Albert Cha, age 43

Non-executive Director
Member of the Audit and Risk Committee
Nominee Director representing Vivo Capital

Dr Cha is a Managing Partner at Vivo Capital where he manages investments in private and public biopharmaceutical and medical device companies. Vivo manages more than US$1.5 billion across eight funds.

Dr Cha currently serves on the board of several public and privately held biopharmaceutical and medical device companies including Ascendis Pharma, ProNAi Therapeutics, Aclaris Therapeutics, Carbylan Therapeutics, Minerva Surgical, and Tria Beauty.

Dr Cha received his BS and MS in Electrical Engineering from Stanford University. He subsequently completed the Medical Scientist Training Program at UCLA School of Medicine, where he received his MD and PhD in Neuroscience.

Director

Mr Teddy Shalon, age 58

Co-Founder and Non-executive Director
Member of the Audit and Risk Committee

Mr Shalon is a Co-Founder of AirXpanders and the Chief Executive Officer and sole shareholder of Shalon Ventures, an evergreen life science and technology incubator funded by the Shalon family.

Mr Shalon is an accomplished entrepreneur, executive, and investor focusing on life science-oriented ventures, with 30 years of experience in medical device and medical product development with privately held companies such as Renew Medical, Airflow Medical, ThinOptics, Guard Medical and Theracaine.

Mr Shalon has founded and sold, in private transactions, several life sciences companies over the course of his career, including Osteogenix (sold to Medtronics), Synteni (sold to Incyte Pharmaceuticals), and Ivy Technologies (sold to Alcon).

Mr Shalon holds a MS in Computer Science, BA in Physics, and a BS in Electrical Engineering from Washington University in St Louis, US.

Mr Dennis Condon, age 66

Independent Non-executive Director
Chairman of the Audit and Risk Committee and member of the Remuneration and Nomination Committee

Mr Condon is the CEO and President of Nuvesse Skin Therapies, a venture-backed cosmeceutical skincare company that has launched 12 products into the US medical device market.

Mr Condon was previously Chief Executive Officer and President of Merz Aesthetics, Inc. (from September 2011 to January 2013), after serving as President and Chief Business Officer from July 2007 and a board member from 2004 to 2007. He was also the former Chief Executive Officer of BioForm Medical (acquired by Merz Aesthetic for US$250 million).

Mr Condon has 30 years of experience in key executive roles in the plastic surgery market, including as the former President and CEO of Mentor Aesthetics, one of the two largest global breast implant manufacturers.

Each Director has confirmed that they anticipate being available to perform their respective duties as a Non-executive Director or executive Director (and employee), as the case may be, of AirXpanders.

The Non-executive Directors have advised the Company that they hold current positions with other organisations (described above). However, no Director believes that any other commitment will place constraints on their availability as a Director.

(b) Independence of the Directors

In considering the independence of the Directors, the Board have had regard to the factors relevant to assessing independence, as set out in the ASX Corporate Governance Principles.

The Board considers that a Director is an independent Director where that Director is free from any business or other relationship which could interfere with, or reasonably be perceived to interfere with, the independent exercise of the Director's judgement.

Based on this review, the Board has determined that:

> Mr Dodson, Mr Cheskin, Ms Smith, Dr Cha and Mr Shalon are not considered to be independent Directors; and

> Mr Condon is considered to be an independent Director.

The Board may, following admission to the ASX, consider appointing a further independent Director, however at this time no process has been commenced with respect to identifying appropriate candidates.

(c) Classes of Directors

Upon listing on the ASX, the Board will be divided into three classes with staggered three year terms. At each annual meeting of Shareholders commencing with the 2016 meeting, the Directors whose term then expires will be eligible for re-election to serve for a three year term (i.e. until the third annual meeting following their re-election).

The Directors will be divided into three classes as follows:

Director	Class	Expiration of term
Ms Brigitte Smith & Dr Albert Cha	Class I	2016 Annual General Meeting
Mr Teddy Shalon & Mr Dennis Condon	Class II	2017 Annual General Meeting
Mr Barry Cheskin & Mr Scott Dodson	Class III	2018 Annual General Meeting

6.2 Key Managers

Key Manager

Mr Scott Dodson

President and Chief Executive Officer

Refer to Section 6.1(a).

Mr F. Mark Payne

Director of Research & Development

Mr Payne joined AirXpanders in 2007 and is responsible for research and development.

Mr Payne has over 20 years' leadership experience in research and development with a focus on the execution of innovative technologies.

He has held positions as Research Engineer/Scientist for Cytyc Surgical Products and Branch Manager of Mechanical Systems Design and Drafting for United Technologies where he and his teams worked on and delivered multiple projects for the aerospace industry. Cytyc was later acquired by Hologic for US$6.2 billion.

Mr Payne has successfully submitted nine patent disclosures and is the inventor or co-inventor of four issued patents.

Mr Payne received his Bachelor of Science in Aerospace Engineering from the University of Michigan and a Master of Science in Mechanical Engineering from Stanford University.

Key Manager

Ms Kathy Kelley

Director of Clinical Affairs

Ms Kelley joined AirXpanders in 2010 as the Director of Clinical Affairs. She is responsible for leading the Company's clinical initiatives in Australia and the US.

Ms Kelley assisted AirXpanders in completing several trials in Australia, resulting in a dataset essential to the Company attaining CE marking and commercial approval in Australia, and the US based pivotal trial which is nearing completion and expected to be submitted for FDA approval this year.

Ms Kelley has over twenty years of experience in the clinical, quality, and risk management fields and fifteen years in medical device research.

Ms Kelley has a diverse background with years of clinical experience across many therapeutic areas and has managed multiple successful trials for Cardiovascular Consultants, Revascular Therapeutics (acquired by Boston Scientific), and Zeltiq.

Ms Kelley received her Bachelor of Science in Nursing from Boston University.

Mr Tony Morefield

Sr. Director of Operations

Mr Morefield joined AirXpanders in early 2012 and is responsible for manufacturing and operations.

Mr Morefield has over 17 years of medical device and aerospace experience with a focus on transitioning innovative technologies through late stage development into full scale commercial manufacturing.

Mr Morefield most recently held the position of Senior Director of Manufacturing and Engineering at Avantis Medical Systems, a privately held medical device company in the Colon Cancer detection market, where he was responsible for ramping operations during clinical trials into full commercialisation and an eventual transition to off-shore manufacturing.

Mr Morefield received his Bachelor of Science degree from the University of Oregon.

Mr John Lai

Director of Finance

Mr Lai joined AirXpanders in 2012 and is responsible for accounting, finance and human resources.

Mr Lai has been a director at Montgomery Professional Services Corporation in San Jose for the past 12 years.

In his varied roles and responsibilities there, Mr Lai was a financial services expert for multiple clients in industries ranging from medical device, software, internet, insurance and consumer products.

Mr Lai's expertise ranges from financial planning, audit, forecasting, investment strategies, financial modelling and downstream accounting activities.

Mr Lai received his Bachelor of Accounting from Seattle University.

Key Manager

Ms Naghmeh Nouri

Sr. Director of Quality and Regulatory

Ms Nouri joined AirXpanders in 2012 and is responsible for quality and regulatory matters.

Ms Nouri brings over 20 years of medical device experience with an expertise in national and international quality systems, products assurance and regulations.

Recently, Ms Nouri served as the Vice President of Quality and Regulatory for Asante Solutions in Sunnyvale, CA, where she implemented a quality system, and secured a CE Mark and 510(k) marketing clearance in the US under new FDA regulations.

Prior to Asante, Ms Nouri was Vice President of Quality and Regulatory at Health Hero Network and Radiant Medical.

Ms Nouri has a wealth of experience in implantable devices, drug delivery systems, and cardiovascular products in companies such as Aradigm, Ventritex (later St Jude) and Siemens Medical Systems.

Ms Nouri holds a Master of Science and a Bachelor of Science in Electrical Engineering from Rutgers University.

Each Key Manager has confirmed that they anticipate being available to perform their respective roles without constraint from other commitments.

6.3 Disclosures

No Director or Key Manager has been the subject of (or was a director of a company that has been subject to) any legal or disciplinary action in Australia or elsewhere in the last ten years which is relevant to the performance of their role with AirXpanders or which is relevant to an investor's decision as to whether to subscribe for CDIs under the Public Offer.

Except as disclosed below, no Director or Key Manager has been an officer of a company that has entered into any form of external administration as a result of insolvency during the time that they were an officer or within a 12 month period after they ceased to be an officer:

- Ms Smith was previously a director of Cortical Pty Ltd, a private seed-stage small molecule development company, when the company was placed into voluntary administration in 2008. The administrator was appointed for the purposes of agreeing an appropriate finance package with the company's shareholders. The company left administration when it was refinanced by GBS Venture Partners and continued operating until 2013 when it was deregistered.
- Mr Condon was previously the CEO of The Plastic Surgery Company when it was subject to a Chapter 7 filing for bankruptcy in 2002. The assets of the company were subsequently sold and all claims by creditors were settled or paid.
- Dr Cha was a director of Medley Health, a California-based healthcare services venture, when it was placed into liquidation in 2012. The board of Medley Heath made the decision to liquidate the company as the business model was not scalable. Arrangements were made to pay all unsecured creditors with its remaining cash and all claims being settled or paid.

6.4 Medical Advisers

The Medical Advisers to AirXpanders are set out below.

Name	Position and affiliations	Role as Medical Adviser	Fees
Dr Daniel Jacobs, MD	Co-Founder of Company, Chief, General, Vascular, and Plastic Surgery at Kaiser Permanente, San Jose, California US	Consulting Chief Medical Officer, Data Safety Monitoring Committee Member	US$5,000 per month
Dr Anthony Connell, FRACS, BSc	Mount Breast Clinic, The Mount Hospital, Perth Australia	Data Safety Monitoring Committee Member, Australian Principal Investigator	Not applicable
Dr Jeffrey Ascherman, FACS, MD	Chief of Plastic Surgery at Columbia University Medical Center, New York, New York US	US Principal Investigator, Data Safety Monitoring Committee Member	US$1,500 honorarium for each Company-related presentation at a conference, plus travel and expenses per Company guidelines
Dr Kamakshi R Zeidler, MD, FACS	Aesthetic & Reconstructive Plastic Surgeon	Site Principal Investigator	US$1,500 honorarium for each Company-related presentation at a conference, plus travel and expenses per Company guidelines
Dr Vernon Leroy Young, FACS, MD	Principal Investigator at Mercy Health Research, Washington / St. Louis, Missouri US	Independent Chairman of Data Safety Monitoring Committee	US$500 per hour spent advising the Company, plus travel and expenses per Company guidelines
Dr James Rembert, MD	Practicing Radiation Oncologist at Alta Bates Summit Cancer Centre, Berkeley, California US	Consulting Radiation Oncologist	US$250 per hour spent advising the Company, plus travel and expenses per Company guidelines

The Data Safety Monitoring Committee (**DSMC**) meets quarterly via teleconference to give input and react to technical, clinical and data elements pertaining to the XPAND clinical trial. The DSMC meetings may include AirXpanders' CEO, Mr Dodson, and other key technical staff. For technical related issues, the Company consults with multiple surgeons, including those listed here.

6.5 Interests and benefits

(a) Overview

This Section sets out the nature and extent of the interests and fees of certain persons involved in the Offers and AirXpanders.

Other than as set out below or elsewhere in this Prospectus:

> no Director or proposed Director has been paid or agreed to be paid any amount, or has been given or agreed to be given any other benefit, either to induce him or her to become, or to qualify him or her as, a Director or otherwise for services rendered by him or her in connection with the formation or promotion of AirXpanders or the Offers; and

> none of the following persons:
  - a Director or proposed Director of AirXpanders;
  - each person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
  - a promoter of AirXpanders; or
  - an underwriter to any part of the Offers or financial services licensee named in this Prospectus as a financial services licensee involved in the any part of Offers,

holds or held at any time during the last two years an interest in:

- the formation or promotion of AirXpanders;
- property acquired or proposed to be acquired by AirXpanders in connection with its formation or promotion, or the Offers; or
- the Offers,

or was at any time paid or agreed to be paid any amount, or has been given or agreed to be given any other benefit, for services provided by such person in connection with the formation or promotion of AirXpanders, or the Offers.

(b) Executive Director – President and CEO

Mr Dodson entered into an offer letter with the Company on 28 September 2010 to serve as President and CEO of AirXpanders. Mr Dodson's offer letter provided for an annual salary of US$310,000, which has subsequently been increased to US$355,000. Certain other benefits are payable to Mr Dodson such as health insurance, and travel and other expenses under the Company's expense policy.

Mr Dodson also received an initial grant of incentive Options pursuant to the Company's 2005 Plan (described below) such that his interest in AirXpanders amounted to 5.5% of the Company's outstanding fully diluted capital as of his date of hire on 1 October 2010. The Options vested over a four-year period starting from his first date of employment, with the first 25% vesting on the one-year anniversary, and the balance vesting thereafter in equal monthly increments. Mr Dodson has subsequently received additional Option grants under the 2005 Plan. Details of Mr Dodson's holding of Options are set out in Section 6.5(d).

As is customary in the US, Mr Dodson's employment may be terminated at any time, with or without cause, with or without notice, at the option of either AirXpanders or Mr Dodson.

(c) Non-executive Directors' fees

Under the Bylaws, the Directors decide the total amount paid to all Directors as remuneration for their services as a Director of AirXpanders. However, under the Listing Rules, the total amount paid to all Directors (excluding the salary of any executive Director) for their services must not exceed in aggregate in any financial year the amount fixed by AirXpanders in a general meeting. This amount has been fixed at US$300,000.

None of the Company's Non-executive Directors currently receive compensation other than the Chairman of the Board, who currently receives US$8,000 per month. Following official quotation, the fees proposed to be paid by AirXpanders to its Non-executive Directors are as follows:

> US$8,000 per month to the Chairman of the Board; and

> a further US$5,000 per annum to the Chairman of each of the Audit and Risk Committee and the Nomination and Remuneration Committee.

No other fees are currently proposed to be paid to the Non-executive Directors. Directors may however be reimbursed for travel and other expenses incurred in attending to AirXpanders' affairs.

(d) Directors' interests in Shares and other securities

The table below sets out the interests of the Directors in the securities of AirXpanders as at the date of this Prospectus. The table assumes that the Restructuring has occurred.

	Shares[1]		Options[1,4]	
Director	Holding	Equivalent number of CDIs	Holding	Equivalent number of CDIs
B. Cheskin	140,177	420,531	343,704	1,031,112
S. Dodson	–	–	2,284,626	6,853,878
B. Smith[2]	14,272,556	42,817,668	–	–
A. Cha[3]	14,499,932	43,499,796	–	–
T. Shalon[5]	773,982	2,321,946	114,061	342,183
D. Condon	–	–	114,061	342,183

1 The number of Shares, Options and Warrants is calculated on the assumption that the Restructuring has occurred. The Directors may subscribe for additional CDIs or Shares under the Offers.

2 Shares are held by GBS Venture Partners in its capacity as trustee of the GBS Bioventures IV Trust. Ms Smith is a managing director of, and shareholder in, GBS Venture Partners and may be deemed to share voting and dispositive power over the Shares with other directors of GBS Venture Partners. Ms Smith disclaims beneficial ownership of such Shares, except to the extent of any pecuniary interest therein.

3 Consists of (i) 14,190,649 Shares held by Vivo Ventures Fund VII, LP and (ii) 309,283 Shares held by Vivo Ventures VII Affiliates Fund, LP. Vivo Ventures VII, LLC is the sole general partner of each of Vivo Ventures Fund VII, LP and Vivo Ventures VII Affiliates Fund LP. Dr Cha is one of three managing members of Vivo Ventures VII LLC and may be deemed to have shared voting and dispositive power over the Shares. Dr Cha disclaims beneficial ownership of such Shares, except to the extent of any pecuniary interest therein.

4 All Options were issued under the 2005 Plan.

5 Consists of (i) 60,000 Shares held directly by Mr Shalon and (ii) 713,982 Shares held amongst seven trusts established for the benefit of members of Mr Shalon's family.

The ASX has given AirXpanders 'in principle' advice that it will provide AirXpanders with a waiver from Listing Rule 10.18 to allow the accelerated vesting of Options granted to Mr Dodson and Mr Cheskin in certain circumstances. See Section 12.9 for more details.

In addition to the securityholdings listed above, Mr Cheskin purchased a Convertible Note in the Bridge Financing (see Section 11.3 for further details on the Bridge Financing). On the Allotment Date, Mr Cheskin's Convertible Note will automatically convert into approximately 3,789 Shares. Mr Cheskin has also committed US$4,221.43 to purchase approximately 3,703 Shares in the US Private Placement.

GBS Venture Partners as trustee for GBS Bioventures IV Trust, Vivo Ventures Fund VII, LP and Vivo Ventures VII Affiliates Fund LP also purchased Convertible Notes in the Bridge Financing and will invest the second tranche of the Bridge Financing in the Offers. Details of the securityholdings of these investors immediately prior to and following the Offers are set out in Section 11.2(d).

(e) Other interests of Directors

Ms Smith is a co-founder, managing director and shareholder of GBS Venture Partners. GBS Venture Partners as trustee for the GBS Bioventures IV Trust is a Shareholder in AirXpanders (see Section 11.2). Ms Smith has an equity interest of less than 1% in the GBS Bioventures IV Trust. As a result of this equity interest, Ms Smith is indirectly entitled to a carried interest from GBS Bioventures IV Trust arising from the performance of the investment in AirXpanders. Neither the outcome of the Offers or the listing of the Company on ASX will result in the crystallisation of this carried interest nor any other payment from the GBS Bioventures IV Trust.

Dr Cha is one of three managing members of Vivo Ventures VII, LLC (**Vivo VII LLC**). Vivo VII LLC is the sole general partner of each of Vivo Ventures Fund VII, L.P. (**Vivo VII LP**) and Vivo Ventures VII Affiliates Fund, L.P. (**Vivo VII Affiliates LP**) which are Shareholders of AirXpanders (see Section 11.2). Vivo VII LLC is entitled to a carried interest from Vivo VII LP and Vivo VII Affiliates LP arising from the performance of the investment in AirXpanders. Neither the outcome of the Offers or the listing of the Company on ASX will result in the crystallisation of any carried interest nor other payment from the funds to Vivo VII LLC.

Mr Shalon is the Chief Executive Officer and sole shareholder of Shalon Ventures. Shalon Ventures co-owns with the Company certain issued and pending patents and exclusively licenses other issued and pending patents to the Company under the Shalon Ventures Licence Agreement described in Section 12.5(a).

Mr Shalon and Mr Cheskin are each party to an agreement with Shalon Ventures, under which Shalon Ventures has agreed to pay Mr Shalon 58%, and Mr Cheskin 8%, of any royalties due to Shalon Ventures from AirXpanders under the Shalon Ventures Licence Agreement.

(f) Indemnification of Directors, officers and employees, and insurance

As permitted under Delaware law, AirXpanders indemnifies its officers and Directors and is permitted to indemnify employees for certain events or occurrences that happen by reason of their relationship with, or position held at, AirXpanders. AirXpanders' Certificate of Incorporation and Bylaws provide for the indemnification of its Directors, officers, employees and other agents to the maximum extent permitted by the Delaware General Corporation Law.

AirXpanders has entered into indemnification agreements with its Directors and officers to this effect, including advancement of expenses incurred in legal proceedings to which the Director or officer was, or is threatened to be made, a party by reason of the fact that such Director or officer is or was a Director, officer, employee or agent of AirXpanders, provided that such Director or officer acted in good faith and in a manner that the Director or officer reasonably believed to be in, or not opposed to, the Company's best interests. At present, there is no pending litigation or proceeding involving a Director or officer for which indemnification is sought, nor is the Company aware of any threatened litigation that may result in claims for indemnification.

AirXpanders maintains insurance policies that indemnify the Company's Directors and officers against various liabilities that might be incurred by any Director or officer in his or her capacity as such.

(g) Employment arrangements with other Key Managers

The table below sets out the annual salary of the Key Managers, other than Mr Dodson. (See Section 6.5(b) for details on Mr Dodson's employment arrangement with AirXpanders and salary.)

Key Manager	Annual salary
F. Payne	US$161,200
K. Kelley	US$154,000
T. Morefield	US$185,500
J. Lai	US$153,700
N. Nouri	US$208,000

In addition to the above annual salaries, each of the above Key Managers received an initial grant of Options and subsequent grants of Options, and is eligible to receive further grants of securities under the 2015 Plan. Certain other benefits may also be afforded to Key Managers such as health insurance and membership of professional associations. Key Managers may also be reimbursed for travel and other expenses incurred in attending to AirXpanders' affairs.

Each Key Manager's employment may be terminated at any time, with or without cause, with or without notice, at the option of either AirXpanders or the Key Manager.

(h) Interests of advisers

The Company has engaged the following professional advisers in relation to the Offers:

- Canaccord Genuity (Australia) Limited has acted as the Lead Manager and the underwriter to the Public Offer, and will receive the fees under the Underwriting Agreement described in Section 12.4, plus a retainer fee of A$20,000 per month from 15 December 2014 until the Allotment Date (excluding GST).
- Johnson Winter & Slattery has acted as Australian legal adviser to the Company in connection with the Offers. The Company has paid or agreed to pay A$363,000 (excluding GST and disbursements) for these services up to the date of this Prospectus. Further amounts may be paid to Johnson Winter & Slattery in accordance with its normal time-based charges.

- Cooley LLP has acted as US legal adviser to the Company in connection with the Offer. The Company has paid or agreed to pay US$450,000 (excluding disbursements) for these services up to the date of this Prospectus. Further amounts may be paid to Cooley LLP in accordance with its normal time-based charges.
- Grant Thornton Corporate Finance Pty Ltd has acted as the investigating accountant on the Historical Financial Information and has prepared the Independent Limited Assurance Report in Section 8 of this Prospectus. The Company has paid or agreed to pay A$100,000 (excluding GST and disbursements) for these services up to the date of this Prospectus. Further amounts may be paid to Grant Thornton Corporate Finance Pty Ltd in accordance with its normal time-based charges.
- ShayGlenn LLP has acted as the patent attorney to the Company in connection with the Public Offer and has prepared the report in Section 9 of this Prospectus. The Company has paid or agreed to pay for these services in accordance with ShayGlenn LLP's normal time-based charges. Costs are estimated to total approximately US$7,000 for these services.

6.6 Incentive Plans

(a) 2015 Equity Incentive Plan

AirXpanders has adopted the 2015 Equity Incentive Plan (**2015 Plan**) which is intended to serve as the successor equity incentive plan to the Company's 2005 Equity Incentive Plan (see Section 6.6(c) below). The 2015 Plan has a ten year term. AirXpanders also intends to adopt a sub-plan to the 2015 Plan that will apply to awards of stock options granted to participants who are resident in Australia. The sub-plan for Australian participants will be deemed to be part of the 2015 Plan. As at the date of this Prospectus, no Options or other securities are outstanding under the 2015 Plan.

Under the 2015 Plan, the Company may grant incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance stock awards, performance cash awards and other stock-based awards (together the **Awards**). The maximum Share reserve (**Share Reserve**) is equal to 1,500,000 Shares plus Shares that are represented by incentives which have previously been granted under the Company's 2005 Plan which are forfeited, expire or cancelled without delivery of Shares or that result in the forfeiture of Shares back to the Company on or after the date that the 2015 Plan becomes effective.

