

Micro-X Ltd
Appendix 4E
Preliminary final report

1. Group details

Name of entity:	Micro-X Ltd
ABN:	21 153 273 735
Reporting period:	For the year ended 30 June 2019
Previous period:	For the year ended 30 June 2018

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	20% to	1,931
Loss from ordinary activities after tax attributable to the owners of Micro-X Ltd	down	41% to	(9,834)
Loss for the year attributable to the owners of Micro-X Ltd	down	41% to	(9,834)

Dividends

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

Comments

The loss for the Group after providing for income tax amounted to \$9,834,000 (30 June 2018: \$16,595,000).

Refer to the Director's report in the 2019 Annual Report for additional information in the results during the financial year.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(3.08)	(2.05)

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
XinRay Systems Inc.	-	30%	(231)	(248)
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			(231)	(248)
Income tax on operating activities			-	-

The Group disposed of the investment in XinRay Systems Inc. during the period, with the corresponding gain on disposal recognised within the Statement of profit or loss and other comprehensive income within the 2019 Annual Report.

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

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

11. Attachments

Details of attachments (if any):

The Annual Financial Report of Micro-X Ltd for the year ended 30 June 2019 is attached.

12. Signed

Signed



Patrick O'Brien
Non-Executive Chairman

Date: 30 August 2019

For personal use only

Micro-X Ltd

ABN 21 153 273 735

Annual Financial Report - 30 June 2019

Micro-X Ltd
Corporate directory
For the year ended 30 June 2019

Directors

Peter Robin Rowland (Managing Director)
Patrick Gerard O'Brien (Non-Executive Chairman)
Alexander Bennett Gosling (Non-Executive Director)
Yasmin Anna King (Non-Executive Director)

Company secretary

Georgina Carpendale

Registered office

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

Principal place of business

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

Share register

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

Auditor

Grant Thornton Audit Pty Ltd
Grant Thornton House, Level 3
170 Frome Street
Adelaide, SA 5000
Phone: +61 8 8372 6666

Stock exchange listing

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

Website

www.micro-x.com

Micro-X Ltd
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Micro-X Ltd
Directors' report
For the year ended 30 June 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Micro-X Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

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

Peter Robin Rowland (Managing Director)
Patrick Gerard O'Brien (Non-Executive Chairman)
Alexander Bennett Gosling (Non-Executive Director)
Yasmin Anna King (Non-Executive Director)
Richard Nicholas Hannebery (Executive Director) - Resigned 15 April 2019
David Peter Neil Symons (Non-Executive Director) - Resigned 21 November 2018
James White McDowell (Non-Executive Director) - Resigned 31 August 2018

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

Principal activities

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

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

Dividends

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

Review of operations

The Group's focus in the 2019 Financial Year (FY) was the ramp up of supporting operational and manufacturing infrastructure for early commercial sales of its first product, the CARESTREAM DRX-Revolution Nano. This resulted in the first production revenues for the Group. In addition, future product developments were significantly advanced with the strategic partnering and funding put in place with Thales Group for Micro-X's counter-terrorism and airport security products, and the engineering and design work undertaken during the year for the Rover mobile x-ray for deployable military hospitals.

Commercialisation - CARESTREAM DRX-Revolution Nano

The CARESTREAM DRX-Revolution Nano or Nano, is a mobile x-ray for bedside imaging in hospital wards and intensive care units. The Nano is a Class II medical device with regulatory approvals now in place for sale of the Nano in 40 countries, including 510(k) approval from the United States Food and Drug Administration and CE marking in the European Union.

The Group's global distributor, Carestream Health, Inc. (formally Kodak Medical imaging) commenced early sales as the Nano was first featured 'for sale' on the Carestream exhibition stand at the annual Radiological Society of North America Scientific Meeting in Chicago in November 2018. There was strong procurement interest from conference delegates from all over the world. During the 2019 Financial year, these sales efforts were ramped up as regulatory approvals in new territories were added with sales of the Nano going into USA, Canada, UK, France, Germany, Italy, Singapore, Thailand, Korea and UAE. Additional marketing efforts are planned to support the additional sales expected in the next financial year.

The Group also received good customer feedback from a number of early customers in relation to the features of the Nano including its ease of use and maneuverability. The demonstrated reliability of the in-service units, as measured by service calls during the year, was also five times better than targeted.

Operations & Manufacturing

The Group significantly ramped its manufacturing capacity and facilities during the year.

One aspect of this was the next stage expansion of the Tonsley facility in Adelaide. This facility was increased to over 1,000m², in order to meet the medium term needs of Nano commercial production. Additional elements of the expansion included shielded rooms for customer x-ray demonstrations, additional mechanical engineering and laboratory spaces, dedicated areas and test facilities for security products and additional space for Rover production.

The Group also spent considerable resources during the year on its strategic Carbon Nano Tube (CNT) emitter tube in-sourcing project which took two years overall and was completed in July 2019. This project has delivered the Group its own, wholly-owned, proprietary x-ray tube and emitter for the Nano. This in-house manufacture also provides substantial benefits in reduced costs (increased product margins), reduced cycle time, improved quality, increased scalability and independence in the supply chain.

A key element of the Micro-X CNT emitter and tube in-sourcing project was to meet or improve existing reliability and performance standards and to effect a seamless transition from the existing supplier. The final stages of reliability testing of Micro-X tubes in the Nano cart is expected to be completed shortly. Once completed, the Adelaide-made x-ray tubes will replace those previously manufactured by a third party vendor, XinRay Systems Inc., which had been plagued with issues related to production yield and costs.

The Group has now created its own proprietary intellectual property around both the new CNT emitter and the method of manufacture, with a new patent now filed. This capability is also expected to provide enhanced flexibility in future product designs, including the Rover and the Mobile Backscatter Imager.

Other Products in Development

Rover Mobile X-ray:

The Group's second product in development is the 'Rover' Mobile X-ray for Deployed Military Medical facilities. This product is based on a high commonality of components with the Nano with design modifications for military applications including a higher energy x-ray capability for trauma patients, rapid battery swap-out capability and a ruggedised design. The Rover does not have a direct competitor in its market and is expected to attract higher sale price and margins than the Nano.

During the year, initial design work on the x-ray tube for the Rover was completed and a design project commenced for a high voltage power supply.

The Group also participated in bids with each of the five prime contractors competing for Defence Project JP2060, the procurement of a new deployable medical facility for the Australian Army. The Australian Department of Defence has made a source selection and contracting is expected in Q3 FY2020. This is expected to involve the Group selling a package including a number of Rover units into the project in late 2020.

The Group also was invited to present the Rover product and its capability in May 2019 to the US joint services Defense Health Agency at Fort Detrick near Washington DC. This confirmed an interest from the US Department of Defense in acquiring new lightweight, deployable diagnostic imaging technology.

Future Aviation Security Solutions in UK:

During the year, the Group completed its deliverables for its contract with the Defence Science and Technology Laboratory of the UK Ministry of Defence by presenting the imaging performance results from the concept demonstrator of a lightweight x-ray imaging system for detecting explosives hidden in consumer electronic devices.

Micro-X Ltd
Directors' report
For the year ended 30 June 2019

The Group also presented to the UK Department for Transport in London in September 2018 a model of a mobile scanner for secondary screening of carry-on baggage. This product concept created strong interest among the user community and the security team at Heathrow Airport gave an insight as to how this technology might be applied to a new automated checkpoint configuration.

Brain Tomographic Imaging for Stroke

During the year, the Group conducted a successful proof-of-concept trial of its Brain Tomographic Imager at the Royal Melbourne Hospital. The Group, in collaboration with the Melbourne Brain Centre, was awarded a Phase One grant of \$0.98 million under the MRFF Frontier Health Program to further this technology. This remains a future product opportunity in a market with significant unmet medical need.

Strategic Partnering with Thales Group

During the year, there was considerable focus to complete a transformational strategic alliance with Thales Group, the world-leading aerospace, defence, transportation and security technology company headquartered in Paris, France.

Underpinning the alliance, the Group and Thales will jointly design and manufacture a revolutionary new range of ultra-miniature x-ray tubes combining Micro-X's world-leading experience in CNT x-ray sources with Thales' 60 years' experience in x-ray devices. These tubes will be produced by Thales and manufactured in France, and will power both Thales' and Micro-X's future roadmap of innovative products for the security market including for a new high-speed airport checkpoint security system providing a quantum leap in throughput and threat detection.

The second part of the alliance is a collaboration on the global sales and support of Micro-X's counter-terrorism Mobile Backscatter Imager (MBI) for assessment of Improvised Explosive Devices (IEDs) forms. While the Group has made preparations for direct sales of the MBI to the Five Eyes alliance countries (USA, UK, Canada, Australia & NZ), Thales will sell the MBI product on an OEM basis throughout the rest of the world.

The contracts with Thales were signed at the end of the Q3 FY2019 and completion occurred on 2 July 2019 following Foreign Investment Review Board approval.