In addition, the 2015 Plan contains an 'evergreen' provision, which allows for an annual increase on 1 January of each year in the Share Reserve commencing on (and including) 1 January 2016 to (and including) 1 January 2025. The annual increase in the Share Reserve will be equal to 2% of the number of Shares outstanding as of 31 December of the preceding calendar year. However, prior to 1 January of each year, the Board may decide that there will be no increase in the Share Reserve for such year, or that the increase will be smaller than it would otherwise be pursuant to the standard formulation. The annual increase will no longer have effect once the Share Reserve reaches 10% of the fully diluted capital stock less shares issuable upon exercise of Awards.

The 2015 Plan is administered by the Board. In accordance with the provisions of the 2015 Plan, the Board will determine the terms of Options and other Awards which are granted under the 2015 Plan, including:

- which employees, Directors and consultants will be granted Awards under the 2015 Plan;
- when and how the Awards would be granted;
- the type of Award that would be granted;
- the provisions of each Award, including when a participant is permitted to exercise or otherwise receive cash or Shares under the Award;
- the number of Shares subject to an Award, or the cash value of such Award;
- the exercise price of each Award, which will generally not be less than fair market value of the Shares on the date the Award is granted; and
- the fair market value application to an Award.

Subject to the Listing Rules, the Board or any committee to which the Board delegates authority may, with the consent of the affected participant, amend the terms of outstanding Awards consistent with the terms of the 2015 Plan.

At such time as the Company may be subject to Section 162(m) of the *Internal Revenue Code* of 1986 (US), no participant may receive stock-based awards (**Stock Awards**) for more than 2 million Shares during any calendar year pursuant to stock options, stock appreciation rights and other Stock Awards whose value is determined by reference to an increase over an exercise price of at least 100% of the fair market value of AirXpanders' stock on the grant date. In addition, no participant may receive a performance stock award for more than 2 million shares or a performance cash award of more than US$2 million in any calendar year.

Upon a merger, consolidation, sale of all or substantially all of the Company's assets, or sale of at least 90% of the Company's securities, the Board may take any one or more of the following actions pursuant to the 2015 Plan, as to some or all outstanding Stock Awards, subject to compliance with all relevant legal requirements:

> provide that outstanding Stock Awards will be assumed by or substituted for similar stock awards of the successor corporation;

> assign any reacquisition or repurchase rights held by the Company to the successor corporation or arrange for the lapse of such rights;

> accelerate the vesting of Stock Awards to a date prior to the effective date of such transaction, with such Stock Awards terminating if not exercised; or

> cancel Stock Awards to the extent not vested or exercised prior to the effective date of the transaction, in exchange for cash consideration (if any) or other payment that the Board may in its sole discretion consider appropriate.

The Board is not obligated to treat all Stock Awards or portions of Stock Awards, even those of the same type, in the same manner.

(b) Future Awards

Options and other incentives will be an important component of any compensation arrangements with new personnel, as well as an ongoing incentive for the Company's existing staff. Accordingly, the Company believes that it will issue new Options or other incentives following its admission to the ASX as and when new personnel are recruited. Any issuance of Awards to new or existing staff and contractors following the Company's admission to the ASX will be under the terms and conditions of the 2015 Plan and will be within the permitted Share Reserve. To the extent that the Listing Rules require Shareholder approval for an issuance under the 2015 Plan (e.g. for an issuance to a new Director), such approval will be sought before the issuance is agreed or made by the Company.

(c) 2005 Equity Incentive Plan

AirXpanders' 2005 Equity Incentive Plan (**2005 Plan**) was adopted initially by the Board and approved by Shareholders in March 2005. The 2005 Plan was amended on 11 January 2012 and on 30 May 2013 to increase the number of options and stock purchase rights available for grant under the 2005 Plan in accordance with member approval. The purpose of the 2005 Plan was to provide incentive to the Company's employees, officers, Directors and consultants in the form of Options and stock purchase rights (together, the **Stock Incentives**). The 2005 Plan is administered by the Board.

The 2005 Plan is the predecessor to the 2015 Plan. It expired by its terms on 16 March 2015. Following this date, no additional Stock Incentives were (or can be) awarded under the 2005 Plan, but Awards previously granted under the 2005 Plan continue to be governed by the terms of the 2005 Plan. As at the date of this Prospectus (and assuming that the Restructuring has occurred), there are 4,099,835 Options currently issued and outstanding under the 2005 Plan. Shares underlying Options granted under the 2005 Plan that are forfeited, expire or cancelled without delivery of Shares, or that result in the forfeiture of Shares back to the Company on or after the date that the 2015 Plan becomes effective, will form the Share Reserve of the 2015 Plan.

If the Board determines that any dividend or other distribution, recapitalisation, stock split, reverse stock split, reorganisation, merger, sale or other disposition of all or substantially all of the Company's assets, or other similar corporate transaction or event, affects the common stock such that an adjustment is determined by the Board to be appropriate to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the 2005 Plan or with respect to any Stock Incentive, the Board may take any one or more of the following actions with respect to outstanding Stock Incentives, subject to compliance with all relevant legal requirements:

> adjust the number and kind of Shares subject to outstanding Stock Incentives;

> adjust the grant or exercise price of any Stock Incentives;

> provide for the purchase or replacement of the Stock Incentives for cash or other rights or property selected at the Board's discretion;

> provide that all Stock Incentives will be immediately exercisable;

> provide that all outstanding Stock Incentives will be assumed by or substituted for similar incentives of the successor or survivor corporation; or

> provide for the termination of all Stock Incentives upon consummation of the relevant transaction, provided the holders are given the right to exercise such incentives for a 30-day specified period preceding the effective date of such transaction.

If the Company undergoes an acquisition (as defined in the 2005 Plan), then any surviving or acquiring entity or corporation may assume outstanding Stock Incentives or may substitute similar stock awards for those outstanding Stock Incentives. In the event that Stock Incentives are not so assumed or substituted, then with respect to (i) Stock Incentives held by participants whose service has not terminated prior to such event, the vesting of such Stock Incentives will be accelerated and made fully exercisable and all restrictions on such Stock Incentives will lapse at least ten (10) days prior to the closing of the acquisition (and will terminate if not exercised prior to such closing); and (ii) any other outstanding Stock Incentives will be terminated if not exercised prior to the closing of the acquisition.

6.7 Corporate governance

This Section explains how the Board will manage AirXpanders' business.

The Board oversees the Company's business and is responsible for the overall corporate governance of AirXpanders. It monitors the operational, financial position and performance of AirXpanders and oversees its business strategy including approving the strategy and performance objectives of the Company.

The Board is committed to maximising performance and generating value and financial returns for Shareholders. To further these objectives, the Board has created a framework for managing AirXpanders, including by adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for the business and which are designed to promote the responsible management and conduct of AirXpanders.

The main policies and practices adopted by the Company, which will take effect from listing on the ASX, are summarised below. There are also important governance requirements set out in the Bylaws of the Company (see Section 11.6 for further details).

(a) Board Charter

The functions and the responsibilities of the Board are set out in AirXpanders' Board Charter. The Board Charter establishes the functions reserved to the Board and those delegated to the Key Managers. Additionally, the Board Charter outlines certain characteristics of the Board including the ideal size and composition of the Board.

A copy of the AirXpanders Board Charter will be made available on its website at www.airxpanders.com. The Company will send you a free paper copy of the Board Charter should you request a copy during the Offer Period.

(b) Board committees

The Board has established two standing committees to facilitate and assist the Board in fulfilling its responsibilities as set out below. The Board may also establish other committees from time to time to assist in the discharge of its responsibilities.

Committee	Overview	Members
Audit and Risk	The Audit and Risk Committee will oversee AirXpanders' financial reporting process on behalf of the Board and will make recommendations to the Board on the appointment, compensation and retention of external auditors. The Audit and Risk Committee will also oversee the establishment, methodology and implementation of AirXpanders' risk management system and its resourcing.	Mr Dennis Condon (Chairman) Dr Albert Cha Mr Teddy Shalon
Nomination and Remuneration	The Nomination and Remuneration Committee will: > establish processes for the identification of suitable candidates for appointment to the Board; > establish processes for reviewing the performance of individual Directors, the Board as a whole, and Board committees; > determine the executive remuneration policy and the Non-executive Director remuneration policy; and > review all equity based incentive plans.	Mr Barry Cheskin (Chairman) Ms Brigitte Smith Mr Dennis Condon

Each of these committees has the responsibilities described in the committee charters which have been prepared having regard to the Listing Rules, the ASX Corporate Governance Principles.

(c) Policies

The Board has also approved the following policies to apply upon AirXpanders' listing on ASX, each of which has been prepared having regard to the Listing Rules, the ASX Corporate Governance Principles.

> Code of Conduct

This policy sets out AirXpanders' key values and the standards of ethical behaviour that AirXpanders expects from its Directors, Key Managers and employees.

> Securities trading policy

This policy is sets out AirXpanders' internal controls and procedures in relation to dealings in AirXpanders securities by Directors, Key Managers and employees, and provides guidance on insider trading laws.

> Continuous disclosure policy

Once AirXpanders is listed on the ASX, it will have an obligation to keep the ASX fully informed of non-public information which a reasonable person would expect to have a material effect on the price or value of the CDIs. Accordingly, this policy sets out the procedures and measures designed to ensure the Company's compliance with its continuous disclosure requirements. This policy also sets out AirXpanders' practices for ensuring effective communication with its CDI Holders and Shareholders and to encourage securityholder participation at general meetings.

> Risk management policy

This policy is designed to assist AirXpanders to identify, assess, monitor and manage its risks, along with identifying material changes to its risk profile.

> Diversity policy

This policy aims to promote and achieve diversity amongst AirXpanders' employees. The policy, among other things, establishes diversity reporting procedures.

The Company will send you a free paper copy of any of the above policies should you request a copy during the Offer Period. These documents will also be made available on the Company website.

6.8 ASX Corporate Governance Principles

AirXpanders is seeking a listing on the ASX. The ASX Corporate Governance Council has developed and released corporate governance principles and recommendations for ASX listed entities in order to promote investor confidence and to assist companies to meet stakeholder expectations. The recommendations are not prescriptive, but are guidelines. However, under the Listing Rules, AirXpanders will be required to provide a statement in its annual report disclosing the extent to which it has followed the recommendations in the reporting period. Where it has not followed a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it. The Board anticipates that it will follow all of the recommendations of the ASX Corporate Governance Council, except as follows:

> The majority of the Board are not independent Directors and the Chairman is not an independent Director as required by Recommendations 2.4 and 2.5, respectively. As noted in Section 6.1(b), the Board may, following admission to the ASX, consider appointing a further independent Director. Otherwise the Board, having regard to the Company's stage of development and the collective experience and expertise of the Directors, considers the current composition of the Board is appropriate.

> The majority of the Directors on the Audit and Risk Committee and the Nomination and Remuneration Committee are not independent Directors as required by Recommendations 4.1 (audit), 7.1 (risk), 2.1 (nomination) and 8.1 (remuneration). In addition, the Remuneration and Nomination Committee is not chaired by an independent Director as required by Recommendations 2.1 (nomination) and 8.1 (remuneration). The Company is presently unable to comply with all of the recommendations of the ASX Corporate Governance Council regarding the composition of these board committees given that only one Director is considered to be independent. The Board may reconsider the composition of its board committees in the future if an additional independent Director is appointed.

> Owing to the Company's stage of development and number of employees, the Company may face particular issues in relation to setting, reviewing, assessing and reporting on certain diversity measures. Consequently, the Company will not comply with Recommendation 1.5 (diversity) in full.

> The Company does not currently have written agreements with the Non-executive Directors except for a retainer letter with Barry Cheskin relating to his compensation as Chairman of the Board. Accordingly, the Company will not fully comply with Recommendation 1.3. The Company currently considers that there is sufficient certainty as to the terms of the Non-executive Directors' appointments that written agreements are not necessary at this stage.

6.9 Continuous disclosure

Once listed on the ASX, AirXpanders will be required to comply with the continuous disclosure requirements of the Listing Rules and the Corporations Act. Subject to the exceptions contained in the Listing Rules, it will be required to disclose to the ASX any information concerning AirXpanders which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the CDIs. AirXpanders is committed to observing its disclosure obligations under the Listing Rules and the Corporations Act. Accordingly, as described above at Section 6.7(c), the Company has adopted a continuous disclosure policy to take effect from listing on the ASX which establishes procedures which are aimed at ensuring that Directors and Key Managers are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information.

The Company's continuous disclosure announcements will be available on its website in addition to the announcements section of ASX's website.

7. Details of the Offers

7. Details of the Offers

7.1 The Public Offer

The Public Offer is the offer of 73,027,989 CDIs, each representing an interest in a third of a Share.

The Offer Price is A$0.50 per CDI, which equates to A$1.50 per Share. The Company expects the gross proceeds of the Public Offer to be A$36.51 million (approximately US$27.75 million).

The Public Offer comprises:

> the Broker Firm Offer, which is open to Retail Investors in Australia who have received a firm allocation from their broker;

> the General Public Offer, which is open to Retail Investors in Australia; and

> the Institutional Offer, which consists of an invitation to certain Institutional Investors in Australia, Hong Kong, Singapore, the United Kingdom and certain other overseas jurisdictions.

The Public Offer is fully underwritten by the Lead Manager.

7.2 US Private Placement

AirXpanders is also conducting a concurrent private placement of Shares to certain accredited investors in the US pursuant to Regulation D of the US Securities Act (**US Private Placement**). No CDIs or Shares are being issued to investors in the US under the Public Offer and AirXpanders is not making a public offer of its securities in the US.

The US Private Placement will be at the equivalent price per Share as the Offer Price (but in US dollars at the prevailing A$:US$ exchange rate at the time of the investment). The Company expects the gross proceeds of the US Private Placement to be approximately US$1.95 million (approximately A$2.56 million).

Certain staff have expressed an interest in participating in the US Private Placement. If they do, the size of the US Private Placement will increase and the size of the Public Offer will be unaffected. The Company expects that the increase would be up to approximately US$14,000 (for approximately 12,280 Shares (equivalent to 36,840 CDIs), assuming the Indicative Exchange Rate applies).

The Public Offer and the US Private Placement are together referred to in this Prospectus as the **Offers**.

7.3 Commitment by certain Existing Holders

Certain of AirXpanders' Existing Holders in the US, including Vivo Ventures Fund VII, L.P., Vivo Ventures VII Affiliates Fund, L.P. and Prolog Capital II, L.P., will subscribe for approximately US$1.95 million under the US Private Placement. GBS Venture Partners will subscribe for approximately US$1.05 million under the Institutional Offer. The total US$3 million commitment constitutes the second tranche of the Bridge Financing.

7.4 Effect of the Offers

(a) Use of proceeds

AirXpanders expects to receive approximately US$29.7 million (approximately A$39.1 million) of gross proceeds from the Offers.

The table below sets out the proposed use of the proceeds from the Offers. The expected use of proceeds represents AirXpanders' current intentions based upon AirXpanders' present plans and business conditions. The amounts and timing of the actual expenditures may vary significantly and will depend on numerous factors, including the timing and success of AirXpanders' commercialisation activities and revenue from sales.

	Subscription		
Use of proceeds	US$'000	A$'000	% of total
Sales and marketing costs	5,924	7,795	20%
Establishing commercial-scale manufacturing capability	5,311	6,988	18%
General and administration	5,270	6,933	18%
Repayment of GE line of credit (see Section 12.5(b))	3,250	4,276	11%
Clinical trials	1,987	2,615	7%
Research and development	1,582	2,082	5%
Other working capital[1]	3,576	4,705	12%
Cost of the Offers	2,800	3,685	9%
Total	**29,700**	**39,079**	**100%**

1 If the Company's staff participate in the US Private Placement (see Section 7.2), the Company proposes to treat the additional proceeds as 'other working capital'.

As at 31 December 2014, the Company had approximately US$1.65 million of cash reserves (see Section 5.4).

Following completion of the Offers, the Company will have a total pro forma cash balance as at 31 December 2014 of approximately US$31.6 million (having applied the pro forma adjustments described in Section 5.4(b)); however owing to the Company's other actual and planned expenditure since 31 December 2014, its cash balance after completion of the Offers will be lower than this figure. The Directors believe that the Company's current cash reserves plus the net proceeds of the Offers will be sufficient to fund the Company's key objectives of regulatory clearance in the US and a presence in Australia and the US until at least December 2017, even if there are no sales of AeroForm® during that period.

Assuming FDA clearance for AeroForm® is obtained broadly in accordance with the Company's targeted timing, any expansion of AeroForm® into markets beyond Australia and the US, or developing products other than AeroForm® and bringing them to market, will be funded out of operating cashflows or future capital raisings, rather than the proceeds of the Offers. Any future capital requirements beyond Australian and initial US commercialisation of AeroForm® will depend on a number of factors, including the quantum of revenue that may be generated following these planned market launches.

In relation to the proposed use of proceeds described above, it should be recognised that there may be differences between estimated and actual costs, because events and circumstances frequently do not occur as expected and those differences may be material. In this regard, you should read carefully and consider the risk factors set out in Section 4 of this Prospectus.

(b) Pro forma balance sheet

AirXpanders' pro forma balance sheet following completion of the Offers and details of the pro forma adjustments are set out in Section 5.4.

(c) Capital and ownership structure

AirXpanders' indicative capital and ownership structures and the interests of Existing Holders in AirXpanders before and immediately following completion of the Offers, is set out in Section 11.2.

Information on the number of securities to be held on completion of the Offers that will be subject to escrow arrangements, and details of those escrow arrangements, is set out in Section 7.10 and the Appendix to this Prospectus.

7.5 Terms and conditions

What type of security is being offered?	The securities being offered under the Public Offer are CDIs. Each CDI represents a third of a Share. The CDIs will be newly issued. **What are CDIs?** The ASX uses an electronic system, called CHESS, for the clearance and settlement of trades on the ASX. AirXpanders is incorporated in the state of Delaware in the US, which does not recognise the CHESS system of holding securities or electronic transfers of legal title to Shares. To enable companies such as AirXpanders to have their securities cleared and settled electronically through CHESS, depositary instruments called CDIs are issued. CDIs are units of beneficial ownership in Shares and are traded in a manner similar to shares of Australian companies listed on the ASX. **What is the principal difference between holding CDIs and holding Shares?** The principal difference between holding CDIs and holding the underlying Shares is that the CDI Holder will hold a beneficial interest in Shares, but not the legal title. The legal title to the Shares will instead be held by a depositary, CDN, which is a wholly-owned subsidiary of the ASX. CDN is an approved general participant of ASX Settlement. The Shares underlying the CDIs will be registered in the name of CDN and will be held on behalf of and for the benefit of the CDI Holder. CDIs will be CHESS-approved from the date of official quotation in accordance with the Listing Rules and the ASX Settlement Operating Rules. **What are the rights attaching to CDIs and Shares?** A summary of the rights and specific features attaching to CDIs is in Section 11.5, and a summary of the rights attaching to Shares is in Section 11.6.
What consideration is payable for each CDI?	A$0.50 per CDI.
What is the Offer Period?	The key dates of the Public Offer are set out in Section 1. This Prospectus is dated 11 May 2015. The Corporations Act prohibits the Company from processing Applications in the seven day period after the date of lodgement of this Prospectus with ASIC. This period may be extended by ASIC for a further period of up to seven days. It is expected that the Broker Firm Offer and General Public Offer will open on 25 May 2015 and close on 9 June 2015. No CDIs will be allotted or issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.
Are there any minimum or maximum amounts for which I may subscribe?	Yes. If you apply for CDIs under the Broker Firm Offer and General Public Offer, you must apply for a minimum of 4,000 CDIs for a total subscription price of A$2,000. You can apply for additional CDIs in multiples of 1,000 CDIs for an additional A$500 for each multiple. There is no maximum amount that may be applied for under the Public Offer. Depending on how many investors apply for CDIs, you may not be issued all or any of the CDIs you apply for.
What is the allocation policy?	The Lead Manager, after consultation with the Company, has discretion regarding the allocation of Shares under the Public Offer, subject to any firm allocation for the Broker Firm Offer.

Will the CDIs be listed?	The Company will apply, within seven days after the date of this Prospectus, to be admitted to the Official List of the ASX and for the CDIs to be granted official quotation on the ASX under the ticker 'AXP'. Details are provided in Section 7.12.
Is the Public Offer underwritten?	Yes. Details are provided in Sections 7.9 and 12.4.
Are there any escrow arrangements?	Yes. Details are provided in Section 7.10.
Have any ASX waivers been obtained or relied on?	Yes. Details are provided in Section 12.9.
Are there any significant taxation implications?	Refer to Section 10.

7.6 How to apply for CDIs under the Public Offer

Who is eligible to participate in the Public Offer?

Who can apply for CDIs under the Broker Firm Offer?

The Broker Firm Offer is only open to Australian resident Retail Investors who have received a firm allocation from their broker.

Who can apply for CDIs under the General Public Offer?

The General Public Offer (which does not include the Broker Firm Offer) is only open to Retail Investors resident in Australia. The Company, in consultation with the Lead Manager, reserves the right in its absolute discretion to issue no CDIs to Applicants under the General Public Offer. All Applicants under the General Public Offer must have an eligible address in Australia.

Who can apply for CDIs under the Institutional Offer?

The Institutional Offer is only open to certain Institutional Investors and is being managed by the Lead Manager. The Lead Manager will separately advise Institutional Investors of the application procedures for the Institutional Offer.

US Persons

No US Persons may apply for CDIs under the Public Offer. No person may apply for CDIs under the Public Offer for the account or benefit of any US Person.

Completing and returning your Application

How do I apply under the Broker Firm Offer?

If you are a Retail Investor applying under the Broker Firm Offer, you should complete and lodge your Application Form with the relevant Application Monies, with the broker from whom you received your firm allocation.

Application Forms for the Broker Firm Offer must be completed in accordance with the instructions given to you by your broker and the instructions set out on the reverse of the Application Form.

How do I apply under the General Public Offer?

If you are a Retail Investor applying under the General Public Offer, you may apply for CDIs by mailing your completed paper Application Form with your Application Monies (using a cheque or money order denominated in Australian dollars) in accordance with the instructions set out on the Application Form.

What is the minimum and maximum application size?

If you apply for CDIs under the Broker Firm Offer or General Public Offer, you must apply for a minimum of 4,000 CDIs for a total subscription price of A$2,000 and in multiples of 500 CDIs thereafter for an additional A$500 for each multiple. There is no maximum amount that may be applied for. Depending on how many investors apply for CDIs, you may not be issued all or any of the CDIs you apply for.

Are there any brokerage, commission or stamp duty considerations?

No brokerage, commission or stamp duty is payable by Applicants on the acquisition of CDIs under the Public Offer. See Section 12.4 for details of various fees payable by the Company to the Lead Manager and fees payable by the Lead Manager to certain brokers.

Timing for Applications

What is the deadline to submit an Application?

The Broker Firm Offer and General Public Offer are expected to close at 5.00pm (Sydney time) on 9 June 2015, however Applicants under the Broker Firm Offer should return their Applications and Application Monies in accordance with the directions and deadlines set out by your broker.