Financial Overview

The net loss for the Group and its subsidiaries (the Group) for the 2019 Financial Year after providing for income tax, amounted to \$9.834 million compared with a loss in the previous year of \$16.595 million. This net loss is comprised of:

- \$4.8 million in expenditure on research and development activity. Most of this was related to development work on emitter and tube technology, as well as the development and final productionisation of the first product, the Carestream DRX Revolution Nano or Nano. The balance of the research and development related to future products including the Rover, the MBI and the Tomo;
- \$5.1 million was spent on employee and direct costs during the year. This represented a \$1.0 million increase on prior period, driven by an increased headcount as the engineering and development team was expanded;

The reduction in the loss for the 2019 Financial Year was due to reductions in project development costs of \$2.6 million. This year there was also no impairment charge for the Group's investment in XinRay Systems Inc. (2018: \$6.80 million).

During the 2019 Financial Year the Group received funds from the following sources:

- \$1.9 million as customer receipts from the sale of the Nano unit and spare parts to Carestream Health, Inc.;
- \$1.2 million of the \$2.4 million Grant under the Advanced Manufacturing Growth Fund Grant by the Australian Government, Department of Industry, Innovation and Science;
- \$3.8 million for the Research and Development Tax Incentive cash for the 2017/18 Financial Year.

During the year, the Group raised \$3.0 million via an unsecured convertible notes and \$2.0 million was raised in a private placement of shares with attaching 1 for 2 call options.

The Group also executed a \$3.0 million loan facility agreement with R&D Capital Pty Ltd. The loan is repayable upon receipt of FY19 R&D Tax Refund from the Australian Tax Office.

Following the year end, in July 2019, the Group received the first A\$5.0 million from Thales under their 6 year A\$10 million convertible bond. The balance of these funds will be drawn as-required to support the planned technology and product development program. The Thales bonds will be convertible at any time during the sixth year of the loan at a 20% discount to the 30-day VWAP at the time of conversion. The bonds will pay an annual interest rate 185 bps above the 6-month Australian BBSW, equating to a rate of approximately 2.8% at present.

Significant changes in the state of affairs

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

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Matters subsequent to the end of the financial year

On 2 July 2019, the Group announced that Thales SA had completed a A\$10M investment, as part of a collaboration to finance the next generations of unique x-ray products.

Thales' investment was first announced on 1 April 2019, however was subject to certain conditions precedent including the approval of the Foreign Investment Review Board which has now been granted. Following completion of the deal, the first \$5M draw-down was made by the Group against the 6-year A\$10M convertible loan. The loan will be convertible at Thales' sole discretion, at any time in the 12 months following 2 July 2024, at a 20% discount to the 30-day VWAP at the time of conversion. The loan will pay an annual interest rate of 185 bps above the 6-month BBSW, equating to a rate of approximately 2.8% at present.

On 15 July 2019, the Group announced that it had reached substantial completion on a major technology project for the development and manufacture of the next generation of CNT x-ray tubes, proprietary to and manufactured by the Group.

The core of the Group's revolutionary technology platform involves an x-ray tube containing a CNT electron emitter. Originally this was manufactured by a third party supplier, XinRay, and this x-ray tube was the world's first and only not to use heated-filament electron emission which is the key to reducing size, weight, heat and power. Now the Group has its own proprietary CNT emitter, manufactured at its Tonsley facility in Adelaide, Australia. This technology will be used in all current and future x-ray products.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The Group's main focus moving forward is to maximize revenues and gross margins from the sale of the DRX Revolution Nano. This will involve working with Carestream Health to grow sales as well as developing and implementing strategies to access new markets. A cost-down production engineering project has also been initiated to increase gross margins on the product.

The second key focus in the coming financial year will be to bring the Group's second product, the Rover mobile military x-ray system into production and to market. The testing of imaging performance is expected during the second quarter of FY2020 and a new high voltage power supply to provide the increased energy is in development. Regulatory approval will also be undertaken in the first half of Calendar Year 2020, so that the Rover can be sold commercially in the second half of Calendar Year 2020.

Work with Thales will also be focused on the first fully-functional engineering prototype of the Mobile Backscatter Imager for the unmanned assessment of potential IEDs, the Group's third product.

Environmental regulation

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

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Directors' report
For the year ended 30 June 2019