In addition, AirXpanders and the Lead Manager may elect to close the Public Offer or any part of it early, or extend the Public Offer or any part of it. You are therefore encouraged to submit your Application as soon as possible.

AirXpanders, the Lead Manager and the Registry take no responsibility for any acts or omissions committed by your broker in connection with your Application.

Is Delivery versus Payment (DvP) Settlement available under the Public Offer?

DvP Settlement is available for Applicants under both the Broker Firm Offer and Institutional Offer. Please contact your broker or the Lead Manager for further details.

7.7 Acceptance of Applications

Once you have submitted a completed Application Form, it will, to the extent permitted by law, constitute an irrevocable offer to acquire CDIs on the terms set out in this Prospectus (including any supplementary or replacement prospectus) and the Application Form.

The Company, in consultation with the Lead Manager, reserves the right to:

- reject any Application, including but not limited to Applications that have been incorrectly completed, or are accompanied by payments that are dishonoured;
- reject or aggregate Applications which appear to be multiple Applications by the same party;
- accept late Applications either generally or in particular cases; and
- issue to any Applicant fewer CDIs than applied for by the Applicant.

Except where section 724 of the Corporations Act (relating to defective prospectuses) applies, an Application is an irrevocable offer which cannot be withdrawn.

7.8 Application Monies

You should ensure that sufficient funds are held in the relevant account(s) to cover your payment of Application Monies.

If the amount of your payment is insufficient to pay for the number of CDIs you have applied for in your Application Form in full, you may be taken to have applied for such lower number of CDIs as your cleared Application Monies will pay for (and you will be taken to have specified that number of CDIs and lower amount on your Application Form). Alternatively, your Application may be rejected.

Pending the allocation of CDIs under the Public Offer, all Application Monies will be deposited into a separate bank account (opened only for this purpose) to be held in trust by the Company for so long as the money is liable to be repaid under the Corporations Act. After the CDIs are allotted, the Application Monies (including any interest on account) will be paid to AirXpanders.

Where the number of CDIs issued to an Applicant is less than the number of CDIs applied for, the surplus Application Monies will be returned to the Applicant as soon as practicable after the close of the Public Offer. Amounts of A$2.00 or less will be retained by AirXpanders. No interest will be paid on refunded amounts. Any interest earned on the Application Monies will be retained by AirXpanders.

7.9 Underwriting Agreement

AirXpanders has entered into the Underwriting Agreement with the Lead Manager dated on or about the date of this Prospectus, under which the Lead Manager has agreed to fully underwrite the Public Offer, subject to certain conditions and termination events. The Underwriting Agreement sets out a number of circumstances under which the Lead Manager may terminate the agreement and the underwriting obligations.

The key terms of the Underwriting Agreement, including the termination provisions and the fees payable under it, are summarised in Section 12.4.

7.10 Escrow arrangements

Certain Directors and Existing Holders will be subject to mandatory escrow arrangements under the Listing Rules. In addition, the Lead Manager has also required that certain Directors and Existing Holders agree to enter into voluntary escrow arrangements under which they will be restricted from dealing in 75% of the Shares, CDIs, Options and Warrants that they hold at listing (but excluding securities acquired in the Offers) for a period of 12 months from the date of quotation of CDIs on the ASX (except to the extent that the mandatory escrow is more onerous), and the remaining 25% of those securities for a period of 24 months from the date of quotation.

The table in the Appendix to this Prospectus sets out the periods during which the Directors and certain Existing Holders will be restricted from dealing in their Shares, CDIs, Options and Warrants (as applicable).

The voluntary escrow arrangements will be entered into on materially similar terms as under the mandatory escrow. Subject to the Listing Rules, and in the case of the mandatory escrow, the ASX's consent, the escrow arrangements do not preclude an escrowed securityholder from transferring their securities in certain circumstances, including:

- pursuant to certain takeover transactions; or
- for the voluntary escrow arrangements, certain other transactions including: transfers as a gift; pursuant to a will; to certain trusts or (if the Shareholder is a company or partnership) as a distribution to shareholders or partners, provided that the transferee agrees to be subject to the escrow restrictions; or pursuant to a court order.

7.11 Discretion to withdraw the Public Offer

The Company reserves the right not to proceed with the Public Offer at any time before the issue and allotment of CDIs under the Public Offer. If the Public Offer does not proceed, Application Monies received by the Company will be refunded in full (without interest).

7.12 Application for admission to the ASX and quotation of CDIs

The Company intends to apply, within seven days after the date of this Prospectus, to be admitted to the Official List of the ASX and for the CDIs to be granted official quotation on the ASX. If the Company is not admitted to the Official List and the CDIs are not granted official quotation within three months of the date of this Prospectus (or any later date permitted by law), all Application Monies will be refunded to Applicants (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.

The fact that the ASX may agree to grant official quotation of the CDIs is not to be taken in any way as an indication of the merits of AirXpanders or the CDIs offered. The ASX takes no responsibility for the contents of this Prospectus or the investment to which it relates. Quotation, if granted, will commence as soon as practicable after the issue of holding statements to Successful Applicants.

The Shares will not trade on any securities exchange upon completion of the Offers.

7.13 Holding statements and commencement of trading

As soon as practicable after the Allotment Date, holding statements will be sent to Successful Applicants by standard post. The Company expects to dispatch holding statements on 17 June 2015.

CDIs are expected to commence trading on a normal settlement basis on or about 22 June 2015.

It is your responsibility to confirm the number of CDIs allotted to you prior to trading in the CDIs. If you sell CDIs before receiving a holding statement, you do so at your own risk. The Company, the Lead Manager and the Registry disclaim all liability if you sell CDIs before receiving your holding statement, even if you confirmed your firm allocation through your broker.

You will not be permitted to sell CDIs into the US or to US Persons for a period of 12 months from the date of allotment of the CDIs under the Public Offer, unless the resale of the CDIs is registered under the US Securities Act or an exemption is available.

7.14 Foreign selling restrictions

Please refer to Section 12.1 for foreign selling restrictions.

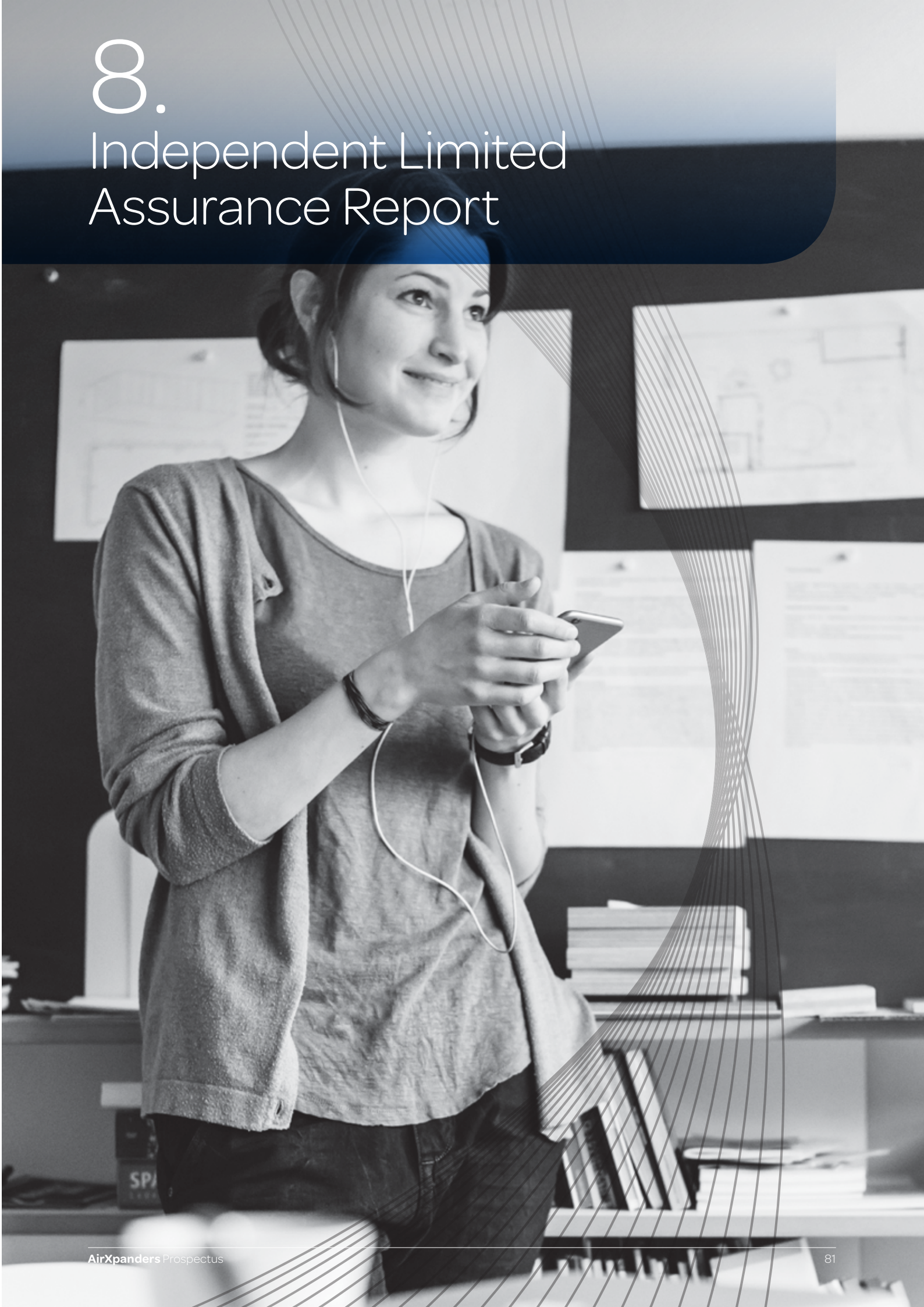
7.15 Enquiries

This Prospectus is available to Australian residents in electronic form at www.airxpandersipo.com.

You can call the Offer Information Line on:
Within Australia: 1300 634 423
Outside Australia: +61 3 9415 4624
Hours of operation: 8.30am to 5.00pm (Sydney time), Monday to Friday during the Offer Period.

If you do not understand any matter or are uncertain as to whether AirXpanders is a suitable investment for you, you should seek professional advice from your stockbroker, solicitor, accountant or other independent professional adviser.

8. Independent Limited Assurance Report



8. Independent Limited Assurance Report

Grant Thornton
An instinct for growth™

Board of Directors
AirXpanders Inc.
1047 Elwell Court
Palo Alto
CA 94303
United States of America

11 May 2015

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

Dear Directors,

INDEPENDENT LIMITED ASSURANCE REPORT ON THE HISTORICAL AND PRO FORMA FINANCIAL INFORMATION AND FINANCIAL SERVICES GUIDE

Introduction

We have been engaged by AirXpanders Inc. ("AirXpanders", or the "Company") to report on the historical and pro forma financial information of the Company for inclusion in the prospectus (the "Prospectus") to be dated on or about 11 May 2015, and to be issued by AirXpanders in respect of the Public Offer.

Expressions defined in the Prospectus have the same meaning in this report, unless otherwise specified.

Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton Corporate Finance") holds an Australian Financial Services Licence (AFS Licence Number 247140). This report is both an Independent Limited Assurance Report, the scope of which is set out below, and a Financial Services Guide, as attached at **Appendix A**.

Scope

You have requested Grant Thornton Corporate Finance to review the following Historical Financial Information of the Company included in the Prospectus:

Historical Financial Information

The Historical Financial Information, as set out in the Prospectus comprises:

- The historical statement of operations for FY2012, FY2013 and FY2014;
- The historical statement of cash flows for FY2012, FY2013 and FY2014;
- The historical balance sheet as at 31 December 2014; and

Grant Thornton Corporate Finance Pty Ltd ABN 59 003 265 987 ACN 003 265 987
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

Holder of Australian Financial Services Licence No. 247140

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

Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

- The pro forma balance sheet as at 31 December 2014. This assumes completion of the transactions outlined in **Section 5.4** of the "Financial Information" section (which include the Offer) (the "Pro Forma Transactions") as though they had occurred on that date.

(Hereafter the "Historical Financial Information").

The Historical Financial Information other than the Pro Forma Transactions and the results of the associated adjustments to the pro forma balance sheet has been extracted from the audited financial statements for FY2012, FY2013 and FY2014, which were audited by SingerLewak LLP who issued unqualified audit opinions in respect of these periods.

The stated basis of preparation is the recognition and measurements principles contained under USGAAP and AirXpanders's adopted accounting principles applied to the Historical Financial Information.

The Historical Financial Information is presented in an abbreviated form insofar as it does not include all of the presentation and disclosures required and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in Australia in accordance with the Corporations Act 2001.

This report has been prepared for inclusion in the Prospectus. Grant Thornton Corporate Finance disclaim any assumption of responsibility for any reliance on this report or on the Historical Financial Information to which this report relates for any purpose other than the purposes for which it was prepared. This report should be read in conjunction with the Prospectus.

Directors' Responsibility

The Directors of AirXpanders are responsible for the preparation and presentation of the Historical Financial Information. The Directors are also responsible for the determination of the Pro Forma Transactions and the basis of preparation of the Historical Financial Information.

This responsibility also includes compliance with applicable laws and regulations and for such internal controls as the directors determine necessary to enable the preparation of the Historical Financial Information that are free from material misstatement.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Historical Financial Information based on the procedures performed and evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagements *ASRE 2405: "Review of Historical Financial Information other than a Financial Report",* ASAE 3450: "*Assurance Engagements involving Corporate Fundraisings and/ or Prospective Historical Financial Information"* and ASAE 3420: *"Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information".*

Our procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures applied to the accounting records in support of the Historical Financial Information.

These procedures are substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Historical Financial Information.

Our engagement did not involve updating or re issuing any previously issued audit reports on any Historical Financial Information used as a source of the Historical Financial Information.

Conclusion

Historical Financial Information

Based on our independent review, which is not an audit, nothing has come to our attention which causes us to believe that:

- The Historical Financial Information of AirXpanders as described in the "Financial Information" section of the Prospectus does not present fairly:
  - The historical statement of operations for FY2012, FY2013 and FY2014;
  - The historical statement of cash flows for FY2012, FY2013 and FY2014,
  - The historical balance sheet as at 31 December 2014;
  - The pro forma historical balance sheet as at 31 December 2014; or
- The pro forma balance sheet as at 31 December 2014 has not been properly prepared on the basis of the Pro Forma Transactions or the Pro Forma Transactions do not set out a reasonable basis for it;

in accordance with the measurement and recognition requirements (but not all of the presentation and disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements under USGAAP.

Restriction on Use

Without modifying our conclusion, we draw attention to the "Financial Information" section, which describes the purpose of the Historical Financial Information, being for inclusion in the Prospectus. As a result, the Historical Financial Information may not be suitable for use for another purpose.

Grant Thornton
An instinct for growth™

Consent

Grant Thornton Corporate Finance consents to the inclusion of this Independent Limited Assurance Report in the Prospectus in the form and context in which it is included.

Liability

The liability of Grant Thornton Corporate Finance is limited to the inclusion of this report in the Prospectus. Grant Thornton Corporate Finance makes no representation regarding, and has no liability, for any other statements or other material in, or omissions from the Prospectus.

Independence or Disclosure of Interest

Grant Thornton Corporate Finance does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion in this matter. Grant Thornton Corporate Finance will receive a professional fee for the preparation of this Independent Limited Assurance Report.

Yours faithfully
GRANT THORNTON CORPORATE FINANCE PTY LTD

Neil Cooke
Partner

Michael Cunningham
Partner –Audit & Assurance

Appendix A (Financial Services Guide)

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

This Financial Services Guide is dated 11 May 2015.

About us

Grant Thornton Corporate Finance Pty Ltd (ABN 59 003 265 987, Australian Financial Services Licence no 247140) ("Grant Thornton Corporate Finance") has been engaged by AirXpanders Inc. ("the Company") to provide a report in the form of an Independent Limited Assurance Report for inclusion in a Prospectus dated on or about 11 May 2015 ("the Prospectus") relating to the offer of CHESS Depositary Interests in the Company ("the Offer"). You have not engaged us directly but have been provided with a copy of the report as a retail client because of your connection to the matters set out in the report.

This Financial Services Guide

This Financial Services Guide ("FSG") is designed to assist retail clients in their use of any general financial product advice contained in the report. This FSG contains information about Grant Thornton Corporate Finance generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the report, and how complaints against us will be dealt with.

Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities and superannuation products and to deal in a financial product by applying for, acquiring, varying or disposing of a financial product on behalf of another person in respect of securities and superannuation products.

General financial product advice

The report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs. You should consider your own objectives, financial situation and needs when assessing the suitability of the report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Grant Thornton Corporate Finance Pty Ltd ABN 59 003 265 987 ACN 003 265 987
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

Holder of Australian Financial Services Licence No. 247140

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

Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

Fees, commissions and other benefits we may receive

Grant Thornton Corporate Finance charges fees to produce reports, including this report. These fees are negotiated and agreed with the entity who engages Grant Thornton Corporate Finance to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this report our fees are charged on a fixed basis. Partners, Directors or employees of Grant Thornton Corporate Finance, Grant Thornton Australia Ltd, or other associated entities, may receive dividends, salary or wages from Grant Thornton Australia Ltd. The fees charged for the preparation of this report agreed by the Company is $100,000.

Associations with issuers of financial products

Grant Thornton Corporate Finance and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, Grant Thornton Australia Ltd may be the auditor of, or provide financial services to the issuer of a financial product and Grant Thornton Corporate Finance may provide financial services to the issuer of a financial product in the ordinary course of its business.

Complaints

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the National Head of Corporate Finance at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West
Melbourne, VIC 8007
Telephone: 1800 335 405

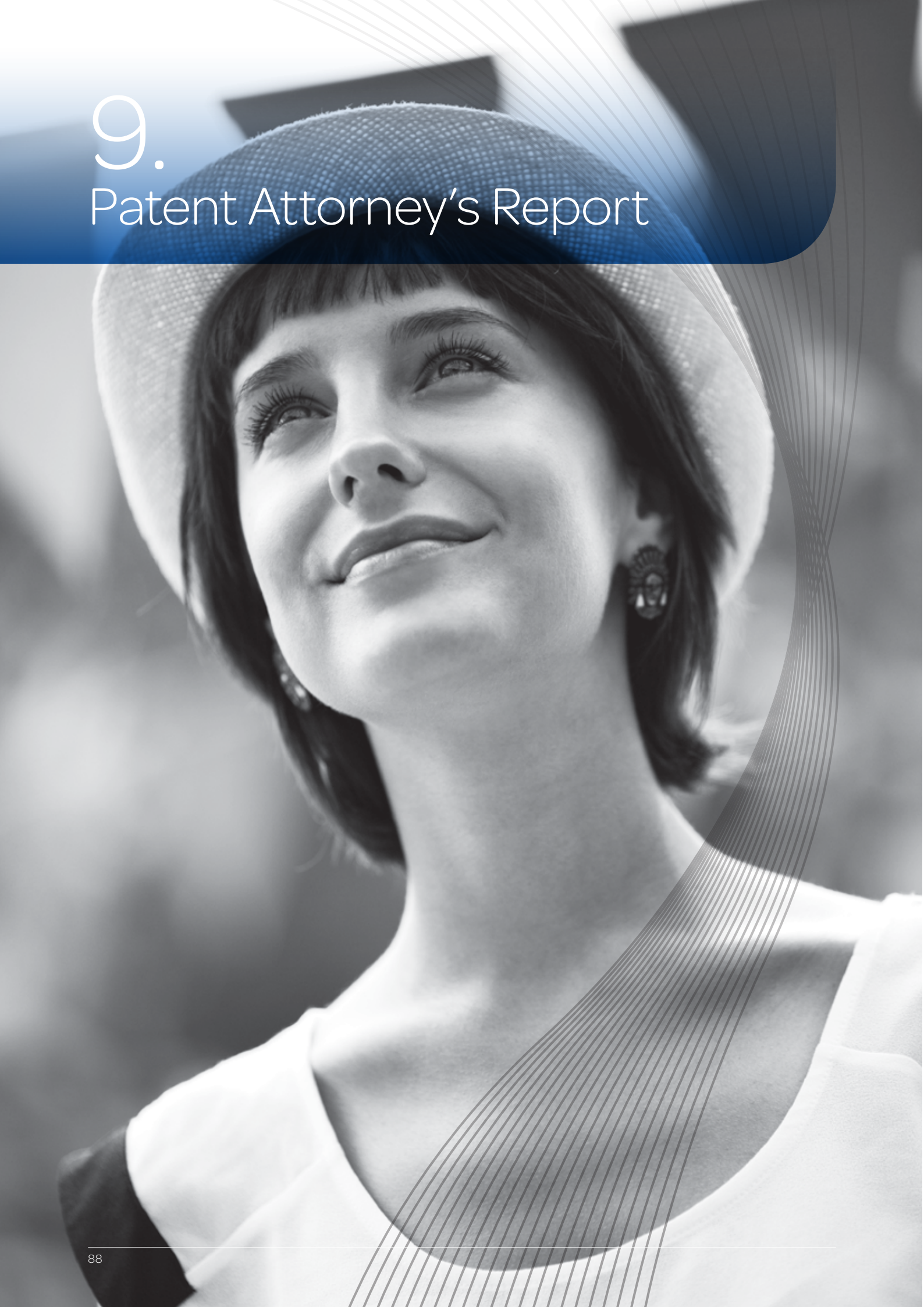
Grant Thornton Corporate Finance is only responsible for this report and FSG. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

Contact Details

Grant Thornton Corporate Finance can be contacted by sending a letter to the following address:

National Head of Corporate Finance
Grant Thornton Corporate Finance Pty Ltd
Level 17, 383 Kent Street
Sydney, NSW, 2000

9. Patent Attorney's Report



9. Patent Attorney's Report

ShayGlennLLP

2755 Campus Drive, Suite 210
San Mateo, CA 94403
(650) 212-1700 Main Phone
(650) 212-7562 Facsimile

May 6, 2015

The Board of Directors
AirXpanders, Inc.
1047 Elwell Court
Palo Alto, CA 94303
United States

RE: REPORT ON INTELLECTUAL PROPERTY FOR AIRXPANDERS, INC.

Dear Directors:

This Report on Intellectual Property dated May 6, 2015, (herein, "the Report") has been prepared by Shay Glenn LLP (here, "Shay Glenn" or "this firm") for inclusion in a prospectus for a planned initial public offering by AirXpanders, Inc. (herein, "the Company") and its associated listing on the Australian Securities Exchange. The Report is being provided on information and belief, based on personal knowledge, firm records and consultation with the Company unless otherwise indicated. The patent status information contained in this Report is current as of May 6, 2015.

Background

Shay Glenn currently represents the Company in intellectual property matters. Specifically, Shay Glenn prepares, prosecutes and maintains the Company's patents and patent applications for the Company.

Shay Glenn is a patent law firm located in the San Francisco Bay Area city of San Mateo, California. The firm specializes in the representation of medical device companies. There are 11 registered patent practitioners in the firm, including 10 patent attorneys and 1 patent agent. All registered patent practitioners have technical degrees and extensive scientific and technical knowledge along with substantive patent prosecution and strategic counseling experience relating to medical devices.