Information on directors

Name:	Patrick O'Brien
Title:	Non-Executive Chairman
Qualifications:	LLB, B.Com, Grad Dip Applied Finance, MBA
Experience and expertise:	Patrick is managing director of Patrick O'Brien & Associates and a director of Red Rock Leisure, The Water & Carbon Group and O'Brien Capital. Patrick has over 25 years' business experience in Australia, the UK, Europe, Asia and the US including as an executive director with Macquarie Group where he led teams in corporate finance (Melbourne 1996-2005) and private equity (London 2005-2009). In this latter role Patrick was responsible for Macquarie's controlling stakes in, and chaired, large unlisted groups European Directories and National Grid Wireless. Prior to Macquarie, Patrick was a strategy consultant with McKinsey & Company and a lawyer with Minter Ellison.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Member of Nomination and Remuneration Committee and Member of Audit and Risk Committee
Interests in shares:	4,625,380 fully paid ordinary shares
Interests in options:	200,000 unlisted options exercisable at \$0.575 (57.5 cents) on or before 31/12/19; 400,000 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 31/12/19
Name:	Peter Rowland
Title:	Managing Director
Qualifications:	BSc., MBA, MIET, CEng, FAICD
Experience and expertise:	Peter worked in the engineering design, development and project management of innovative, high-technology military & scientific equipment in his early career in Scotland. In Australia, he ran an engineering design consultancy group, was director of business development at BAE Systems and then was managing director of ASX-listed Ellex Medical Lasers which designed and manufactured ophthalmic laser equipment. More recently he was vice president of Asia-Pacific operations for Biolase Technology Inc., a NASDAQ listed therapeutic medical device supplier.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Interests in shares:	12,425,000 fully paid ordinary shares
Interests in options:	696,556 unlisted options exercisable at \$0.575 (57.5 cents) on or before 31/12/19; 1,393,114 unlisted options exercisable at \$0.625 (62.5 cents) on or before 31/12/19
Name:	Richard Hannebery - Resigned 15 April 2019
Title:	Executive Director
Qualifications:	BA (Econ), Grad Dip Econ
Experience and expertise:	Richard has over 20 years' experience in commercial and financial advisory services with Merrill Lynch, Credit Suisse and JT Campbell & Co. He has 15 years' experience as a specialist in healthcare technology and intellectual property based companies at a business development and director level. Richard has extensive experience in strategy development and its implementation, as well as commercialisation, including direct negotiation of key sales and distribution agreements in various markets with large multinational medtech and technology companies. Richard is currently a board member and the part-time chief executive of ASX-listed Genera Biosystems Limited and a non-executive director of Australian Continence Solutions Pty Limited and its operating company Nurturecare (Aust) Pty Limited.
Other current directorships:	Genera Biosystems Limited (ASX:GBI) appointed 14 May 2013
Former directorships (last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	3,006,350 fully paid ordinary shares - As at 15 April 2019
Interests in options:	696,556 Unlisted Options exercisable at \$0.575 (57.5 cents) on or before 31/12/19; 1,393,114 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 31/12/19

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Name:	Dr. Alexander Gosling AM
Title:	Non-Executive Director
Qualifications:	AM, MA, DEng, FTSE
Experience and expertise:	Alexander has been working in the field of process and product development and related research and development for 50 years. He was a founding director of Invetech and was part of the management team that led Invetech to a public listing (as Vision Systems) and then to its acquisition by Danaher Corp for \$800M. He currently works in the area of technology commercialisation, advising universities, mentoring start-ups and sitting on the Boards of early stage companies. Alexander is an engineer, with an Honours degree from Cambridge University. He is a Fellow of the Academy of Technology and Engineering, a Fellow of the Institute of Engineers Australia and a Governor of the Warren Centre for Advanced Engineering. He was awarded an Honorary Doctorate in Engineering from Swinburne University and made a Member of The Order of Australia for services to engineering. He is a Member of the Australian Institute of Company Directors.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Chairperson of Nomination and Remuneration Committee and Member of Audit and Risk Committee
Interests in shares:	110,000 fully paid ordinary shares
Interests in options:	133,333 Unlisted Options exercisable at \$0.575 (57.5 cents) on or before 31/12/19; 266,668 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 31/12/19
Name:	David Symons - Resigned 21 November 2018
Title:	Non-Executive Director
Qualifications:	LLB, B.Com
Experience and expertise:	David has more than 15 years' experience in corporate strategy communications, private equity, investment banking, and corporate management. He has previously held executive roles at ABN AMRO Capital, Macquarie Bank, Merrill Lynch and Promina Group.
Other current directorships:	Nil
Former directorships (last 3 years):	Genera Biosystems Limited (ASX:GBI)
Special responsibilities:	Nil
Interests in shares:	2,220,200 fully paid ordinary shares - As at 21 November 2019
Name:	Yasmin King
Title:	Non-Executive Director
Qualifications:	BA (Econ)(Honours). MBA
Experience and expertise:	Yasmin is CEO of SkillsIQ Limited, the organisation that develops the National Occupational Standards for vocational qualifications in the Services and Health and Community services sectors. Yasmin was the inaugural NSW Small Business Commissioner and an Associate Commissioner for the Australian Consumer and Competition Commission, both positions leading to her detailed knowledge and experience in the areas of compliance and regulation. Yasmin has extensive experience in negotiation having run a successful consultancy in this area, including acting as lead negotiator for numerous State and Federal Government procurement contracts. She worked as a principal consultant for an international negotiation organisation coaching major ASX companies and public sector agencies including Department of Defence in contract negotiation. She has also served on both public and private sector boards. She is an adjunct of the Australian Graduate School of Management, delivering the conflict resolution and negotiation component of the Women in Leadership program. Yasmin holds a Bachelor of Economics (Honours) and a Master of Business Administration. She is a Fellow of the Australian Institute of Company Directors and a Fellow Certified Practicing Accountant.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Member of Nomination and Remuneration Committee and Chairperson of Audit and Risk Committee
Interests in shares:	50,000 fully paid ordinary shares
Interests in options:	320,000 Unlisted Options exercisable at \$0.625 (62.5 cents) on or before 01/12/20