At Shay Glenn, Jim Shay and Tom Zlogar have been responsible for handling patent matters for the Company since November 2008. Jim is a partner of the firm and has a Bachelor of Science in Engineering from Princeton University and a Juris Doctor from Georgetown University Law Center. Tom is an associate at the firm and has a Bachelor of Science in Biomedical Engineering from Northwestern University and a Juris Doctor from the University of San Francisco School of Law.

Shay Glenn has been paid a fee by the Company for its services in preparing this Report. Neither Shay Glenn nor any of its employees has any entitlement to any securities in the Company nor has any other interest in the promotion of the Company. Other than providing this Report, Shay Glenn has had no involvement in the preparation of this Prospectus, nor has Shay Glenn authorized or caused the issue of this Prospectus. Consent for the inclusion of this Report in the Prospectus has been given in the form and context in which it appears.

The Company's Technology

The Company has developed, and continues to develop, technologies for remotely-controlled tissue expansion, such as breast tissue expansion. The Company's primary product is the AeroForm® breast tissue expansion system, which includes an externally-controlled breast tissue expander that, when inflated, stretches breast tissue in order to accommodate a subsequently positioned permanent breast implant.

The AeroForm® Breast Tissue Expansion System

The AeroForm breast tissue expansion system, as shown in Figure 1, includes a handheld dose controller in wireless communication with a breast tissue expander. The breast tissue expander includes a compressed CO_2 reservoir within and in communication with an inflatable bag. Additionally, the breast tissue expander is configured with a predetermined anatomical shape with a lower pole emphasis.

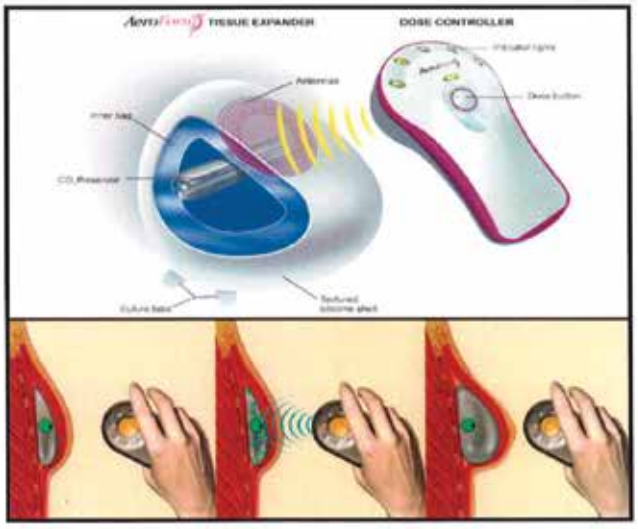


Figure 1. The AeroForm® tissue expander and illustrative use

A first step in the tissue expansion process is to position the breast tissue expander within the breast tissue, as shown in the lower panel in Figure 1. To release a "dose" of CO_2 into the inflatable bag, the handheld dose controller is brought into proximity to the tissue expander. The user then presses the dose button on the dose controller to wirelessly control the release of compressed CO_2 from the CO_2 reservoir and into the inflatable bag. Each dose is 10cc of CO_2 released from the reservoir, and the AeroForm tissue expander allows for three doses per day. Incremental user-controlled release of the CO_2 into the inflatable bag incrementally inflates the inflatable bag, thereby incrementally stretching the breast tissue adjacent the breast tissue expander. After the breast tissue is stretched, the breast tissue expander is removed and replaced with a permanent breast implant.

The AeroForm breast tissue expansion system eliminates needle-based tissue expansion, shortens tissue expansion time from months to weeks, significantly reduces pain and discomfort, improves cosmetic outcomes for a natural form and shape, and allows patients to control the tissue expansion in the comfort of their homes.

The Company's Intellectual Property

This Report focuses on patents and patent applications in respect of which the Company has exclusive rights (herein, "the Company's Intellectual Property"). This Report is intended to provide a general overview to aid in understanding the subject matter and scope of the Company's Intellectual Property. No legal opinion or advice is intended or offered here. For more detailed information or advice, you should consult specialized counsel of your choosing.

The Company's Intellectual Property includes patents owned by Shalon Ventures, patents co-owned by the Company and Shalon Ventures, as well as patent applications developed by and owned solely by the Company. The Company entered into an exclusive license with Shalon Ventures on March 9, 2005, amended on March 9, 2009, and amended again on January 9, 2012 (the "License Agreement"). The License Agreement grants the Company certain exclusive rights in all human uses of self-expanding tissue expanders under certain patents and patent applications owned or co-owned by Shalon Ventures. The License Agreement also gives the Company the first right to prosecute the licensed Intellectual Property.

The Company's Intellectual Property includes three granted U.S. patents, two pending U.S. patent applications, three granted foreign patents, and eight pending foreign patent applications. Two of the three granted foreign patents are issued in Australia. The Company's Intellectual Property is directed to technology incorporated into the AeroForm breast tissue expansion system, including its method of use. The term of a patent is limited, typically 20 years from the date the application was filed or from the earliest non-provisional priority date in the applicable country.

The following table, Table 1, lists granted patents and pending patent applications of the Company's Intellectual Property that relate to the AeroForm breast tissue expansion system, including its method of use. For example, Australian Patent No. 2005286840 describes a tissue

expansion device comprising an expandable compartment adapted for implanting into tissue of a body of a subject and a compressed gas source positioned completely within the expandable compartment communicating only with the expandable compartment. Australian Patent No. 2005286840 also describes a method of expanding tissue, comprising actuating an external device, positioned external to a patient, to wirelessly control the release of a compressed gas from a compressed gas source into an expandable compartment disposed within the patient to controllably expand the expandable compartment to expand tissue adjacent the expandable compartment. Full details of the inventions described therein are set out in the respective patent specifications.

Table 1: Granted Patents and Pending Patent Applications

Title	Country	App. No.	App. Date	Patent or Pub. No.	Status
Tissue Expanders And Methods Of Use	United States	12/973,693	12/20/2010	2011/0152913	Published
Tissue Expanders And Methods Of Use	United States	13/313,904	12/7/2011	8,394,118	Granted
Tissue Expanders And Methods Of Use	United States	13/313,919	12/7/2011	8,617,198	Granted
Tissue Expanders And Methods Of Use	United States	14/212,119	3/14/2014	8,808,322	Granted
Tissue Expanders, Implants, And Methods Of Use	United States	14/186,985	2/21/2014	--	Pending
Tissue Expansion Devices	Australia	2005286840	9/21/2005	2005286840	Granted
Tissue Expansion Devices	Australia	2012201926	9/21/2005	2012201926	Granted
Tissue Expansion Devices	Japan	2007-533585	9/21/2005	5009158	Granted
Tissue Expansion Devices	Europe	05798758.8	9/21/2005	1811914	Published
Tissue Expansion Devices	Canada	2,581,320	9/21/2005	--	Pending
Tissue Expanders And Methods Of Use	Australia	2010330722	12/20/2010	--	Pending
Tissue Expanders And Methods Of Use	Europe	10838349.8	12/20/2010	2512361	Published
Tissue Expanders And Methods Of Use	Canada	2,821,854	12/20/2010	--	Pending
Tissue Expanders And Methods Of Use	Honk Kong	10838349.8	12/20/2010	2512361	Pending
Tissue Expanders And Methods Of Use	Japan	2012-544944	12/20/2010	2013-514840	Published

Tissue Expanders, Implants, And Methods Of Use	PCT	PCT/US14/01778 3	2/21/2014	WO2014/130863	Published

Through the Company's Intellectual Property, including Australian granted patents, we believe that the Company has significant patent protection for the AeroForm breast tissue expansion system. The Company is expected to strengthen its patent protection through prosecuting pending applications, filing future patent applications, and by continuing its current procedures for working with patent counsel to develop its patent portfolio.

The statement in the foregoing paragraph is not a legal opinion, however. The scope of protection provided by the Company's Intellectual Property is determined by the scope of the claims of the applicable patents, and the validity and enforceability of the patents cannot be guaranteed. Specifically, this report is not an opinion pertaining to the validity or enforceability of the Company's Intellectual Property, or of the patentability of patent applications owned by, or licensed to, the Company. Pending applications discussed in this Report may or may not proceed to grant, and their claims may or may not remain in their present form. Granted patents may be challenged in post-grant proceedings before administrative bodies and courts, in most countries, and may be revoked in such proceedings. Nonetheless, Shay Glenn is not aware of any reasons why the granted patents identified in Table 1 may be invalid or unenforceable or why the pending applications will not be granted in their current forms.

Patents and Applications of Others of Which the Company is Aware

From time to time, the Company becomes aware of various patents and patent applications. As a matter of business practice, those patents and applications are considered for more detailed review with respect to potential infringement and citation in the Company's patent applications.

Despite the existence of the large number of patents of which the Company is aware, Shay Glenn is not aware of any infringement by the Company of patents of others. Furthermore, this firm is not aware of any claims, challenges or threats that have been brought against the Company for infringement of third party intellectual property. Shay Glenn has not undertaken the analyses to provide any opinion on this matter, however, and can provide no assurance or guarantee that the Company's products or methods do not infringe a patent owned by a third party.

Patentability Over the Prior Art

The Company has identified numerous prior art references, including patents, patent applications and other publications (not listed here) that the Company has provided to patent examiners during prosecution of the Company's pending patent applications. References have also been identified by patent examiners during prosecution of the Company's patent applications. Some of the Company's claims have been amended to distinguish from these references, thus narrowing the Company's protection in view of the prior art and potentially strengthening the validity of those claims relative to these references.

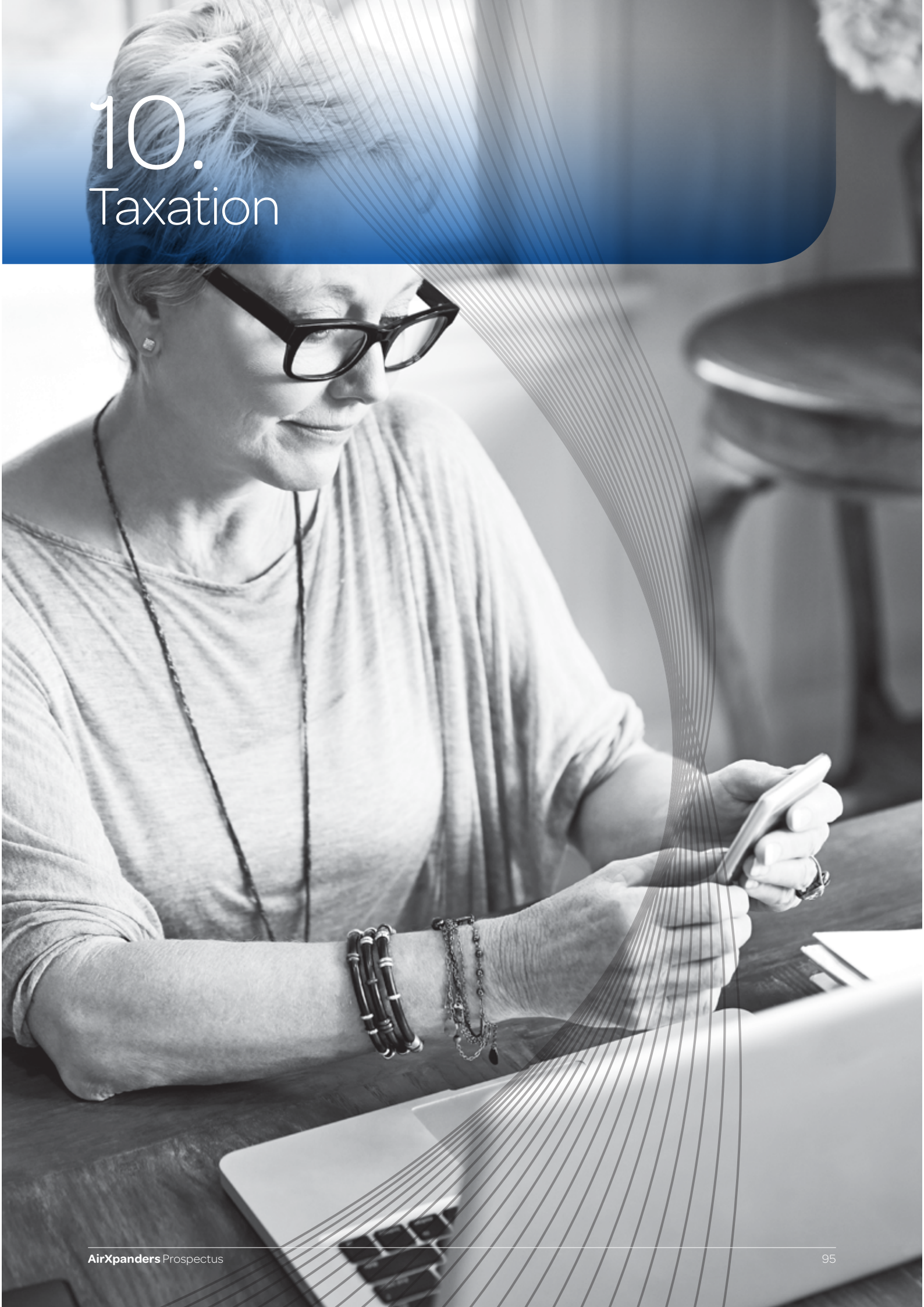
Prior art references such as U.S. Pub. No. 2004/0147953 to Gedebou and U.S. Pat. No. 5,425,760 to Rosenberg show that tissue expanders have been previously described. Accordingly, the Company cannot patent the very broadest concept of a tissue expander. However, these and other references have not prevented the Company from obtaining patent coverage, under the Company's Intellectual Property listed in Table 1.

As noted above, this Report is not an opinion regarding the validity or enforceability of the Company's patents and patent applications.

Sincerely,
SHAY GLENN LLP

By: _____
James R. Shay

10. Taxation



10. Taxation

10.1 Introduction

The taxation consequences of investing in CDIs (or the underlying Shares) will depend on your particular circumstances. It is your responsibility to satisfy yourself of the particular taxation treatment that applies to you by consulting your own professional tax advisers before investing in CDIs. Neither AirXpanders nor any of its officers, employees, agents and advisers accepts any liability or responsibility in respect of the taxation consequences connected with an investment in CDIs.

10.2 Australian taxation considerations

This Section provides a general statement of the Australian income tax, GST and stamp duty consequences for Australian tax resident investors that acquire and hold CDIs (or Shares) on capital account. It does not apply to CDI Holders who acquire their CDIs under an employee share scheme or that hold their CDIs as trading stock or otherwise on revenue account. This Section does not address the foreign tax consequences for any investor.

The following summary is based on the relevant Australian taxation laws as at the date of this Prospectus, except where otherwise indicated. These laws, and their interpretation by the Courts, are subject to change from time to time.

(a) Receipt of dividends on CDIs

AirXpanders has not paid dividends in respect of its Shares in the past and does not intend to pay dividends in respect of the CDIs in the foreseeable future.

If a dividend is paid by AirXpanders in the future, an Australian resident CDI Holder must include the dividend in his, her or its assessable income. Unless AirXpanders is an Australian resident company, which will be the case if a majority of its voting power is controlled by Australian residents, its dividends will be unfranked, even if it has been subject to tax on any Australian source income. If AirXpanders is or becomes an Australian resident company and franks its dividends, Australian resident CDI Holders must also include the franking credits in his, her or its assessable income and may be entitled to a tax offset for the amount of the credits subject to satisfying certain holding period requirements. Certain taxpayers, including individuals and superannuation funds, are entitled to refunds of franking credits which exceed the tax otherwise payable.

Where the dividend is subject to withholding tax in the US, the gross amount of the dividend is generally included in assessable income and the Australian resident CDI Holder will be entitled to a foreign income tax offset equal to the US tax withheld if less than A$1,000 or, if the US tax exceeds that amount, the lesser of the US tax or the Australian tax payable on the dividend.

However, the dividend will not be assessable (and no offset will apply) to a company that holds a 10% or greater voting interest in AirXpanders, where the dividend is paid at a time that AirXpanders is not an Australian resident.

(b) Disposal of CDIs

The disposal of CDIs will give rise to a capital gains tax (**CGT**) event for an Australian resident.

Unless any CGT roll-over relief applies, an Australian resident will make:

> a capital gain to the extent the capital proceeds from the disposal of the CDIs are greater than the cost base of the CDIs; or

> a capital loss to the extent the capital proceeds from the disposal of the CDIs are less than the reduced cost base of the CDIs.

The capital proceeds are the total of the money and the market value of any other property received or receivable for the disposal of the CDIs.

The cost base and reduced cost base of the CDIs for the purpose of working out a capital gain or loss on disposal will include the money paid to acquire the CDIs plus any incidental costs of acquisition and disposal (e.g. brokerage).

An Australian resident taxpayer must include any net capital gain (after taking account of capital losses) in his, her or its assessable income for the income year in which the CGT event occurs, subject to any CGT discount or reduction (see below). A net capital loss may generally be carried forward to offset capital gains made in a later income year, however a company will need to satisfy a continuity of ownership or same business test in order to do so.

(c) CGT discount and reduction

A CDI Holder that is an individual, the trustee of a trust or a complying superannuation entity may be entitled to the CGT discount on the disposal of CDIs that have been held for at least 12 months before the CGT event.

The CGT discount reduces the capital gain otherwise assessable (after taking account of any capital losses) by:

> 50% in the case of an individual or the trustee of a trust; or

> 33⅓% in the case of a complying superannuation entity.

No CGT discount applies to a company which holds CDIs. However, where the dividend is paid at a time that AirXpanders is not an Australian resident, a company which holds a participation interest of 10% or more of AirXpanders may be entitled to reduce the capital gain to the extent AirXpanders' underlying assets are active foreign business assets.

(d) Goods and services tax considerations

A CDI Holder should not be liable to pay GST on the acquisition or disposal of CDIs. However, GST may be payable on brokerage fees.

(e) Stamp duty considerations

A CDI Holder should not be liable to pay stamp duty as a consequence of the acquisition or disposal of CDIs.

10.3 US taxation considerations

The following summary describes the material US federal income and estate tax considerations with respect to the ownership and disposition of CDIs and Shares that may be relevant to a non-US Holder that acquires CDIs pursuant to the Public Offer.

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (**Code**), applicable US Treasury regulations promulgated thereunder and the US Internal Revenue Service (**IRS**) rulings and pronouncements and judicial decisions, all as in effect as of the date of this Prospectus. These authorities may be changed (possibly on a retroactive basis) resulting in tax considerations different from those summarised below. The Company cannot assure potential investors that the IRS will not take a position contrary to the statements made in this discussion or that any such contrary position taken by the IRS would not be sustained.

This discussion applies to non-US Holders that hold CDIs or Shares as a 'capital asset' within the meaning of section 1221 of the Code (generally, property held for investment). As used in this discussion, the term 'non-US Holder' means a beneficial owner of CDIs or Shares that is not a 'US Holder'. A US Holder means a beneficial owner of CDIs or Shares who is for US federal income tax purposes:

> an individual who is a citizen or resident of the US;

> a corporation including any entity treated as a corporation for US federal income tax purposes created or organised in or under the laws of the US, any state within the US, or the District of Columbia;

> an estate, the income of which includes gross income for US federal income tax purposes regardless of its source; or

> a trust (1) if a US court is able to exercise primary supervision over the administration of the trust and one or more US persons have authority to control all substantial decisions of the trust, or (2) that has made a valid election to be treated as a US person for such purposes.

Partnerships, or other entities that are treated as partnerships for US federal income tax purposes (regardless of their place of organisation or formation) and entities that are treated as disregarded entities for US federal income tax purposes (regardless of their place of organisation or formation) are not addressed in this discussion and are, therefore, not considered to be non-US Holders for the purposes of this discussion.

This discussion does not address:

> any state, local or non-US tax considerations;

> any US federal gift tax considerations; or

> any US federal tax considerations that may be relevant to a non-US Holder in light of its particular circumstances or to non-US Holders that may be subject to special treatment under US federal tax laws, including without limitation, banks or other financial institutions, insurance companies, tax-exempt organisations, tax qualified retirement plans, certain trusts, hybrid entities, controlled foreign corporations, passive foreign investment companies, certain former citizens or residents of the US, holders subject to US federal alternative minimum tax, broker-dealers, dealers or traders in securities or currencies, and non-US Holders that hold CDIs or Shares as part of a 'straddle', 'hedge', 'conversion transaction', 'synthetic security' or other integrated investment.

Prospective investors are urged to consult their tax advisers regarding the application of US federal income and estate tax laws to their particular situation as well as any tax consequences arising under US federal estate and gift tax laws, or under law of any state, local, non-US or other taxing jurisdiction or any applicable treaties.

(a) Dividends

In the event that the Company makes a distribution on its CDIs or Shares, the distribution will constitute a taxable dividend for US federal income tax purposes to the extent that the distribution is made from the Company's current or accumulated earnings and profits, as determined under US federal income tax principles. To the extent a distribution exceeds the Company's current and accumulated earnings and profits, the excess will first reduce the non-US Holder's adjusted tax basis in its CDIs or Shares, but not below zero, and will then be treated as gain and taxed in the same manner as a gain realised from the sale or other disposition of CDIs or Shares as described in the next Section.

A dividend paid to a non-US Holder will generally be subject to withholding of US federal tax at a rate of 30%, or a lower rate under an applicable tax treaty, unless the dividend is effectively connected with the conduct of a trade or business of the non-US Holder within the US and, if a tax treaty applies and so requires, is attributable to a US permanent establishment of the non-US Holder. Non-US Holders will be required to satisfy certain certification and disclosure requirements in order to claim a reduced rate of tax under a tax treaty. Non-US Holders should consult their tax advisers regarding their entitlement to benefits under a tax treaty.

Dividends that are effectively connected with a non-US Holder's conduct of a trade or business in the US and, if a tax treaty applies and so requires, attributable to a US permanent establishment, will be taxed on a net income basis at graduated income tax rates in the same manner as if the non-US Holder were a resident of the US. In such cases, the Company will not be required to withhold tax if the non-US Holder complies with the applicable certification and disclosure requirements. A corporate non-US Holder that receives dividends that are effectively connected with the conduct of a trade or business in the US may also be subject to an additional 'branch profits tax' which is imposed, under certain circumstance, at a rate of 30% (or such lower rate as may be specified by an applicable tax treaty) on the holder's effectively connected earnings and profits, subject to certain adjustments.

To claim the benefit of a tax treaty or an exemption from withholding because the income is effectively connected with the conduct of a trade or business in the US, a non-US Holder must timely provide the Company with a properly executed IRS Form W-8BEN for treaty benefits or W-8ECI for effectively connected income, or other appropriate form. A non-US Holder may obtain a refund or credit of any excess amount withheld by filing an appropriate claim for a refund with the IRS.

(b) Gain on disposition of CDIs or Shares

A non-US Holder will generally not be subject to US federal income tax with respect to a gain realised on a sale or other disposition of CDIs or Shares unless (a) the gain is effectively connected with the non-US Holder's conduct of a trade or business in the US and, if a tax treaty applies and so requires, is attributable to a US permanent establishment maintained by such holder, (b) the non-US Holder is an individual present in the US for 183 days or more in the taxable year of the disposition and certain other conditions are met or (c) the Company is or has been a 'US real property holding corporation' at any time within the shorter of the five year period ending on the date of disposition or the period that the non-US Holder held CDIs or Shares.