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Name: James McDowell - Resigned 31 August 2018
Title: Non-Executive Director
Qualifications: LLB
Experience and expertise: Mr McDowell has more than 30 years of experience in international defence and aerospace sectors and has lived and worked in the UK, the USA, Korea, Singapore, Hong Kong and Australia. Mr McDowell joined BAE Systems in 1996 and his last executive appointment with the company was as Chief Executive Officer of their A\$5 billion annual turnover business operations in Saudi Arabia. Prior to this he was Chief Executive Officer of BAE Systems Australia for 10 years. Based in Adelaide, he drove a major expansion program as the company grew to become Australia's largest defence business. Prior to his time at BAE Systems Mr McDowell worked for 18 years at aerospace company Bombardier Shorts in legal, commercial and marketing positions, making a major contribution to that company's growth into the USA. In 2014, Mr McDowell was appointed by the Australian Federal Government to the team to conduct the First Principles Review of the Australian Department of Defence. The Team's 'One Defence' recommendations included transformational changes to structure, governance arrangements, accountabilities, processes and systems of Defence. Mr McDowell is also Chairman of the Australian Nuclear Science & Technology Organisation which is a centre-of-excellence in Australia for radiation safety and nuclear medicine research

Other current directorships: Nil
Former directorships (last 3 years): Austal Limited (ASX:ASB); Codan Limited (ASX:CDA)
Special responsibilities: Nil
Interests in shares: 60,000 fully paid ordinary shares - As at 31 August 2018

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

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

Company secretary

Georgina Carpendale is a Chartered Accountant with a First Class Honours Degree in Business specialising in Accounting. Georgina has 12 years' experience in the accounting profession. Georgina has 6 years' experience within the medical technology industry. Georgina is the Chief Financial Officer for Micro-X.

Meetings of directors

The number of meetings of the Group's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Patrick O'Brien	10	10	3	3	5	6
Peter Rowland	9	10	-	-	-	-
Richard Hannebery	9	9	-	-	-	-
David Symons	4	4	1	1	3	3
Alexander Gosling	8	10	3	3	6	6
Yasmin King	10	10	3	3	6	6
James McDowell	-	2	-	-	-	-

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

Remuneration report (audited)

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

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

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

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

Principles used to determine the nature and amount of remuneration

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

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

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

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

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

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

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

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

Non-executive directors remuneration

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

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

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

Executive remuneration

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

The executive remuneration and reward framework has four components:

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

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

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

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

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

Group performance and link to remuneration

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

Use of remuneration consultants

The Group did not engage any remuneration consultants during the financial year ended 30 June 2019.

Details of remuneration

Amounts of remuneration

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

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

- Peter Rowland (Managing Director)
- Patrick O'Brien (Non-Executive Chairman)
- Richard Hannebery (Executive Director of Corporate Development) - Resigned 15 April 2019
- David Symons (Non-Executive Director) - Resigned 21 November 2018
- Alexander Bennett Gosling (Non-Executive Director)
- Yasmin Anna King (Non-Executive Director)
- James McDowell (Non-Executive Director) - Resigned 31 August 2018
- Georgina Sarah Carpendale (Company Secretary & Chief Financial Officer)

Micro-X Ltd
Directors' report
For the year ended 30 June 2019

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments - Options	
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	Total
	\$	\$	\$	\$	\$	\$	\$
2019							
<i>Non-Executive Directors:</i>							
P O'Brien	60,000	-	-	-	-	4,353	64,353
A Gosling	36,529	-	-	3,470	-	2,902	42,901
D Symons*	15,000	-	-	-	-	(53,867)	(38,867)
Y King	36,529	-	-	3,470	-	10,808	50,807
J McDowell**	6,088	-	-	578	-	(13,504)	(6,838)
<i>Executive Directors:</i>							
P Rowland	277,500	-	-	26,363	-	-	303,863
R Hannebery***	253,333	-	-	-	-	-	253,333
<i>Other Key Management Personnel:</i>							
G Carpendale - CFO	168,000	-	-	15,200	-	-	183,200
	852,979	-	-	49,081	-	(49,308)	852,752

* Mr Symons resigned as Non-Executive Director on 21 November 2018. Share-based payment movement based on expiry of options upon 6 month anniversary of resignation.

** Mr McDowell resigned as Non-Executive Director on 31 August 2018. Share-based payment movement based on expiry of options upon 6 month anniversary of resignation.

*** Mr Hannebery resigned as Executive Director on 15 April 2019. Included in the cash salary amount is \$220k for work performed in an Executive Director capacity.

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

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

Micro-X Ltd
Directors' report
For the year ended 30 June 2019

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2019	2018	2019	2018	2019	2018
<i>Non-Executive Directors:</i>						
P O'Brien	93%	79%	-	-	7%	21%
A Gosling	93%	79%	-	-	7%	21%
D Symons*	100%	79%	-	-	-	21%
Y King	79%	63%	-	-	21%	37%
J McDowell**	100%	71%	-	-	-	29%
<i>Executive Directors:</i>						
P Rowland	100%	90%	-	8%	-	2%
R Hannebery***	100%	88%	-	-	-	12%
<i>Other Key Management Personnel:</i>						
G Carpendale - CFO	100%	100%	-	-	-	-

* Mr Symons resigned as Non-Executive Director on 21 November 2018. Share-based payment movement based on expiry of options upon 6 month anniversary of resignation and is not shown above.

** Mr McDowell was appointed as Non-Executive Director on 7 September 2017 and resigned on 31 August 2018. Share-based payment movement based on expiry of options upon resignation and is not shown above.

*** Mr Hannebery resigned as Executive Director on 15 April 2019.

Micro-X Ltd
Directors' report
For the year ended 30 June 2019

Service agreements

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

Name:	Peter Rowland
Title:	Managing Director
Agreement commenced:	1 September 2014
Term of agreement:	No fixed term. Micro-X or Mr Rowland may terminate the employment contract at any time provided that either party gives notice as follows: <ul style="list-style-type: none">• on or before 1 September 2016 – 3 months' notice;• on or before 1 September 2017 – 4 months' notice;• on or before 1 September 2018 – 5 months' notice; and• on or before 1 September 2019 – 6 months' notice.
Details:	<p>Annual salary is \$277,500 per annum plus 9.5% employer superannuation contributions (subject to annual review).</p> <p>Mr Rowland is entitled to an incentive payment of:</p> <ul style="list-style-type: none">• either 25% of his salary where all KPIs set by the Group are achieved, or• a relative percentage of his salary where one or more but not all KPIs are achieved. <p>Mr Rowland has been issued LTI interests, being share options. Details of these options are:</p> <ul style="list-style-type: none">• number of options issued: 2,089,670, in 3 tranches;• grant date: 1 September 2014;• vesting terms:<ul style="list-style-type: none">- 696,556 options vesting upon IPO (Tranche 1);- remaining options vest only upon satisfaction of service conditions as follows:<ul style="list-style-type: none">- 696,556 options vest 1 September 2016, provided he remains employed with the Group on that date (Tranche 2);- 696,558 options vest 1 September 2017, provided he remains employed with the Group on that date (Tranche 3);• exercise prices:<ul style="list-style-type: none">- Tranche 1 - \$0.575 (57.5 cents) per option;- Tranches 2 and 3 - \$0.625 (62.5 cents) per option;- expiry date: 31 December 2019.

Micro-X Ltd
Directors' report
For the year ended 30 June 2019

Name: Richard Hannebery - Resigned 15 April 2019
Title: Executive Director
Agreement commenced: 1 September 2014
Term of agreement: No fixed term. Micro-X or Mr Hannebery may terminate the employment contract at any time provided that either party gives notices as follows:
• on or before 1 September 2016 – 3 months' notice;
• on or before 1 September 2017 – 4 months' notice;
• on or before 1 September 2018 – 5 months' notice; and
• on or before 1 September 2019 – 6 months' notice.
Annual salary is \$40,000 per annum.

Details:

Mr Hannebery is entitled to an incentive payment of:
• either 25% of his salary where all KPIs set by the Group are achieved, or
• a relative percentage of his salary where one or more but not all KPIs are achieved.

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

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

Name: Georgina Carpendale
Title: Chief Financial Officer
Agreement commenced: 14 June 2016
Term of agreement: No fixed term. Micro-X or Ms Carpendale may terminate the employment contract at any time provided that either party gives notice as follows:
• on or before 14 June 2017 – 1 months' notice;
• on or before 14 June 2018 – 1 months' notice;
• on or before 14 June 2019 – 2 months' notice; and
• on or before 14 June 2020 – 2 months' notice.
Annual salary is \$176,000 per annum plus compulsory employer superannuation contributions (subject to review in January 2020).

Details:

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

Share-based compensation

Issue of shares

There were no shares issued to the directors and other key management personnel as part of compensation during the year ended 30 June 2019.