A non-US Holder described in (a) above, will be taxed on its net gain at graduated rates in the manner applicable to US residents and, if the non-US Holder is a foreign corporation, the branch profits tax described above may apply. An individual described in (b) will be taxed at a flat 30% rate on the gain, or such reduced rate as is specified by an applicable tax treaty, which gain may be offset by US source capital losses. The Company does not believe that it is, and does not anticipate that it will become, a US real property holding corporation.

(c) Federal estate tax

CDIs or Shares owned or treated as owned by an individual non-US Holder (as specifically defined for US federal estate tax purposes) at the time of death are considered US situs assets includible in the individual's gross estate for US federal estate tax purposes and therefore are subject to US federal estate tax, unless an applicable estate tax treaty provides otherwise.

Prospective investors are urged to consult their tax advisers regarding the US federal estate tax considerations of holding CDIs or Shares.

(d) Information reporting and backup withholding tax

Dividends and proceeds from the sale or other disposition of the CDIs or Shares are potentially subject to information reporting and backup withholding. Under US Treasury regulations, the Company must report annually to the IRS and to each non-US Holder the gross amount of distributions on the CDIs or Shares paid to such non-US Holder and the tax withheld with respect to those distributions. These information reporting requirements apply even if withholding was not required because of an applicable tax treaty or an exception in the Code. Pursuant to an applicable tax treaty, that information may also be made available to the tax authorities in the country in which the non-US Holder resides.

Backup withholding generally will not apply to payments of dividends made by the Company to a non-US Holder if the holder has provided the required certification that it is not a US person, or if other requirements are met. Dividends paid to a non-US Holder who fails to certify status as a non-US person in accordance with the applicable US Treasury regulations generally will be subject to backup withholding at the applicable rate, which is currently 28%, subject to regulations creating a presumption in certain circumstances in the absence of documentation that a payee is a foreign person to which the 30% withholding tax is to be assessed. Dividends paid to non-US Holders are subject to the 30% withholding tax described above under 'Dividends'. In general, backup withholding and information reporting will not apply to proceeds from the disposition of the CDIs or Shares paid to a non-US Holder that has properly certified the person's status as a non-US person. Payments of the proceeds from a disposition or a redemption effected outside the US by a non-US Holder, made by or through a foreign office of a non-US broker, generally will not be subject to information reporting or backup withholding. However, information reporting, but not backup withholding, generally will apply to such a payment if the non-US broker has specified types of connections with the US, unless the broker has documentary evidence in its records that the beneficial owner is a non-US holder and specified conditions are met or an exemption is otherwise established. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against the non-US Holder's US federal income tax liability if required information is furnished to the IRS.

Non-US Holders should consult with their tax advisers regarding the application of the information reporting and backup withholding rules to them and the availability of, and procedure for obtaining an exemption from, backup withholding.

(e) Recent legislation relating to foreign accounts

Recently enacted legislation may impose withholding taxes on certain types of payments made to 'foreign financial institutions' and certain other non-US entities. Under this legislation, the failure to comply with additional certification, information reporting and other specified requirements could result in withholding tax being imposed on payments of dividends and sales proceeds to certain non-US Holders.

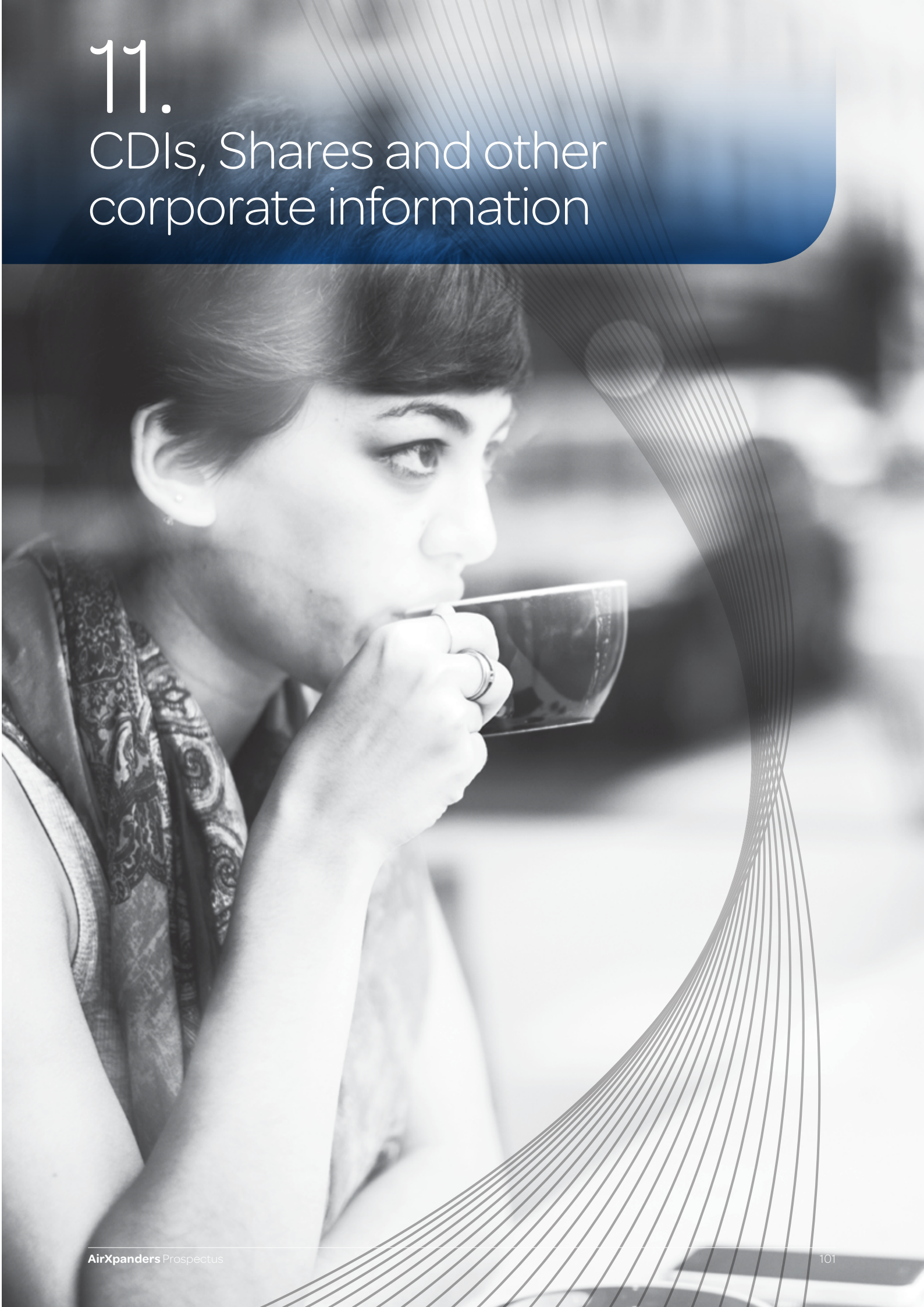
The legislation imposes a 30% withholding tax on dividends in respect of CDIs or Shares, or gross proceeds from the sale or other disposition of the CDIs or Shares paid to a foreign financial institution or to a foreign non-financial entity, unless (i) the foreign financial institution undertakes certain diligence and reporting obligations, or (ii) the foreign non-financial entity either certifies it does not have any substantial US owners or furnishes identifying information regarding each substantial US owner. In addition, if the payee is a foreign financial institution, it must enter into an agreement with the US Treasury requiring, among other things, that it undertake to identify accounts held by certain US persons or US-owned foreign entities, annually report certain

information about such accounts and withhold 30% on payments to account holders whose actions prevent it from complying with these reporting and other requirements. The legislation applies to payments made after 31 December 2012. Prospective investors should consult their tax advisers regarding this legislation.

10.4 Interaction between Australian and US tax consequences

The receipt of dividends by an Australian tax resident CDI Holder and any subsequent disposal of CDIs by an Australian tax resident CDI Holder may, in some circumstances, give rise to both Australian and US tax. Whether a tax credit is available in one jurisdiction to offset the tax paid in the other jurisdiction will depend upon the CDI Holder's particular circumstances.

11.
CDIs, Shares and other corporate information



11. CDIs, Shares and other corporate information

11.1 Registration as a foreign company

On 24 February 2015, AirXpanders was registered as a foreign company in Australia under the Corporations Act.

Case Governance Pty Ltd has been appointed as the local agent of AirXpanders pursuant to the Corporations Act. Brendan Case has been engaged to act as the Australian company secretary for AirXpanders.

11.2 Capital and ownership structures

The following tables set out the Company's indicative capital structure immediately prior to and immediately following the Offers.

(a) Capital structure

	Pre-Offers[1]	Post-Offers		
	Number	Number	Undiluted basis %	Fully diluted basis[2] %
Shares held by Existing Holders	41,745,547	41,745,547[3]	59.22%	55.62%
Indicative number of Shares to be issued on conversion of Convertible Notes and accrued interest	–	2,690,730[4]	3.82%	3.58%
Shares to be issued under the Offers	–	26,052,632[5]	36.96%	34.71%
Total Shares	**41,745,547**	**70,488,909[6]**	**100%**	**93.91%**
Equivalent in CDIs	**125,236,641**	**211,466,727[6]**	**–**	**–**
Options	4,099,835	4,099,835[7]	–	5.46%
Warrants	469,970	469,970[7]	–	0.63%

1 Assumes the Restructuring has occurred.

2 Assumes Options and Warrants are converted on a one for one basis.

3 Does not include Shares or CDIs which the Existing Holders may subscribe for under the Offers, nor does it include Shares which will be issued to certain Existing Holders on conversion of Convertible Notes (and accrued interest), which is separately dealt with in this table.

4 The number of Shares to be issued is indicative as it assumes a conversion price of US$1.14 per Share (based on an Offer Price of A$1.50 per Share and the Indicative Exchange Rate applying), and a conversion date of 12 June 2015. The Convertible Notes and accrued interest will convert at the Offer Price converted into US dollars at the prevailing A$:US$ exchange rate as reported by Bloomberg at the time of conversion.

5 Assumes that 1,709,969 Shares are issued under the US Private Placement, which is based on a US$1.95 million investment being made at the Indicative Exchange Rate. The actual number of Shares will depend on the prevailing A$:US$ exchange rate at the time of that investment and any participation by Company staff.

6 Total number of Shares and equivalent CDIs is indicative as final numbers depends on the number of Shares issued in the US Private Placement and on conversion of the Convertible Notes (and accrued interest) – see footnotes 4 and 5 above.

7 Assumes no change to the number of Options and Warrants held pre- and post- close of Offers.

(b) Options

At the date of this Prospectus, AirXpanders has on issue the following Options over Shares. The table assumes that the Restructuring has occurred.

Number of Options		Exercise price per Share (US$)	Expiry date
Shares	Equivalent in CDIs		
4,063	12,189	$0.005	25/12/2016
6,410	19,230	$0.05	14/01/2024
24,500	73,500	$0.12	29/04/2024
13,000	39,000	$0.12	21/10/2024
212,000	636,000	$0.25	20/03/2017
21,000	63,000	$0.25	2/10/2017
41,100	123,300	$0.25	17/04/2018
23,000	69,000	$0.25	22/07/2018
22,400	67,200	$0.25	23/04/2019
10,000	30,000	$0.25	07/10/2019
613,163	1,839,489	$0.25	10/01/2021
711,847	2,135,541	$0.30	16/04/2022
48,481	145,443	$0.30	31/07/2022
4,000	12,000	$0.30	6/05/2023
2,090,745	6,272,235	$0.30	30/05/2023
254,126	762,378	$0.50	12/03/2025

(c) Warrants

At the date of this Prospectus, AirXpanders has the following outstanding and issued Warrants. The table assumes that the Restructuring has occurred.

Number of Warrants		Exercise price (US$)	Expiry date
Shares	Equivalent in CDIs		
119,314	357,942	$0.005	4/06/2018
5,000	15,000	$0.05	31/10/2018
120,000	360,000	$1.25	28/02/2021
40,000	120,000	$1.00	31/01/2023
52,500	157,500	$1.00	16/01/2024
83,156	249,468	$2.38	31/12/2015
50,000	150,000	$2.38	31/03/2016

(d) Ownership structure

The ownership structure of AirXpanders immediately prior to and immediately following completion of the Offers is set out in the table below.

Holder	Pre-Offers		Post-Offers				
	Shares[1]	% of Shares	Shares[2]	Equivalent in CDIs[2]	% of Shares	Options[3]	Warrants[3]
GBS Venture Partners as Trustee for the GBS Bioventures IV Trust	14,272,556	34.19%	16,134,682	48,404,046	22.89%	–	–
Vivo Ventures Fund VII, L.P.	14,190,649	33.99%	16,523,555	49,570,665	23.44%	–	–
Vivo Ventures VII Affiliates Fund, L.P.	309,283	0.74%	360,128	1,080,384	0.51%	–	–
Prolog Capital II, L.P.	6,425,454	15.39%	6,784,421	20,353,263	9.62%	–	–
Heron Capital Venture Fund I, L.P.	2,476,676	5.93%	2,833,829	8,501,487	4.02%	–	–
Correlation Ventures, L.P.	2,231,647	5.35%	2,526,971	7,580,913	3.58%	–	–
Directors[4]	914,159	2.19%	921,651	2,764,953	1.31%	2,856,452	–
Key Managers[5,6] (excluding Scott Dodson)	–	0.00%	-	-	0.00%	702,120	–
Other Existing Holders[7]	925,123	2.22%	982,614	2,947,842	1.39%	541,263	469,970
Total Existing Holders	**41,745,547**	**100%**	**47,067,851**	**141,203,553**	**66.77%**	**4,099,835**	**469,970**
New Shareholders	**–**	**0.00%**	**23,421,058**	**70,263,174**	**33.23%**	**–**	**–**
TOTAL	**41,745,547**	**100.00%**	**70,488,909**	**211,466,727**	**100.00%**	**4,099,835**	**469,970**

1 Assumes the Restructuring has occurred.

2 The numbers of Shares, equivalent CDIs and percentage of Shares on a Post-Offers basis are indicative as final numbers of Shares depend on the number of Shares issued on conversion of the Convertible Notes (and accrued interest) – see footnote 4 to the table in Section 11.2(a).

3 Assumes no change to the number of Options and Warrants held pre- and post- close of Offers.

4 The figures for 'Directors' does not include Shares held by GBS Venture Partners as Trustee for the GBS Bioventures IV Trust, Vivo Ventures Fund VII, L.P., or Vivo Ventures VII Affiliates Fund, L.P., which are separately set out in the table.

5 The figures for Key Managers include securities held by the Key Managers listed in Section 6.2, excluding Mr Scott Dodson. The securities held by Mr Dodson are included in the figures for 'Directors'.

6 Assumes that the potentially increased participation in the US Private Placement by the Company's staff (see Section 7.2) does not occur.

7 Comprises employees and former employees, consultants, service providers, current and former financiers and other investors.

Information on the number securities to be held on completion of the Offers that will be subject to escrow arrangements, and details of those escrow arrangements, is set out in Section 7.10.

11.3 Bridge Financing

In March 2015, AirXpanders closed the first tranche of a US$6 million bridge financing (**Bridge Financing**) by raising approximately US$3 million from the issue of convertible promissory notes (**Convertible Notes**) to certain Existing Holders. On the Allotment Date, the outstanding principal and any unpaid accrued interest on the Convertible Notes will automatically convert into Shares (at the equivalent price per Share to the Offer Price, but in US dollars at the prevailing A$:US$ exchange rate at the time of the conversion) or CDIs at the Offer Price (or the equivalent US dollar amount, calculated on the same basis).

The second US$3 million tranche will be invested by the Bridge Financing investors as the US Private Placement (for the US investors only) and part of the Institutional Offer (for GBS Venture Partners only).

11.4 Restructuring

Immediately prior to allotment of the CDIs, the Company intends to complete the Restructuring. The Restructuring comprises the conversion of all outstanding shares of preferred stock into 150,562,111 Shares, and a five for one reverse stock split. The Restructuring will result in the pre-Offers structure set forth in this Prospectus being achieved.

AirXpanders has obtained clearances from the Board and its existing Shareholders to effect the following steps for purposes of the Restructuring:

> an amendment and restatement to the Company's Certificate of Incorporation to effect the reverse stock split, authorise additional share capital, reflect the conversion of the outstanding preferred stock to Shares and to implement specified anti-takeover measures as summarised in item 18 of Section 11.6; and

> an amendment and restatement of the Company's Bylaws.

In addition, the Company has obtained approvals from its preferred stock holders to effect the conversion of all shares of preferred stock on issue into Shares described above. The Restructuring will become effective immediately prior to, but contingent upon, the allotment of the CDIs under the Public Offer.

11.5 CDIs

The relationship between AirXpanders, CDN and the CDI Holders is governed in part by the Listing Rules and the ASX Settlement Operating Rules in combination with AirXpanders' Bylaws. The Listing Rules and the ASX Settlement Operating Rules have the force of law under the Corporations Act.

Rights and specific features (including key differences) attaching to CDIs		
1	Title	The CDI Holders hold the beneficial title to the Shares underlying the CDIs while CDN holds the legal title. CDI Holders receive all direct economic and other benefits of the Shares. CDN may not dispose of any of the Shares unless authorised by the ASX Settlement Operating Rules, and is not able to create any interest that is inconsistent with the beneficial title held by CDI Holders.
2	Ratio	Each Share will represent three CDIs. To obtain one Share, an investor will need to convert three CDIs.
3	Conversion	A CDI Holder may either leave their holdings in the form of CDIs (so that legal title remains in the name of CDN) or convert the CDIs to Shares and hold legal title in their own right. CDI Holders can convert their ASX listed CDIs to Shares by instructing the Registry, either: > directly in the case of CDIs on the issuer sponsored sub-register operated by AirXpanders. CDI Holders will be provided with a 'CDI Cancellation AU-US Register form' for completion and return to the Registry; or > through their 'sponsoring participant' (usually your broker) in the case of CDIs which are sponsored on the CHESS subregister. In this case, the sponsoring broker will arrange for completion of the relevant form and its return to the Registry.

Rights and specific features (including key differences) attaching to CDIs		
3	Conversion (continued)	The number of CDIs to be converted must be divisible by three. The Registry will then arrange for the transfer of the Shares from CDN to the former CDI Holder and a new Statement of Account Holding will be issued. The Shares will be registered in the name of the holder on AirXpanders' share register and trading on the ASX will no longer be possible. The Shares are not and will not in the near future be quoted on any securities exchange. The Shares may bear restrictive legends on the register in accordance with US law. This process will normally be completed within three to five days once the Registry receives a duly completed and valid instruction. However, the timeframe for conversion cannot be guaranteed. The Registry will not charge an individual Shareholder a fee for transferring their CDIs into Shares (although a fee may be payable by market participants). Shareholders can convert their holdings to CDIs by contacting the Registry and completing a 'CDI Issuance (United States Register to Australian CDI Register) form'. Again, the Registry will not charge a fee for the conversion (although a fee may be payable by market participants). The underlying Shares will then be transferred to CDN and a holding statement for the CDIs will be issued to the Shareholder. No trading in the CDIs on the ASX can take place until this transfer process is complete. The contact details for the Registry are set out in the Corporate Directory.
4	Shareholders meetings and voting	CDI Holders may attend and vote at AirXpanders' general meetings. The Company must allow CDI Holders to attend any meeting of Shareholders unless relevant US law at the time of the meeting prevents CDI Holders from attending those meetings. In order to vote at such meetings, CDI Holders may: > instruct CDN, as the legal owner, to vote the Shares underlying their CDIs in a particular manner. A voting instruction form will be sent to CDI Holders with the notice of meeting or proxy statement for the meeting and this must be completed and returned to the Registry before the meeting; > inform AirXpanders that they wish to nominate themselves or another person to be appointed as CDN's proxy for the purposes of attending and voting at the general meeting; or > convert their CDIs into a holding of Shares and vote these at the meeting. Afterwards, if the former CDI Holder wishes to sell their investment on the ASX it would need to convert the Shares back to CDIs. In order to vote in person, the conversion from CDIs to Shares must be completed before the record date for the meeting. See above for further information regarding the conversion process. One of the above steps must be undertaken before CDI Holders can vote at Shareholder meetings. Proxy forms, CDI voting instruction forms and details of these alternatives will be included in each notice of meeting or proxy statement sent to CDI Holders by AirXpanders.
5	Communications	CDI Holders will receive all notices and company announcements (such as annual reports) that Shareholders are entitled to receive from AirXpanders.

Rights and specific features (including key differences) attaching to CDIs		
6	Dividends	Any dividend declared in respect of the Shares underlying the CDIs will be distributed to CDI Holders. The Directors do not however, envisage that AirXpanders will pay dividends for the foreseeable future. Any dividends declared in the future will be in US$. Holders of CDIs trading on the ASX will receive an equivalent amount in Australian currency based on the exchange rate on the record date and reflecting the 3:1 ratio between CDIs and Shares.
7	Registers	On listing, AirXpanders will operate three registers for the Shares and CDIs: > an uncertificated register of Shares; > an uncertificated issuer-sponsored sub-register of CDIs; and > an uncertificated CHESS sub-register of CDIs. The register of Shares will be the register of legal title. The Shares will be uncertificated unless a Shareholder requests a stock certificate from the Registry denoting the number of Shares owned. AirXpanders must ensure that at all times the total number of CDIs on the issuer sponsored sub-register of CDIs and CHESS sub-register of CDIs reconciles with the number of Shares registered in the name of CDN on the Share register. AirXpanders will make available for inspection the Share register and the CDI register as if those registers were registers of securities of an Australian listed public company.
8	Transfer	CDI Holders who wish to trade their CDIs will be transferring the beneficial interest in the Shares rather than the legal title. The transfer will be settled electronically through CHESS. Trading in CDIs is essentially the same as trading in other CHESS approved securities, such as shares in an Australian public company.
9	Corporate actions (including bonus issues, rights issues and reconstructions)	AirXpanders must administer all corporate actions (including bonus issues, rights issues, reconstructions and mergers) that result in the issue of additional or replacement Shares so that the benefits are generally distributed to CDI Holders on the same terms as Shareholders as though the CDI Holders are the holders of the relevant corresponding number of Shares. It is possible that marginal differences may exist between the resulting entitlement of a CDI Holder and the entitlements that would have accrued if a CDI Holder held their holding directly as Shares. As the ratio of CDIs to Shares is not one-to-one and any entitlement will be determined on the basis of Shares rather than CDIs, a CDI Holder may not always benefit to the same extent, for example from the rounding up of fractional entitlements. AirXpanders is required by the ASX Settlement Operating Rules to minimise any such differences where legally permissible.
10	Takeovers	If a takeover bid or similar transaction is made in relation to the Shares under which CDN is the registered holder, under the ASX Settlement Operating Rules CDN must not accept the takeover offer unless that acceptance is authorised by the relevant CDI Holder. If a CDI Holder instructs it to do so, CDN must ensure that the offeror processes the takeover acceptance.
11	Winding up	If AirXpanders is in liquidation, dissolution or winding up, CDI Holders will be entitled to the same economic benefits on their CDIs as Shareholders receive on the Shares they hold.
12	Fees	A CDI Holder will not incur any additional ASX or ASX Settlement fees or charges as a result of holding CDIs rather than Shares. CDN will not receive any fees from investors for acting as the depository for the CDIs.