Micro-X Ltd
Directors' report
For the year ended 30 June 2019

Options

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

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
1 September 2014*	21 December 2015	31 December 2019		
			\$0.575	\$0.151
1 September 2014*	1 September 2016	31 December 2019		
			\$0.625	\$0.136
1 September 2014*	1 September 2017	31 December 2019		
			\$0.625	\$0.136
21 December 2015	21 December 2016	31 December 2019		
			\$0.575	\$0.151
21 December 2015	21 December 2017	31 December 2019		
			\$0.625	\$0.136
21 December 2015	21 December 2018	31 December 2019		
			\$0.625	\$0.136
5 December 2016**	1 December 2018	1 December 2020		
			\$0.625	\$0.142
5 December 2016**	1 December 2019	1 December 2020		
			\$0.625	\$0.142
11 September 2017***	11 September 2019	1 September 2021		
			\$0.625	\$0.128
11 September 2017***	11 September 2020	1 September 2021		
			\$0.625	\$0.128

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

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

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

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2019 are set out below:

Name	Number of options granted during the year 2019	Number of options granted during the year 2018	Number of options vested during the year 2019	Number of options vested during the year 2018
P Rowland	-	-	-	696,556
R Hannebery	-	-	-	696,556
P O'Brien	-	-	200,000	200,000
A Gosling	-	-	133,334	133,333
D Symons	-	-	133,334	133,333
Y King	-	-	160,000	-
J McDowell	-	320,000	-	-

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

Micro-X Ltd
Directors' report
For the year ended 30 June 2019

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

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

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

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
P Rowland	12,425,000	-	-	-	12,425,000
R Hannebery*	3,006,350	-	-	(3,006,350)	-
P O'Brien	4,625,380	-	-	-	4,625,380
A Gosling	110,000	-	-	-	110,000
D Symons**	2,220,200	-	-	(2,220,200)	-
Y King	50,000	-	-	-	50,000
J McDowell***	60,000	-	-	(60,000)	-
G Carpendale	19,000	-	-	-	19,000
	<u>22,515,930</u>	<u>-</u>	<u>-</u>	<u>(5,286,550)</u>	<u>17,229,380</u>

Micro-X Ltd
Directors' report
For the year ended 30 June 2019

- * Disposal shown is to recognise resignation of director on 15 April 2019 and hence removal of shareholding from disclosure as at 30 June 2019.
- ** Disposal shown is to recognise resignation of director on 21 November 2018 and hence removal of shareholding from disclosure as at 30 June 2019.
- *** Disposal shown is to recognise resignation of director on 31 August 2018 and hence removal of shareholding from disclosure as at 30 June 2019.

Option holding

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

	Balance at the start of the year	Granted as remuneration	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
P Rowland	2,089,670	-	-	-	2,089,670
R Hannebery*	2,089,670	-	-	(2,089,670)	-
P O'Brien	600,000	-	-	-	600,000
A Gosling	400,000	-	-	-	400,000
D Symons**	400,000	-	-	(400,000)	-
Y King	320,000	-	-	-	320,000
J McDowell***	320,000	-	-	(320,000)	-
	6,219,340	-	-	(2,809,670)	3,409,670

- * Cancellation shown is to recognise resignation of director on 15 April 2019 and hence removal of option holding from disclosure as at 30 June 2019.
- ** Cancellation of options upon 6 month anniversary of resignation being 21 May 2019.
- *** Cancellation of options upon 6 month anniversary of resignation being 28 February 2019.

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

The number of Convertible Notes purchased and still held by each director as at balance date, is set out below:

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

- * Director resigned on 15 April 2019, hence balance above is as at date of resignation.
- ** Director resigned on 21 November 2018, hence balance above is as at date of resignation.
- *** Director resigned on 31 August 2018, hence balance above is as at date of resignation.

There was no movement in the above convertible notes during the reporting period; being no take-up of additional notes or conversion of those previously held.

This concludes the remuneration report, which has been audited.

Micro-X Ltd
Directors' report
For the year ended 30 June 2019

Shares under option

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

Grant date	Expiry date	Exercise price	Number under option
1 September 2014*	31 December 2019	\$0.575	1,393,112
1 September 2014*	31 December 2019	\$0.625	2,786,228
21 December 2015	31 December 2019	\$0.575	999,999
21 December 2015	31 December 2019	\$0.625	2,000,001
5 December 2016	1 December 2020	\$0.625	320,000
1 April 2017	1 April 2021	\$0.625	2,500,000
			<u>9,999,340</u>

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

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

Shares issued on the exercise of options

There were no ordinary shares of Micro-X Ltd issued on the exercise of options during the year ended 30 June 2019 and up to the date of this report.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Group

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 25 to the financial statements.