11.6 Certificate of Incorporation, Bylaws and rights attaching to Shares

As AirXpanders is incorporated under the laws of Delaware in the US, rights attaching to the Shares will be governed by Delaware law, US federal securities laws, AirXpanders' Certificate of Incorporation and its Bylaws. Once listed on the ASX, AirXpanders will also become subject to the Listing Rules.

The following is not an exhaustive statement of all relevant laws, rules and regulations and is intended as a general guide only of the rights attaching to the Shares.

If you would like to read AirXpanders' Certificate of Incorporation or Bylaws, these documents are available free of charge by writing to:

Attn: Company Secretary
AirXpanders, Inc.
1047 Elwell Court
Palo Alto, California 94303
United States of America
Telephone: +1 650 390 9000
www.airxpanders.com

You should consult with your own legal adviser if you require further information.

Rights of holders of shares in AirXpanders		
Rights attaching to shares		
1	Share capital	Following the completion of the Offers, the Company's authorised capital stock will consist of 200,000,000 shares in Class A common stock (i.e. Shares), 100,000,000 shares in Class B Common Stock and 10,000,000 shares of undesignated preferred stock. **Preferred stock** Following the completion of the Offers, the Board will have the authority, without further action by Shareholders, to issue shares of preferred stock in one or more series. The Board may designate the rights, preferences, privileges and restrictions of the preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preference and the number of shares constituting any series. The issuance of preferred stock could have the effect of restricting dividends on Shares, diluting the voting power of Shares, impairing the liquidation rights of Shares, or delaying or preventing a change of control. Even the ability to issue preferred stock could delay or impede a change of control. Immediately after the closing of the Offers, no shares of preferred stock will be outstanding, and the Company currently has no plan to issue any shares of preferred stock. **Class B Common Stock** The Company has authorised an additional class of common stock designated as Class B Common Stock in order to fulfil the requirements of the Listing Rules so far as they apply to escrowed securities. In the event that holders of Shares, who are subject to the ASX-imposed escrow, breach that terms of their escrow agreement or the Listing Rules as they apply to escrowed securities, their Shares will be automatically converted into shares in Class B Common Stock until the earlier to occur of the expiration of the escrow period or the breach being rectified. The shares in Class B Common Stock are identical to and rank equally with the Shares except that they have no voting, dividend or distribution rights.

2	Purchase of own shares	Under Delaware law, the Directors may be able to cause AirXpanders to buy-back its outstanding shares out of funds legally available without needing to obtain Shareholder approval. A company generally is not permitted to buy back its shares if its liabilities exceed its assets. In addition, share buy-backs are subject to US securities laws.
3	Acquisition/ transfer of shares	Under Delaware law, shares are freely transferable, subject to applicable federal and state securities laws, unless a transfer restriction is imposed by a company's certificate of incorporation, bylaws or an agreement signed with the holder of the shares at issue. Accordingly, a company is obligated to register a transfer of shares unless such transfer would violate federal or state securities laws or a valid transfer restriction would be imposed as described above. Once listed on the ASX, the Directors must not in any way prevent, delay or interfere with the registration of a transfer of quoted securities in AirXpanders unless permitted by the Listing Rules or the ASX Settlement Operating Rules.
4	Dividends and distribution	Following the completion of the Offers, AirXpanders' Certificate of Incorporation will entitle holders of Shares to receive rateably any dividends the Board declares out of funds legally available for that purpose. Holders of shares of Class B Common Stock will not be entitled to any dividends. Under Delaware law, the Directors may declare and pay dividends generally out of: > the surplus of the Company, which is defined to be the Company's net assets less capital; or > if no surplus exists, out of the net profits of the Company for the financial year in which the dividend is declared and/or the preceding financial year.
5	Variation of class rights	Under Delaware law, any amendment to AirXpanders' Certificate of Incorporation that would alter or change the special rights, powers or preferences of one or more classes or series of stock so as to affect them adversely must, in addition to any other vote required by law or under the Certificate of Incorporation, be approved by the adversely affected class or series by a majority of all votes entitled to be cast by the stockholders of that class or series. Except as otherwise provided in AirXpanders' Certificate of Incorporation, the issuance of shares of any series of common stock or preferred stock (assuming there were a sufficient number of authorised and unissued shares of such series) would not require a separate vote of any class or series of stock of AirXpanders. However, an amendment increasing the number of authorised shares of a class or series of stock must be approved by the holders of a majority of the votes entitled to be cast by the stockholders of that class or series, unless AirXpanders' Certificate of Incorporation provides that such vote is not necessary. Under Delaware law and AirXpanders' Certificate of Incorporation, amendments to AirXpanders' Bylaws can be made with Board or stockholder approval. The Board is authorised to amend AirXpanders' Bylaws at any time by a vote of the majority of the authorised number of Directors. In order for the stockholders to amend AirXpanders' Bylaws, the amendment must be approved by the holders of at least 66⅔% of the then-outstanding voting stock.
Capital raising		
6	Issue of shares	See the description of AirXpanders' ability to issue Shares and preferred stock contained in item 1 above.
7	Listing Rules	Once listed on the ASX, AirXpanders will be subject to the annual limit on security issuances found in the Listing Rules in relation to issuances of equity securities.

Directors		
8	Directors' liability	Under Delaware law, a company may include in its certificate of incorporation a provision eliminating or limiting the personal liability of a director to the company or its Shareholders for monetary damages for breach of fiduciary duty as a director. However, the provision may not eliminate liability for breach of the director's duty of loyalty, acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law, unlawful payment of dividends, unlawful purchases or redemptions of the Company's stock, or any transaction from which the director derived an improper personal benefit. AirXpanders' Certificate of Incorporation provides that the liability of the Directors for monetary damages is eliminated to the fullest extent under applicable law.
9	Nomination of Directors	Under AirXpanders' Bylaws, for nominations for the election to the Board to be properly brought before an annual meeting by a Shareholder, the Shareholder must deliver written notice, which contains the information required by AirXpanders' Bylaws, to the Secretary of AirXpanders no later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that, in the event that the date of the annual meeting is advanced or delayed by more than 30 days of the anniversary of the preceding year's annual meeting, notice by the Shareholder to be timely must be received not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. Under Delaware law and AirXpanders' Bylaws, there is plurality voting for the election of Directors at annual meetings, which does not apply under Australian law. (In plurality voting, successful candidates are those that receive the highest number of votes at that meeting, irrespective of whether any such candidate has received a majority of the votes cast by Shareholders at the meeting, as is required in Australia. Under this mechanism, Shareholders are effectively not given the option to vote 'against' the proposed resolution.)
10	Casual vacancies	Unless the Board determines by resolution that vacancies will be filled by the Shareholders, vacancies on the Board will be filled only by the affirmative vote of a majority of the Directors then in office, even though less than a quorum of the Board, and not by the Shareholders. Any Director elected in accordance with the preceding sentence will hold office for the remainder of the full term of the Director for which the vacancy was created or occurred and until such Director's successor will have been elected and qualified. AirXpanders has been granted an in-principle waiver from Listing Rule 14.4 to permit this to occur.
Members' meetings		
11	Annual meeting	Under Delaware law, AirXpanders is required to have an annual meeting of Shareholders and, if more than 13 months have passed since the last annual meeting, a Shareholder or Director may petition the court for an order compelling the holding of the annual meeting.
12	Notice of Shareholder meetings	Under AirXpanders' Bylaws, notice of a meeting of AirXpanders' Shareholders must generally be given to Shareholders entitled to vote at the meeting not less than 10 days, and not more than 60 days, prior to the date of the meeting.

13	Calling meetings	Special meetings of AirXpanders' Shareholders may be called, for any purpose as is a proper matter for stockholder action under Delaware law, by (i) the Chairman of the Board, (ii) the CEO, or (iii) the Board pursuant to a resolution adopted by a majority of the total number of authorised Directors. There is no ability for Shareholders to call a special meeting.
14	Voting at meetings	At a meeting of AirXpanders, every holder of Shares present in person or by proxy is entitled to one vote for each Share held on the record date for the meeting on all matters submitted to a vote of Shareholders. Under AirXpanders' Bylaws, the presence at the meeting (in person, by remote communication or represented by proxy) of the holders of a majority of the outstanding shares of stock entitled to vote will constitute a quorum for the transaction of business. Except as otherwise provided by statute or by applicable stock exchange rules, the affirmative vote of the majority of Shares present in person, by remote communication or represented by proxy at the meeting and entitled to vote generally on the subject matter will be the act of the Stockholders. Directors will be elected by a plurality of the votes of the Shares (present in person, by remote communication or represented by proxy at the meeting) and entitled to vote on the election of Directors.
15	Transactions requiring Shareholder approval	The types of transactions that require Shareholder approval are governed by Delaware law and AirXpanders' Certificate of Incorporation and Bylaws. Generally speaking, the following types of transactions will require Shareholder approval by a majority of votes: > amending the Certificate of Incorporation; and > fundamental corporate changes such as a merger or acquisition, the sale of all or substantially all of AirXpanders' assets, or the dissolution of AirXpanders. Under AirXpanders' Certificate of Incorporation and Bylaws, the removal of Directors or the amendment of either the Bylaws or certain articles of the Certificate of Incorporation requires the affirmative vote of the holders of at least 66⅔% of the shares entitled to vote on such matters.
Relationship between the Company and its Shareholders		
16	Relief from oppression	Unlike the Corporations Act, there is no statutory provisions under Delaware law allowing a Shareholder to bring an action in cases of conduct which is either contrary to the interests of Shareholders as a whole, or oppressive to, unfairly prejudicial to, or unfairly discriminatory against, any Shareholders in their capacity as Shareholder, or themselves in a capacity other than as a Shareholder. However, judicial remedies may be available to Shareholders in comparable circumstances.
17	Derivative actions	Under Delaware law, a Shareholder may bring a derivative action on behalf of the Company where those in control of the Company have failed to assert a claim belonging to the Company. A Shareholder must meet certain eligibility and standing requirements, including a requirement that the plaintiff has been a Shareholder of the Company at the time of the act of which the plaintiff complains and a requirement that the plaintiff maintain his or her status as a Shareholder throughout the course of the litigation. A derivative plaintiff must also have made a demand on the Directors of AirXpanders to assert the corporate claim, unless such a demand would have been futile.

Takeovers		
18	Takeovers	AirXpanders is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of shares, including provisions that relate to substantial holdings and takeovers. The acquisition of securities in AirXpanders is subject to Delaware law and applicable US securities laws. The ASX usually requires a foreign entity admitted to the Official List of the ASX to undertake to give information to the ASX (for release to the market) about the ownership of its securities. The usual undertakings are to tell the market: > immediately the entity becomes aware of any person becoming a substantial holder within the meaning of section 671B of the Corporations Act, and to disclose any details of the substantial holding of which the entity is aware; and > of subsequent changes in the substantial holdings of which the entity becomes aware. As a Delaware company, AirXpanders is subject to section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware company from engaging in any business combinations with any stockholder who owns, or at any time in the last three years owned, 15% or more of the company's outstanding voting stock, referred to as an interested stockholder, for a period of three years following the date on which the stockholder became an interested stockholder, subject to certain exceptions. In addition, under Delaware law, the Board will have the ability to implement a broader range of takeover defence mechanisms than what is currently permitted under Australian takeovers legislation and policy. The availability of these mechanisms may be regarded as a potential disadvantage to the extent that they enable management to discourage or defeat a takeover bid which Shareholders would otherwise like to consider. However, such actions may also advantage Shareholders by providing protections against a takeover that is not in the short or long term interests of the company. Defensive mechanisms could include, amongst other things: (i) adoption of a Shareholders rights plan (or so-called 'poison pill') and (ii) issuance of stock (including preferred stock having disproportionate or blocking voting rights) to friendly hands. While the Board will have substantial discretion to implement such provisions, its exercise of that discretion must comply with its fiduciary duties of loyalty and care. Under Delaware case law, in any litigation by stockholders challenging the adoption of 'defensive' provisions such as those described above, the Board will have the initial burden of demonstrating that it had reasonable grounds for believing that a threat to corporate policy and effectiveness existed and that the action taken was reasonable in relation to the threat posed.

Winding up		
19	Winding up	Under Delaware law, the Board can decide whether it is advisable to dissolve the company, or sell any or all of its assets, and submit a resolution to approve dissolution or a sale of all or substantially all assets for Shareholder approval. A majority of the shares outstanding must approve such resolution for it to be adopted. Dissolution may also be authorised without Director action if all the Shareholders entitled to vote consent in writing and a certificate of dissolution is filed with the Secretary of State of Delaware. In the event of AirXpanders' liquidation or dissolution, holders of common stock are entitled to share in all assets remaining after payment of all debts and other liabilities, subject to the prior rights of the outstanding preferred stock, if any. Holders of AirXpanders' common stock have no pre-emptive, subscription, redemption or conversion rights.
Other		
20	'Two strikes' rule	Unlike the Corporations Act, there is no requirement under Delaware law for the Company to hold a 'spill vote' of the Board if the Company's remuneration report receives a 25% (or greater) 'no' vote at two successive annual meetings. In the US, the *Dodd–Frank Wall Street Reform and Consumer Protection Act* of 2010 (US) requires all 'reporting companies' to have an advisory shareholder vote on pay at least once every three years. Companies must report the results and say how they have responded to these when making decisions on pay the following year. AirXpanders will become a reporting company if, among other things, it has (i) assets of more than US$10 million and (ii) either 2,000 or more holders of any class of equity securities or 500 or more holders of any class of equity securities who are not 'accredited investors' as defined in Rule 501 of Regulation D of the US Securities Act. If AirXpanders qualifies as an 'emerging growth company' at the time it becomes a reporting company, then it will not be required to hold an advisory shareholder vote on pay until it is no longer an emerging growth company. AirXpanders will be an emerging growth company until the earliest of: (i) the end of the fiscal year in which its annual revenues exceed US$1 billion; (ii) the end of the fiscal year in which the fifth anniversary of its initial public offering pursuant to an effective registration statement under the US Securities Act occurs; (iii) the date on which it has, during the previous three-year period, issued more than US$1 billion in non-convertible debt; or (iv) the date on which it qualifies as a 'large accelerated filer' as defined in Rule 12b-2 of Regulation 12B of the US Exchange Act.

11.7 Rights of Existing Holders

The Company has entered into an amendment and restatement of an Investors' Rights Agreement with certain of its current Shareholders, under which the termination of various other rights, covenants and restrictions will occur immediately prior to the Allotment Date.

Under the Amended and Restated Investors' Rights Agreement, the Shareholder parties will be entitled to customary US demand, piggyback and Form S-3 registration rights with respect to certain of their Shares. These rights are described in more detail below. Following the Offers, approximately 42 million Shares will have registration rights (including Shares held by certain Directors and their affiliated funds). In addition, AirXpanders will pay certain expenses for those Shares to be registered pursuant to the demand, piggyback and Form S-3 registration rights described below. The registration rights will expire on the date that is five years after the Allotment Date or at such time as the relevant Shareholder can sell all of their Shares pursuant to Rule 144 or another similar exemption under the US Securities Act, during any three month period.

(a) Demand registration rights

At any time beginning six months after the Allotment Date, the holders of at least two thirds of the Shares subject to the Investors' Rights Agreement (**Registrable Shares**) may request that AirXpanders file a registration statement under the US Securities Act to register all of their Registrable Shares, subject to certain limitations. If the holders requesting registration intend to distribute their Registrable Shares by means of an underwriting, the underwriters of such offering will have the right to limit the number of Shares to be underwritten for reasons related to the marketing of the Registrable Shares. AirXpanders will not be required to effect more than two such demand registrations. Depending on certain conditions, AirXpanders may defer such registration for up to 120 days once in any 12-month period.

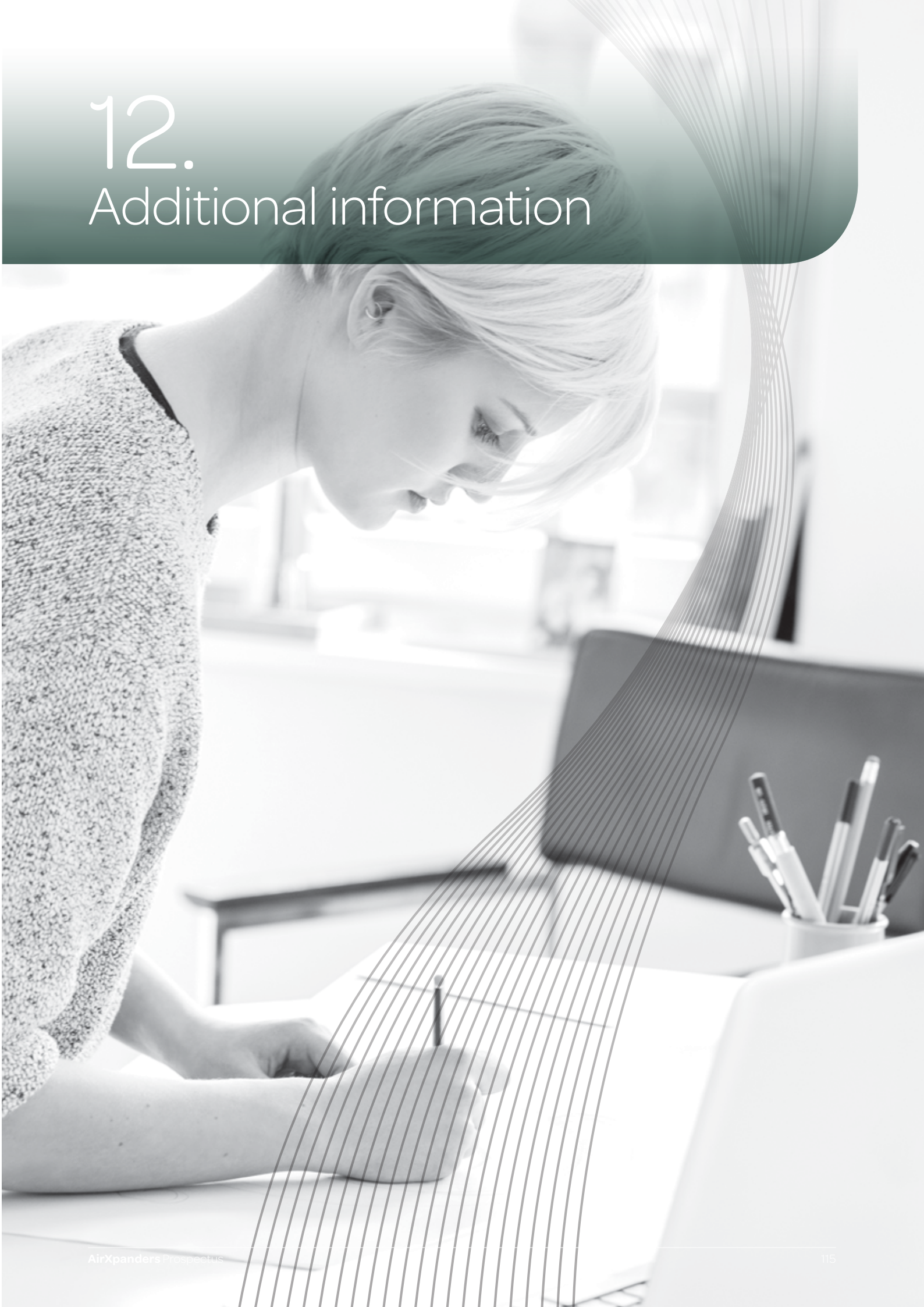
(b) Piggyback registration rights

If AirXpanders proposes to register any of its securities under the US Securities Act, either for its own account or for the account of other security holders, the holders of Registrable Shares will be entitled to certain 'piggyback' registration rights allowing them to include their Registrable Shares in such registration, subject to certain limitations. Subject to those limitations and certain other exceptions, this means that whenever AirXpanders proposes to file a registration statement under the US Securities Act, the holders of Registrable Shares are entitled to notice of the registration and have the right to include their Registrable Shares in the registration.

(c) Form S-3 registration rights

The holders of Registrable Shares will be entitled to certain Form S-3 registration rights. This means that, subject to certain qualifications, such Shareholders may require AirXpanders to file a Form S-3 registration statement to have their Shares registered, provided AirXpanders is qualified to do so. AirXpanders would not be required to effect more than two such Form S-3 registrations in any 12-month period. Depending on certain conditions, AirXpanders may defer such registration for up to 120 days once in any 12-month period.

12.
Additional information



12. Additional information

12.1 Resale restrictions, US Securities Act and Regulation S

The Public Offer is being made available to investors in reliance on the exemption from registration contained in Regulation S (relating to offshore offerings) of the US Securities Act. Accordingly, the CDIs to be issued under the Public Offer have not been, and will not be, registered under the US Securities Act or the laws of any state or other jurisdiction in the US.

As a result of relying on the Regulation S exemption, the CDIs which are issued under the Public Offer will be 'restricted securities' under Rule 144 of the US Securities Act. This means that you will not be permitted to sell the CDIs issued to you under the Public Offer into the US or to a US Person for a period of 12 months from the Allotment Date, unless the resale of the CDIs is registered under the US Securities Act or an exemption is available. Accordingly, the market for CDIs is likely to be limited to the ASX, and if the market outside of the US does not develop or is illiquid, purchasers of CDIs will be unable to sell the CDIs into the market within the US due to the restrictions on the transfer of CDIs.

To enforce the above restrictions, AirXpanders has requested that all CDIs issued under the Public Offer bear a 'FOR US' designation on the ASX. This designation is intended to automatically prevent any CDIs from being sold on the ASX to US Persons. However, you will still be able to freely transfer your CDIs on the ASX to any person other than a US Person.

(a) Regulation S and No Action Letter

An offer or sale of securities made in accordance with Regulation S will not be subject to US registration requirements. The requirements of Regulation S, as modified by the 7 January 2000 No Action Letter issued by the SEC to provide technical relief from CHESS compliance, are as follows:

- **Offshore transaction:** no offers or sales of securities may be made to US Persons;
- **No directed selling efforts:** AirXpanders or the Lead Manager must not engage in activities such as publishing or advertising in the US which could have the effect of conditioning the market;
- **Offering restrictions:** the Lead Manager must agree in writing to a range of restrictions to ensure compliance with Regulation S;
- **Distribution compliance period:** offers and sales may not be made to US Persons or for the account or benefit of US Persons for one year after the Public Offer; and
- **Compliance with No Action Letter:** AirXpanders and brokers must comply with obligations imposed under the No Action Letter, including:
  - restricting the ability for brokers to execute a transaction involving US Persons;
  - including restrictive legends on any certificated Shares issued to Shareholders;
  - identify the Shares and CDIs as restricted securities;
  - sending confirmations to purchasers of Shares that their Shares are subject to Regulation S; and
  - restricting the ability to transfer Shares that are not in compliance with Regulation S.

  AirXpanders has confirmed with the SEC that the guidance set forth in the No Action Letter is still applicable.

(b) Applicant representations regarding non-US status

As required by Regulation S and the No Action Letter, each Applicant will be deemed to have represented and agreed as follows:

- The Applicant is not a US Person and is not acting for the account or benefit of a US Person.
- The Applicant understands and agrees that, if in the future it decides to resell, pledge or otherwise transfer any CDIs (or underlying Shares), it will do so only:
  - outside the US in an offshore transaction in compliance with Rule 903 or Rule 904 under the US Securities Act;
  - pursuant to an effective registration statement under the US Securities Act; or
  - pursuant to an available exemption from the registration requirements of the US Securities Act, and in each case in accordance with all applicable securities laws.

- The Applicant agrees not to engage in hedging transactions with regard to CDIs (or underlying Shares) unless in compliance with the US Securities Act.
- The Applicant acknowledges that AirXpanders, the Lead Manager and others will rely upon the truth and accuracy of these acknowledgments, representations and agreements, and agree that if any such acknowledgments, representations or warranties deemed to have been made by virtue of its purchase of CDIs are no longer accurate, it must promptly notify AirXpanders and the Lead Manager.

(c) Purchaser representations of CDIs in the secondary market

The No Action Letter requires that purchasers of CDIs in the secondary market make similar certifications and agreements to the ones that Applicants make in the Public Offer regarding their status as non-US Persons.

(d) Requirements of the ASX and CUSIP Global Services

The No Action Letter requires that the ASX and entities like CUSIP Global Services take certain actions in order to comply with the provisions of the No Action Letter:

- The trading symbol that identifies particular securities on the ASX trading screens and elsewhere must be modified by adding a common identifier to indicate that the Regulation S securities are restricted. Accordingly, the CDIs issued under the Public Offer will be classified as FOR securities under the ASX Settlement Operating Rules, and will be identified on trading screens as being on the FOR list. For this purpose, 'Foreign Person' will be defined as a 'US Person', and the permitted foreign ownership level will be zero. As a result, no US Person may apply for CDIs under the Public Offer. If you have a CHESS Holder Identification Number designated as 'Foreign', you may not subscribe for CDIs under the Public Offer. If for any reason CDIs are purchased by a US Person, the CDIs will be divested under the ASX Settlement Operating Rules.
- The ASX will publish widely an explanation of the restricted stock identifier beginning a reasonable period prior to the initial quotation of the CDIs and continually thereafter.
- The CDIs will be identified in the records maintained by entities such as CUSIP Global Services, as restricted under the US Securities Act, so that participants in book entry clearance facilities and others that trade the CDIs will have notice that transfers of the CDIs to US purchasers are restricted and must qualify under an appropriate exemption.
- US entities may not participate in the ASX market, either as brokers or as market-makers.
- No ASX trading screens may be placed in the US.
- Whilst the ASX and ASX Settlement will maintain these procedures and systems, neither the ASX nor ASX Settlement is responsible for monitoring compliance with SEC requirements or US law, nor is the ASX or ASX Settlement responsible to third parties for any misfeasance by AirXpanders in relation to those procedures. If AirXpanders breaches US law, neither the ASX nor ASX Settlement is responsible for those breaches.

(e) Requirements of the Lead Manager and ASX Participants

The No Action Letter requires that the Lead Manager and ASX Participants take certain actions in order to comply with the provisions of the No Action Letter:

- Whether in the Public Offer or in secondary trading, neither the Lead Manager nor any other ASX Participants may execute a transaction on the ASX in Regulation S securities if that broker knows that the purchaser is a US Person or is acting for the account or benefit of a US Person.
- In connection with any purchase of CDIs, whether in the Public Offer or in secondary trading, the Lead Manager and any other ASX Participants must make all reasonable efforts to ascertain whether a purchaser is a US Person or is acting for the account or benefit of a US Person, and implement measures designed to assure reasonable compliance with this requirement.
- The confirmation sent to each Applicant in the Public Offer and each purchaser of CDIs in the secondary market trading will include a notice that the CDIs are subject to the restrictions of Regulation S.
- Any information provided by the Lead Manager to publishers of publicly available databases, such as Bloomberg and Reuters, about the terms of the issuance of the CDIs must include a statement that the CDIs have not been registered under the US Securities Act and is subject to restrictions under Regulation S.

(f) Requirements of AirXpanders

AirXpanders is also required to take the following actions:

> AirXpanders undertakes to provide notification of the Regulation S status of its CDIs in Shareholders communications such as annual reports, periodic interim reports, and notices of Shareholders meetings.

> The Bylaws must provide that the issuer will refuse to register any transfer of CDIs (or the underlying Shares) that would result in a contravention of or failure of any applicable law. This would include any transfer not made:
  - in accordance with the provisions of Regulation S (Rule 901 through Rule 905, and preliminary notes);
  - pursuant to registration under the US Securities Act; or
  - pursuant to an available exemption from registration.

> During the distribution compliance period, AirXpanders undertakes that any information provided by AirXpanders to publishers of publicly available databases, such as Bloomberg and Reuters, about the terms of the issuance of the CDIs must include a statement that the CDIs have not been registered under the US Securities Act and is subject to restrictions under Regulation S.

(g) Legending requirements

Global securities, certificates into which global securities may be subdivided and any physical certificate representing the Shares into which CDIs have been converted prior to the end of the restriction period must bear certain restrictive legends required under Regulation S and certain other pertinent provisions of the US Securities Act and the regulations promulgated under the US Securities Act. No Shares bearing the required restrictive legend may be transferred by the Registry or other transfer agent without a favourable opinion or counsel or the assurance that the transfer complies fully with the US Securities Act.

12.2 US periodic reporting requirements

Under applicable federal securities laws in the US, even if AirXpanders' securities are not traded on a US securities exchange, AirXpanders may be required to:

> file a Form 10 with the SEC; and

> become subject to regulation under the US Exchange Act, including filing annual, quarterly, and current reports on Forms 10-K, 10-Q and 8-K.

AirXpanders will be required to do so when it meets the thresholds of having (i) assets of more than US$10 million and (ii) either 2,000 or more holders of any class of equity securities or 500 or more holders of any class of equity securities who are not 'accredited investors' as defined in Rule 501 of Regulation D of the US Securities Act. Although the first threshold will be satisfied immediately following the Offers, AirXpanders can give no assurance as to the time the second threshold will be satisfied, and therefore the time that it will be subject to the US periodic reporting requirements set out above. Further, any ongoing US reporting requirements may be subject to legislative change from time to time.

AirXpanders' US periodic reporting requirements will be in addition to its periodic disclosure requirements under the Listing Rules, unless appropriate waivers can be obtained from the ASX.

12.3 Certificate of Incorporation and Bylaws

A summary of the rights attaching to Shares and the key provisions of AirXpanders' Certificate of Incorporation and Bylaws is set out in Section 11.6.

12.4 Underwriting Agreement

The Public Offer is being underwritten and managed by the Lead Manager pursuant to the Underwriting Agreement.

AirXpanders and the Lead Manager signed the Underwriting Agreement on 11 May 2015. Under the Underwriting Agreement, the Company appointed the Lead Manager as the underwriter and lead manager of the Public Offer. The following is a summary of the principal provisions of the Underwriting Agreement.

(a) Fees

AirXpanders has agreed to pay the Lead Manager:

> a management fee of $100,000;

> a capital raising fee of 5.5% of the gross proceeds of the Public Offer, excluding proceeds raised under the Public Offer by certain insiders (being the Company's current stockholders, directors, officers and employees and any other persons introduced by them) and any proceeds raised as a result of a sub-underwriting arrangement between the Lead Manager and an insider,

(together, the **Underwriting Fees**).

The Underwriting Fees will become payable by the Company on the Allotment Date. The actual amount of Underwriting Fees payable to the Lead Manager will not be known until the allocation of CDIs under the Public Offer.

In addition, AirXpanders must reimburse the Lead Manager for expenses in relation to the Public Offer, including legal costs and all other reasonable costs, up to a maximum of A$50,000.

(b) Representations, warranties and undertakings

AirXpanders gives various representations, warranties and undertakings to the Lead Manager, including that the documents issued or published by or on behalf of the Company in connection with the Public Offer comply with all applicable laws.

Subject to certain exceptions, AirXpanders has agreed that it will not, without the Lead Manager's prior written consent, issue, agree to issue or announce any issues of equity securities (or any securities convertible into or exchangeable for equity securities) at any time after the date of the Underwriting Agreement and before the expiration of 180 days after the Allotment Date.

(c) Indemnity

AirXpanders agrees to indemnify the Lead Manager and its officers, employees and agents against all claims, actions, proceedings, demands, liabilities or losses (including reasonable legal costs on a full indemnity basis) incurred by them in connection with the Public Offer and the offer documents.

(d) Termination events

The Lead Manager may, at any time on or before the Allotment Date, by notice to AirXpanders and without cost or liability to itself, terminate the Underwriting Agreement on the occurrence of a number of customary termination events, including (among others):

> a misleading or deceptive statement in the Prospectus;

> requirement to lodge a supplementary Prospectus;

> the Prospectus and other offer materials not complying with law;

> a breach of applicable laws;

> material alteration in the share capital or by-laws and charter of the Company without consent;

> an order or action by ASIC in relation to the Prospectus or the Public Offer;

> withdrawal of a consent given with respect to the Prospectus;

> ASX withdraws, qualifies or withholds its approval;

> notification of a deficiency in the Prospectus by a prescribed person;

> a delay of more than 2 business days without consent;

> withdrawal of the Offers by the Company;

> failure to give certificates required under the Underwriting Agreement;

> a representation or warranty given by the Company or any statements in a certificate given under the Underwriting Agreement being materially incorrect;

> material breach of the Underwriting Agreement;

- certain information provided to the Lead Manager being materially misleading or deceptive;
- a change of law which restricts or prohibits the Public Offer;
- insolvency of the Company;
- a change in the board directors or senior management of the Company;
- a material contract of the Company being breached, terminated, or varied in a material respect without the Lead Manager's consent, or being found void or voidable; or
- a material adverse change in the Company's assets or liabilities, financial position, profits and losses, or prospects;
- termination or material amendment of the Company's debt facility without the Lead Manager's consent;
- an investigation or proceeding in relation to the Company by a governmental authority;
- any entity associated with a Director of the Company who has undertaken a commitment fails to honour such commitment;
- a specified fall in the ASX All Ordinaries Index; or
- breakout of hostilities in prescribed regions.

Certain of these events will only give rise to a right to terminate if the Lead Manager has reasonable grounds to believe that the event will or there is a reasonable possibility that it will give rise to a material liability of the Lead Manager or the Lead Manager contravening any law, has or is likely to have a material adverse effect on the marketing, settlement or outcome of the Public Offer or of the likely trading price, or if it results or is likely to result in a material change in the financial position, performance or prospects of the Company.

If the Lead Manager validly terminates the Underwriting Agreement, it will have no obligations to subscribe for CDIs under the Public Offer and the Company will not be obliged to pay the Underwriting Fees, unless the Public Offer is withdrawn or does not proceed or is not completed and certain prescribed events within the Company's control occur (eg. an alternative financing in Australia).

12.5 Material agreements

(a) Shalon Ventures Licence Agreement

AeroForm® embodies inventions that have been patented in certain key jurisdictions. Certain of those patents are held by Shalon Ventures (either alone or jointly with AirXpanders). Shalon Ventures and AirXpanders have entered into a License Agreement dated 9 March 2005 (as amended on 9 March 2009 and 9 January 2012) in relation to those inventions (**Shalon Ventures Licence Agreement**).

Pursuant to the Shalon Ventures Licence Agreement, Shalon Ventures granted AirXpanders an exclusive licence to develop, make, have made, use, offer for sale, sell, have sold, import and export products that, but for the licence, would infringe one or more claims of the patents. The licence covers all human uses of self-expanding tissue expanders anywhere in the world and includes the right to sublicense.

In consideration for the licence, AirXpanders pays Shalon Ventures a running royalty of 3% of net sales of the licensed invention. If the amount of royalties paid in a calendar year is less than US$10,000, then AirXpanders also pays Shalon Ventures' out of pocket costs for prosecuting and maintaining the relevant patents. Each party indemnifies the other for any liability arising out of its material breach of the licence, or its gross negligence, intentional misconduct and illegal actions. AirXpanders also indemnifies the Shalon Ventures for any liability arising out of the commercialisation of products using the licence.

The term of the licence ends on the expiration of the last-to-expire valid claim or pending patent application of the patents set out in the licence. Either party may terminate the licence with 90 days' written notice if the other party materially breaches its obligations under the agreement and fails to correct the default within 90 days after a notice of the breach by the other party, unless the default is incapable of remedy within 90 days and the defaulting party has made good faith efforts to continue remedying the default. AirXpanders may also terminate the licence if Shalon Ventures becomes insolvent.

Please refer to Section 6.5(e) regarding the interests of two Directors (Mr Cheskin and Mr Shalon) in the Shalon Ventures Licence Agreement and Shalon Ventures generally.

(b) GE Agreement

Under a Loan and Security Agreement between AirXpanders and General Electric Capital Corporation (**GE**) dated 16 January 2014, as amended (**GE Agreement**), GE committed to providing two lines of credit to the Company of US$3.5 million each. The Company drew down US$3.5 million under the initial tranche on the date of the agreement, and the second tranche is due to expire on 30 June 2015. The Company does not have any current intention to draw down on the second tranche.

As at the date of this Prospectus, the first repayment of US$125,000 of principal has been made. A second repayment of the same principal amount is due to be repaid on 1 June 2015.

Pursuant to the GE Agreement, GE was granted a security interest in all of the Company's personal property except (i) a certain certificate of deposit held by the Company, and (ii) the Company's intellectual property (not including any rights to payment relating to such intellectual property).

The GE Agreement includes customary representations, warranties and covenants, including restrictions on the incurrence of additional indebtedness, and on additional liens, investments and dispositions, but does not include any financial maintenance covenants.

The GE Agreement includes standard events of default, including payment defaults, breaches of covenants following any applicable cure period, a material adverse effect, and events relating to bankruptcy and insolvency. Upon the occurrence of an event of default, a default interest of an additional 5% may be applied, and GE may declare any outstanding obligations immediately due and payable, as well as take other actions provided under the GE Agreement.

In connection with the GE Agreement, the Company issued warrants to GE that are convertible into 262,500 shares of Series E preferred stock at US$0.20 per share (**GE Warrants**). As a result of the Restructuring, the GE Warrants will become 52,500 Warrants convertible into Shares at US$1.00 per Share.

12.6 Related party transactions

(a) Current and proposed transactions

There are no existing agreements or arrangements and there are no currently proposed transactions in which AirXpanders was, or is to be, a participant, and in which any related party had or will have a direct or indirect material interest, except as set out in this Prospectus (including in relation to the compensation and other arrangements with the Directors described in Section 6.5 and the Shalon Ventures Licence Agreement described in Section 12.5(a)). In addition, certain Shares held by Directors will be subject to the registration rights described in Section 11.7.

(b) Policy for approval of future related party transactions

The Audit and Risk Committee is responsible for reviewing and approving all transactions in which the Company is a participant and in which parties related to AirXpanders, including its executive officers, Directors and certain other persons whom the Board determines may be considered related parties of AirXpanders (for the purposes of Chapter 2E of the Corporations Act), have or will have a material direct or indirect interest.

Certain transactions with related parties will also be subject to Shareholder approval under the Listing Rules.

12.7 Consents to be named and disclaimers of responsibility

Each of the parties referred to below has given and has not, before the issue of this Prospectus, withdrawn its written consent to being named in this Prospectus and to the inclusion, in the form and context in which it is included, of any information described below as being included with its consent.

Each of the parties referred to below, to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than the reference to its name and any statement or report included in this Prospectus with the consent of that party as described below:

- Canaccord Genuity (Australia) Limited has consented to being named in this Prospectus as the Lead Manager and the underwriter to the Public Offer in the form and context in which its name appears, but it does not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by Canaccord Genuity (Australia) Limited;

- Johnson Winter & Slattery has consented to being named in this Prospectus as the Australian legal adviser to AirXpanders in the form and context in which its name appears. Johnson Winter & Slattery does not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by it other than the summary of the Australian taxation implications in Section 10.2 of this Prospectus and, to the extent relating to Australian law, Section 10.4;
- Cooley LLP has consented to being named in this Prospectus as the US legal adviser to AirXpanders in the form and context in which its name appears. Cooley LLP does not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by it other than the summary of the US taxation implications in Section 10.3 of this Prospectus and, to the extent relating to US law, Section 10.4;
- ShayGlenn LLP has consented to being named in this Prospectus as AirXpanders' patent attorney in the form and context in which its name appears, and to the inclusion of its report in Section 9 of this Prospectus in the form and context in which it appears. ShayGlenn LLP does not otherwise make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by it;
- SingerLewak LLP has consented to being named in this Prospectus as AirXpanders' auditor in the form and context in which its name appears. SingerLewak LLP does not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by SingerLewak LLP;
- Grant Thornton Corporate Finance Pty Ltd has consented to being named in this Prospectus as the investigating accountant in the form and context in which its name appears, and to the inclusion of its Independent Limited Assurance Report in the form and context in which it appears, but it does not otherwise make any statement in this Prospectus;
- Computershare Investor Services Pty Limited has consented to being named in this Prospectus as the Registry for AirXpanders in the form and context in which its name appears. Computershare Investor Services Pty Limited has had no involvement in the preparation of any part of this Prospectus other than being named as the Registry and being consulted on the conversion of CDIs to Shares (and vice-versa); and.
- Barbara Baxter, Sofia Quintero and Marcy B have each consented to the inclusion of their personal case studies (including their names) in the form and context in which they respectively appear. None of these women otherwise make any statement in this Prospectus, nor is any statement in this Prospectus based on a statement made by any of them.

12.8 Expenses of the Offers

If the Offers proceed, the total estimated costs in connection with the Offers, including advisory, legal, accounting, tax, listing and administrative fees as well as printing, advertising and other expenses are currently estimated to be approximately US$2,800,000 or approximately A$3,685,000 (excluding GST).

12.9 ASX waivers and confirmations

The ASX has given AirXpanders 'in principle' advice that it would be likely to provide the confirmations and waivers described below on receipt of AirXpanders' application for admission to the Official List of ASX:

- a waiver from Listing Rule 1.1, condition 11, to the extent necessary to permit AirXpanders to have certain Options and Warrants on issue with an exercise price of less than A$0.20 per CDI;
- a confirmation that the terms and conditions of the Shares and the Class B Common Stock are appropriate and equitable for the purposes of Listing Rule 6.1;
- approval of the Class B Common Stock as an additional class of securities in accordance with Listing Rule 6.2;
- a confirmation that the cashless exercise of Options to be issued pursuant the 2015 Plan is appropriate and equitable for the purposes of Listing Rule 6.1;
- a waiver from Listing Rules 6.16, 6.19, 6.21 and 6.22 to the extent necessary to permit AirXpanders to continue the 2005 Plan and to have Options on issue under the 2005 Plan that do not comply with those Listing Rules;

- a waiver from Listing Rule 10.18 to the extent necessary to permit the accelerated vesting of Options granted to Scott Dodson and Barry Cheskin upon a change of control, pursuant to the terms of their existing contractual agreements with AirXpanders and pursuant to the terms of the grants under the 2005 Plan;
- a waiver from Listing Rule 14.2.1 to the extent necessary to permit AirXpanders not to provide in the proxy form for meetings, an option for CDI Holders to vote against:
  - a resolution to elect a Director; or
  - a resolution to appoint an auditor;
- confirmation that AirXpanders may accept nominations for the election of Directors in accordance with the timetable set out in the Bylaws for the purposes of Listing Rule 14.3;
- a waiver from Listing Rule 14.4 to the extent necessary to permit AirXpanders to comply with the statutory requirements imposed under Delaware law and the Bylaws with respect to the appointment of a Director to fill a casual vacancy on the Board or as an additional Director;
- a confirmation that AirXpanders may prepare its financial accounts in accordance with US GAAP and only in US dollars; and
- certain determinations with respect to the mandatory ASX escrow requirements for certain Existing Holders.

12.10 Foreign selling restrictions

This Prospectus does not constitute an offer in any jurisdiction in which, or to any person to whom, it would be unlawful to make such an offer. No action has been taken to register or qualify the CDIs or the Public Offer under this Prospectus, or to permit a public offering of CDIs, in any jurisdiction other than Australia.

The distribution of this Prospectus in jurisdictions outside of Australia may be restricted by law. It is the responsibility of any overseas Applicant to ensure compliance with all laws of any country relevant to their Application.

(a) Hong Kong

WARNING: This Prospectus has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the **SFO**). No action has been taken in Hong Kong to authorise or register this Prospectus or to permit the distribution of this Prospectus or any documents issued in connection with it. Accordingly, the CDIs have not been and will not be offered or sold in Hong Kong other than to 'professional investors' (as defined in the SFO).

(b) Singapore

This Prospectus and any other materials relating to the CDIs have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of CDIs, may not be issued, circulated or distributed, nor may the CDIs be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This Prospectus has been given to you on the basis that you are (i) an existing holder of the Company's Shares, (ii) an 'institutional investor' (as defined in the SFA) or (iii) a 'relevant person' (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this Prospectus immediately. You may not forward or circulate this Prospectus to any other person in Singapore.

Any offer is not made to you with a view to the CDIs being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire CDIs. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

(c) United Kingdom

Neither the information in this Prospectus nor any other document relating to the Offers has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (**FSMA**)) has been published or is intended to be published in respect of the CDIs. This Prospectus is issued on a confidential basis to 'qualified investors' (within the meaning of section 86(7) of FSMA) in the United Kingdom, and the CDIs may not be offered or sold in the United Kingdom by means of this Prospectus, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) of the FSMA. This Prospectus should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received in connection with the issue or sale of the CDIs has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of FSMA does not apply to the Company.

In the United Kingdom, this Prospectus is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (**FPO**), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together 'relevant persons'). The investments to which this Prospectus relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

12.11 Legal proceedings

As far as the Directors are aware, there are no current or threatened civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature in which AirXpanders is directly or indirectly concerned which are likely to have a material adverse effect on the business or financial position of AirXpanders.

12.12 Governing law

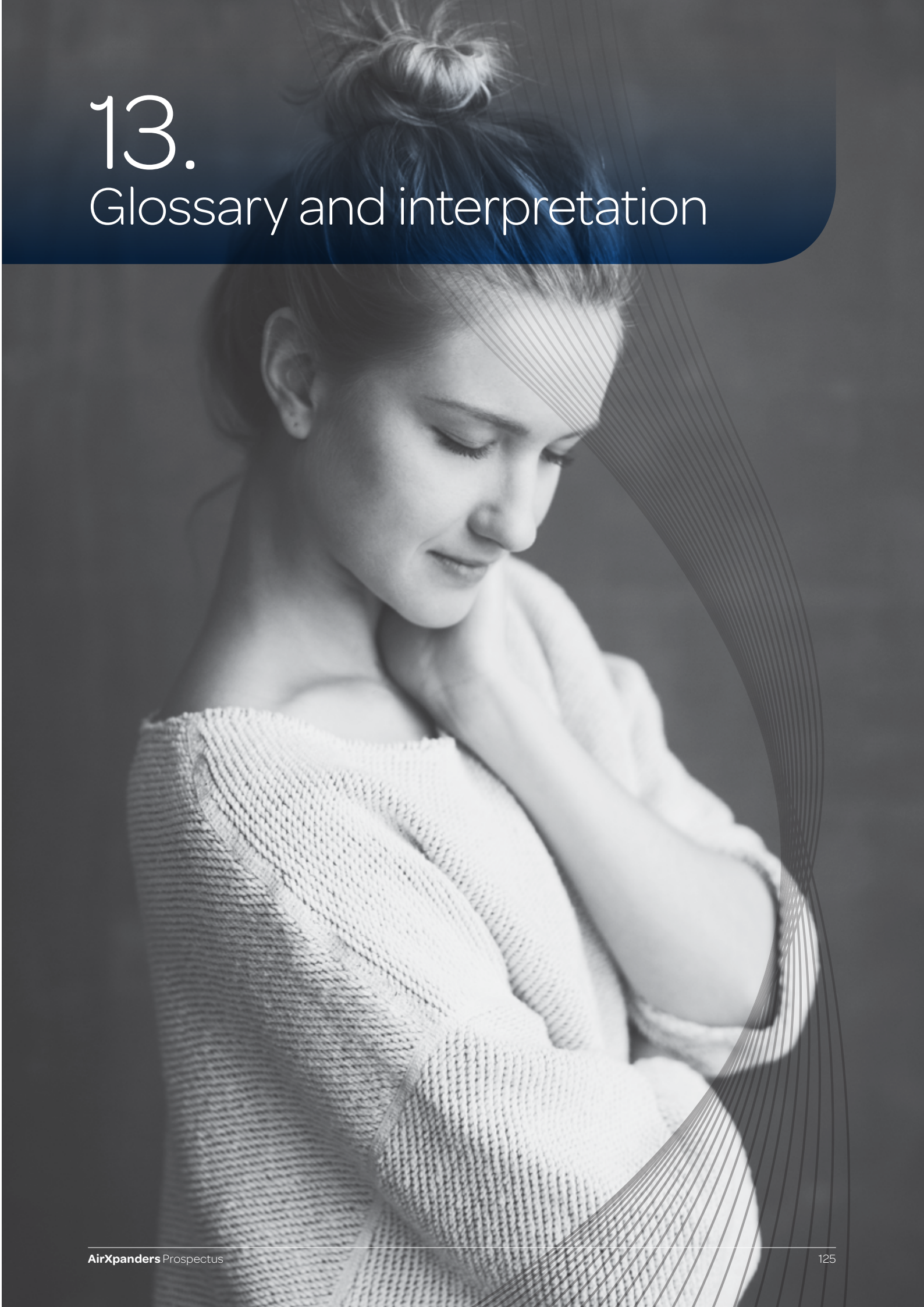
This Prospectus and the contracts that arise from the acceptance of the Applications are governed by the laws applicable in New South Wales and each Applicant submits to the exclusive jurisdiction of the courts of New South Wales.

12.13 Statement of Directors

The Directors report that after due inquiries by them, in their opinion, since the date of the financial statements in the financial information in Section 5, there have not been any circumstances that have arisen or that have materially affected or will materially affect the assets and liabilities, financial position, profits or losses or prospects of AirXpanders, other than as disclosed in this Prospectus.

Each Director has authorised and consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent before its lodgement with ASIC.

13.
Glossary and interpretation



13. Glossary and interpretation

13.1 Glossary

In this Prospectus, the following terms and abbreviations have the following meanings, unless the context otherwise requires:

2005 Plan	The 2005 Equity Incentive Plan described in Section 6.6(c)
2015 Plan	The 2015 Equity Incentive Plan described in Section 6.6(a)
A$ or Australian dollar	The lawful currency of Australia
AIFRS	Australian equivalent International Financial Reporting Standards
AirXpanders or Company	AirXpanders, Inc. a company incorporated in the State of Delaware in the US and registered in Australia as a foreign company (ABN 28 604 398 423)
Allotment Date	The date on which CDIs are allotted under the Public Offer, currently expected to be 12 June 2015
Applicant	A person who submits a valid Application
Application	An application to subscribe for CDIs under this Prospectus which is made on an Application Form and accompanied by the relevant Application Monies
Application Form	An application form attached to or accompanying this Prospectus (including any online Application Form)
Application Monies	The aggregate amount of money payable by an Applicant for CDIs applied for under the Public Offer
ARTG	The Australian Register of Therapeutic Goods, a computer database of all approved medicines and medical devices in Australia administered by the TGA
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited (ACN 008 624 691) or the Australian Securities Exchange, as the context requires
ASX Corporate Governance Principles	The *Corporate Governance Principles And Recommendations* of the ASX Corporate Governance Council as at the date of this Prospectus
ASX Participant	A 'Participant' within the meaning of the ASX Settlement Operating Rules
ASX Settlement	ASX Settlement Pty Limited (ABN 49 008 504 532)
ASX Settlement Operating Rules	The operating rules of the settlement facility provided by ASX Settlement
Board or Board of Directors	The board of Directors of AirXpanders
Bridge Financing	The US$6 million bridge financing described in Section 11.3
Broker Firm Offer	The invitation to Retail Investors in Australia who have received a firm allocation from their broker to acquire CDIs under this Prospectus
Bylaws	The Company's amended and restated bylaws which will be adopted by AirXpanders with effect from the Allotment Date
CDI Holder	A holder of CDIs
CDI or CHESS Depositary Interest	A unit of beneficial ownership of Shares, the rights of which are summarised in Section 11.5
CDN	CHESS Depositary Nominees Pty Limited (ACN 071 346 506 and Australian Financial Services Licence Number: 254514)
CE Mark	The Conformité Européenne Mark, being the approval to sell medical devices in the European Union that comply with the requirements of the applicable European Union directives
CEO	Chief Executive Officer

Certificate of Incorporation	The Company's amended and restated certificate of incorporation which will be adopted with effect on the Allotment Date
CFO	Chief Financial Officer
CGT	Capital Gains Tax
Chairman	The Chairman of the Board
CHESS	Clearing House Electronic Subregister System
Class B Common Stock	Class B common stock in the capital of AirXpanders with a par value of US$0.001 per share, the terms of which are set out in the Certificate of Incorporation
Closing Date	The date on which the Public Offer closes, currently expected to be 5.00pm (Sydney time) on 9 June 2015
CO_2	Carbon dioxide
Convertible Notes	The subordinated convertible promissory notes issued under the first tranche of the Bridge Financing
Corporations Act	*Corporations Act 2001* (Cth)
CUSIP Global Services	The body that administers the CUSIP and CUSIP International Numbering Systems for identifying investment instruments
Delaware General Corporation Law	Chapter 1 of Title 8 of the Delaware Code, which governs corporations incorporated in the US state of Delaware
Director	A director of AirXpanders
DvP Settlement	Has the meaning given in the ASX Settlement Operating Rules and is the process by which CHESS provides electronic securities transfer and electronic delivery versus payment settlement with monetary obligations between Participants being met directly between Participants and the funds transfer system of the banks
Existing Holder	A person holding Shares or other securities in AirXpanders immediately prior to completion of the Offers
Exposure Period	The period between the date of this Prospectus and seven days after that date, or such later date (not exceeding 14 days after the date of this Prospectus) as ASIC may require
FDA	The US Food and Drug Administration
FOR	Foreign Ownership Restriction
FY2012, FY 2013 and FY2014	The years ended 31 December 2012, 31 December 2013 and 31 December 2014 respectively
GBS Venture Partners	GBS Venture Partners Pty Ltd (ACN 072 515 247)
General Public Offer	The invitation to Retail Investors in Australia to acquire CDIs under this Prospectus
GST	Goods and Services Tax
Historical Financial Information	The following financial information in relation to AirXpanders: > summary historical statement of operations for FY2012, FY2013 and FY2014; > summary historical statement of cash flows for FY2012, FY2013 and FY2014; and > historical and pro forma balance sheets as at 31 December 2014.
IDE	Investigational Device Exemption, which is issued by the FDA following an extensive review of the device design, testing, manufacturing, clinical plan, statistical analysis and systems of the Company

Independent Limited Assurance Report	The report set out in Section 8
Indicative Exchange Rate	A$1.00 = US$0.76, being the exchange rate relied upon when preparing this Prospectus
Institutional Investor	An investor to whom offers or invitations in respect of securities can be made without the need for a lodged prospectus (or other formality, other than a formality which AirXpanders is willing to comply with), including in Australia, persons to whom offers or invitations can be made without the need for a lodged prospectus under section 708 of the Corporations Act (disregarding section 708AA)
Institutional Offer	The invitation to certain Institutional Investors in Australia, Hong Kong, Singapore, the United Kingdom and certain other overseas jurisdictions to acquire CDIs under this Prospectus
ISO	International Organization for Standardization
Key Managers	The CEO, CFO and senior management team of AirXpanders
Lead Manager	Canaccord Genuity (Australia) Limited (ABN 19 075 071 466)
Listing Rules	The official listing rules of the ASX, as amended from time to time
MDD	Medical Device Directive (Europe), containing laws relating to medical devices within the European Union
Medical Advisers	The Company's medical advisers, as summarised in Section 6.4
No Action Letter	The no action letter from the SEC dated 7 January 2000 to provide technical relief from CHESS compliance
Non-executive Director	A Director who is not a Key Manager
Notified Body	An organisation in the European Union that has been accredited to assess whether, in the case of a medical device, that the product confirms to the MDD
Offer Period	The period from the Opening Date to the Closing Date (inclusive)
Offer Price	A$0.50 per CDI (equivalent to A$1.50 per Share), being the amount payable in respect of each CDI under this Prospectus
Offers	The Public Offer and the US Private Placement
Official List	The official list of entities that the ASX has admitted and not removed from listing on the ASX
Opening Date	The date on which the Public Offer opens, currently expected to be 9.00am (Sydney time) on 25 May 2015
Option	An option to acquire Shares
Prospectus	This document, dated 11 May 2015 for the issue of 73,027,989 CDIs, including both hard copy and electronic versions, and any supplementary or replacement document
Prostheses List	A list produced by the Australian Department of Health. Private health insurers are required to pay benefits for surgically implanted prostheses on the list for appropriately insured persons
Public Offer	The Broker Firm Offer, General Public Offer and the Institutional Offer
Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any other person that AirXpanders appoints to maintain the register of CDIs, and in relation to Shares, includes any of its related bodies corporate responsible for the maintenance of the Share register
Regulation S	Regulation S promulgated under the US Securities Act
Restructuring	The restructuring described in Section 11.4

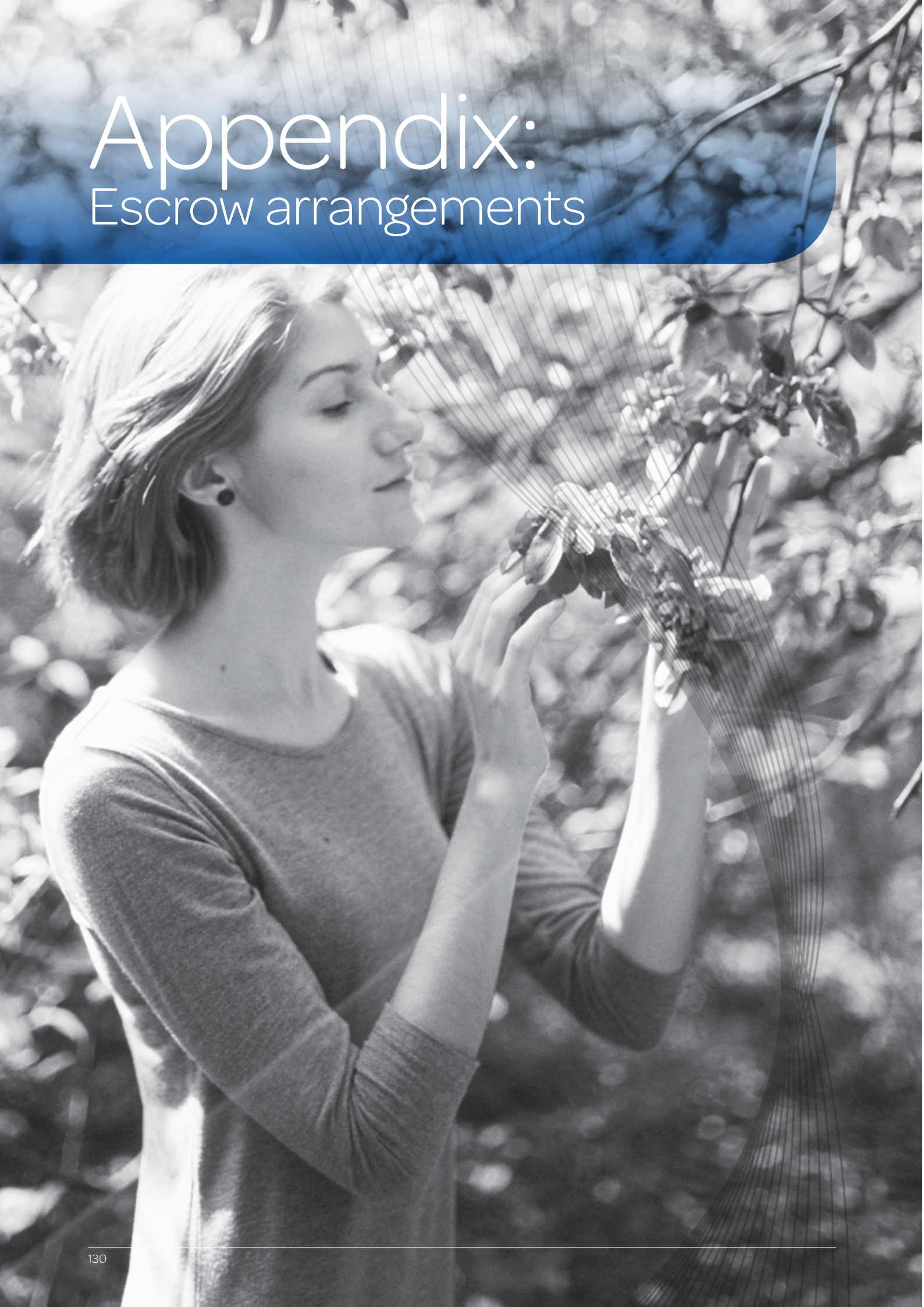
Retail Investor	An investor who is not an Institutional Investor
SEC	The US Securities and Exchange Commission
Section	A section of this Prospectus
Shalon Ventures	Shalon Ventures, Inc.
Shalon Ventures Licence Agreement	The agreement described in Section 12.5(a)
Share	A fully paid share of Class A common stock in the capital of AirXpanders with a par value of US$0.001 per share, the terms of which are set out in the Certificate of Incorporation
Shareholder	A holder of Shares
Successful Applicant	An applicant who is allotted CDIs under the Public Offer
TGA	Therapeutic Goods Administration in Australia
Underwriting Agreement	The underwriting agreement dated 11 May 2015 between AirXpanders and the Lead Manager under which the Lead Manager has underwritten the Offer
US Exchange Act	*Securities Exchange Act* of 1934 (US) (as amended to date and the rules and regulations promulgated thereunder)
US GAAP	US Generally Accepted Accounting Principles
US Holder	Has, in relation to taxation matters, the meaning given in Section 10.3
US Medicare	The health insurance programme administered by the US federal government and known as 'Medicare'
US or United States	The United States of America, its territories and provinces, any state of the United States of America and the District of Columbia
US Person	Has the meaning given to it in Rule 902(k) under Regulation S of the US Securities Act
US Private Placement	The US private placement of Shares to certain accredited investors in the US pursuant to Regulation D of the US Securities Act, described in Section 7.2
US Securities Act	*Securities Act* of 1933 (US), as amended to date and the rules and regulations promulgated thereunder
US$ or US dollar	The lawful currency of the US
Warrant	A warrant to acquire Shares

13.2 Interpretation

In this Prospectus, unless the context otherwise requires:

- the singular includes the plural, and vice versa;
- words importing one gender include other genders;
- other parts of speech and grammatical forms of a word or phrase defined in this document have corresponding meanings;
- terms used in this document and defined in the Corporations Act have the meanings ascribed to them in the Corporations Act; and
- other grammatical forms of a word or phrase defined in this document have a corresponding meaning.

Appendix:
Escrow arrangements



Appendix: Escrow arrangements

The following table sets out the periods during which certain Directors and Existing Holders will be restricted from dealing in some of their Shares, CDIs, Options and Warrants (as applicable).

As set out in Section 7.10, voluntary escrow arrangements apply as follows:

> 75% of the securities held by the holder (excluding Shares and CDIs acquired under the Offers) will escrowed for a period of 12 months from the date of quotation (unless the ASX mandatory escrow is more onerous); and

> 25% of the securities held by the holder (excluding Shares and CDIs acquired under the Offers) will be escrowed for a period of 24 months from the date of quotation,

referred to as the 'Variable' escrow period in the table below. Where a holder's securities are subject to ASX mandatory escrow and voluntary escrow, that holder appears in the table twice.

On listing, approximately 44,069,631 Shares will be the subject to escrow arrangements, being approximately 62.52% of the issued Shares. Final details of the escrow arrangements will be announced to ASX prior to the CDIs commencing trading on ASX.

See Section 7.10 for further information.

Name of escrowed party	Type of escrow	Escrow period (from date of the ASX quotation)	Indicative number of Shares held in escrow	Equivalent number of CDIs	Number of Options / Warrants held in escrow
Directors					
Barry Cheskin	ASX imposed	24 months	112,579	337,737	343,704 Options
Barry Cheskin	Voluntary	Variable	143,966[1]	431,898	343,704 Options
Dennis Condon	ASX imposed	24 months	–	–	114,061 Options
Scott Dodson	ASX imposed	24 months	–	–	2,284,625 Options
Tadmor (Teddy) Shalon[2]	ASX imposed	24 months	714,655	2,143,965	114,061 Options
Tadmor (Teddy) Shalon[2]	Voluntary	Variable	773,982	2,321,946	114,061 Options
Venture capital					
GBS Venture Partners as Trustee for the GBS Bioventures IV Trust	ASX imposed	Less than 3 months	354,593	1,063,779	–
		12 months	19,949[3]	59,847	–
GBS Venture Partners as Trustee for the GBS Bioventures IV Trust	Voluntary	Variable	15,213,077[1]	45,639,231	–
Vivo Ventures Fund VII, L.P.	ASX imposed	Less than 3 months	339,078	1,017,234	–
		12 months	28,489[3]	85,467	–
Vivo Ventures Fund VII, L.P.	Voluntary	Variable	15,370,700[1]	46,112,100	–
Vivo Ventures VII Affiliates Fund, L.P.	ASX imposed	Less than 3 months	7,390	22,170	–
		12 months	620[3]	1,860	–
Vivo Ventures VII Affiliates Fund, L.P.	Voluntary	Variable	335,002[1]	1,005,006	–

Appendix: Escrow arrangements

Name of escrowed party	Type of escrow	Escrow period (from date of the ASX quotation)	Indicative number of Shares held in escrow	Equivalent number of CDIs	Number of Options / Warrants held in escrow
Prolog Capital II, L.P.	ASX imposed	Less than 3 months	177,449	532,347	–
		12 months	4,383 [3]	13,149	–
Prolog Capital II, L.P.	Voluntary	Variable	6,607,030 [1]	19,821,090	–
Heron Capital Venture Fund I, L.P.	ASX imposed	Less than 3 months	68,034	204,102	–
		12 months	4,361 [3]	13,083	–
Heron Capital Venture Fund I, L.P.	Voluntary	Variable	2,657,334 [1]	7,972,002	–
Correlation Ventures, L.P.	ASX imposed	Less than 3 months	53,455	160,365	–
		12 months	3,606 [3]	10,818	–
Correlation Ventures, L.P.	Voluntary	Variable	2,381,030 [1]	7,143,090	–
Other					
Daniel I. Jacobs and Ronit Jacobs Revocable Trust	Voluntary	Variable	188,386	565,158	–
Samuel Sawan	Voluntary	Variable	86,062 [1]	258,186	15,000 Warrants
Ilene E. Sokoloff as trustee of the Bypass Trust of the Sokoloff Trust	Voluntary	Variable	82,800	248,400	–
Venture Lending & Leasing IV, LLC	Voluntary	Variable	115,131	345,393	66,578 Warrants
Venture Lending & Leasing V, LLC	Voluntary	Variable	115,131	345,393	66,578 Warrants

1 Includes Shares issued on conversion of Convertible Notes (and accrued interest).

2 Includes Shares held by Mr. Shalon directly and amongst seven trusts established for the benefit of members of Mr. Shalon's family.

3 These Shares are to be issued as a result of accrued interest on conversion of the Convertible Notes. The numbers stated are indicative only and assume the accrued interest is converted at a price of US$1.14 (based on an Offer Price of A$1.50 per Share and an exchange rate of A$1.00=US$0.76) and assume conversion on an Allotment Date of 12 June 2015. Accrued interest will convert at the Offer Price converted into US dollars at the prevailing A$:US$ exchange rate as reported by Bloomberg at the time of conversion.

Corporate directory

Board of Directors

Mr Barry Cheskin, Chairman
Mr Scott Dodson, President and CEO
Ms Brigitte Smith, Non-executive Director
Dr Albert Cha, Non-executive Director
Mr Teddy Shalon, Non-executive Director
Mr Dennis Condon, Non-executive Director

US office & headquarters

AirXpanders Inc.
1047 Elwell Court
Palo Alto, California 94303
United States of America
Telephone: + 1 650 390 9000
www.airxpanders.com

Registered address in Australia

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

Auditor

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

Australian legal adviser

Johnson Winter & Slattery
Level 25, 20 Bond Street
Sydney, New South Wales 2000
Australia
Telephone: + 61 2 8274 9555
www.jws.com.au

Lead Manager

Canaccord Genuity (Australia) Limited
Level 4, 60 Collins Street
Melbourne, Victoria 3000
Australia
Telephone: + 61 3 8688 9100
www.canaccordgenuity.com.au

Offer Information Line

Within Australia:	1300 634 423
Outside Australia:	+61 3 9415 4624
Hours of operation:	8.30am to 5.00pm (Sydney time), Monday to Friday during the Offer Period.

Management team

Mr Scott Dodson, President and CEO
Mr Mark Payne, Director of Research & Development
Ms Kathy Kelley, Director of Clinical Affairs
Mr Tony Morefield, Sr. Director of Operations
Mr John Lai, Director of Finance
Ms Naghmeh Nouri, Sr. Director of Quality and Regulatory

Registry

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne, Victoria 3001
Australia
Telephone: 1300 850 505 (within Australia) or
+61 3 9415 4000 (outside Australia)
www.computershare.com

Investigating accountant

Grant Thornton Corporate Finance Pty Ltd
Level 17, 383 Kent Street
Sydney, New South Wales 2000
Australia
Telephone: + 61 2 8297 2400
www.grantthornton.com.au

US legal adviser

Cooley LLP
3175 Hanover Street
Palo Alto, California 94304-1130
United States of America
Telephone: + 1 650 843 5000
www.cooley.com

Patent attorney

ShayGlenn LLP
2755 Campus Drive, Suite 210
San Mateo, California 94403
United States of America
Telephone: + 1 650 287 2160
www.shayglenn.com

Offer website

www.airxpandersipo.com

www.colliercreative.com.au #AIR0001

AirXpanders