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

Micro-X Ltd
Directors' report
For the year ended 30 June 2019

The directors are of the opinion that the services as disclosed in note 25 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

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

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

Rounding of amounts

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

Auditor's independence declaration

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

Auditor

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

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

On behalf of the directors



Patrick O'Brien
Non-Executive Chairman

30 August 2019

Auditor's Independence Declaration

To the Directors of Micro-X Ltd

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Micro-X Ltd for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



B K Wundersitz
Partner – Audit & Assurance

Adelaide, 30 August 2019

Micro-X Ltd
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

	Note	Consolidated 2019 \$'000	2018 \$'000
Revenue			
Sale of goods		1,931	845
Contract revenue		-	762
		<u>1,931</u>	<u>1,607</u>
Total revenue		<u>1,931</u>	<u>1,607</u>
Expenses			
Cost of sales		(1,762)	(634)
Loss on disposal of assets		(3)	-
Employee and director costs		(5,132)	(4,124)
Office and administrative expenses		(703)	(652)
Professional fees		(841)	(549)
Corporate expenses		(121)	(235)
Quality and regulatory		(52)	(35)
Project development costs		(4,755)	(7,413)
Depreciation and amortisation expense		(744)	(120)
Other expenses		(1,067)	(1,060)
Finance costs		(495)	(183)
Total expenses		<u>(15,675)</u>	<u>(15,005)</u>
Operating loss		<u>(13,744)</u>	<u>(13,398)</u>
Other income	5	4,141	3,895
Share of profits of associates accounted for using the equity method	6	(231)	(248)
Impairment of associate	31	-	(6,844)
Loss before income tax expense		<u>(9,834)</u>	<u>(16,595)</u>
Income tax expense	7	-	-
Loss after income tax expense for the year attributable to the owners of Micro-X Ltd		<u>(9,834)</u>	<u>(16,595)</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		132	240
Other comprehensive income for the year, net of tax		<u>132</u>	<u>240</u>
Total comprehensive income for the year attributable to the owners of Micro-X Ltd		<u>(9,702)</u>	<u>(16,355)</u>
		Cents	Cents
Basic earnings per share	34	(6.63)	(11.50)
Diluted earnings per share	34	(6.63)	(11.50)

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

Micro-X Ltd
Statement of financial position
As at 30 June 2019

	Note	Consolidated 2019 \$'000	2018 \$'000
Assets			
Current assets			
Cash and cash equivalents		1,606	4,068
Trade and other receivables	8	3,406	4,467
Inventories		1,272	1,550
Other		11	27
Total current assets		6,295	10,112
Non-current assets			
Investments accounted for using the equity method	9	-	1,911
Property, plant and equipment	10	1,748	393
Intangibles	11	1,828	2,239
Total non-current assets		3,576	4,543
Total assets		9,871	14,655
Liabilities			
Current liabilities			
Trade and other payables	12	4,253	5,321
Borrowings	13	3,000	4,600
Provisions	14	339	263
Total current liabilities		7,592	10,184
Non-current liabilities			
Borrowings and other financial liabilities	15	3,000	-
Derivative financial instruments	16	2,000	5,000
Provisions	17	257	198
Total non-current liabilities		5,257	5,198
Total liabilities		12,849	15,382
Net liabilities		(2,978)	(727)
Equity			
Issued capital	18	51,249	48,024
Foreign currency translation reserve	19	-	426
Convertible notes	20	5,000	-
Share based payments reserve	21	1,405	1,621
Accumulated losses		(60,632)	(50,798)
Total deficiency in equity		(2,978)	(727)

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

Micro-X Ltd
Statement of changes in equity
For the year ended 30 June 2019

Consolidated	Issued capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total deficiency in equity \$'000
Balance at 1 July 2017	48,024	1,317	186	(34,203)	15,324
Loss after income tax expense for the year	-	-	-	(16,595)	(16,595)
Other comprehensive income for the year, net of tax	-	-	240	-	240
Total comprehensive income for the year	-	-	240	(16,595)	(16,355)
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments (note 35)	-	304	-	-	304
Balance at 30 June 2018	<u>48,024</u>	<u>1,621</u>	<u>426</u>	<u>(50,798)</u>	<u>(727)</u>

Consolidated	Issued capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Convertible notes \$'000	Accumulated losses \$'000	Total deficiency in equity \$'000
Balance at 1 July 2018	48,024	1,621	426	-	(50,798)	(727)
Loss after income tax expense for the year	-	-	-	-	(9,834)	(9,834)
Other comprehensive income for the year, net of tax	-	-	132	-	-	132
Total comprehensive income for the year	-	-	132	-	(9,834)	(9,702)
Reclassification of convertible notes	-	-	-	5,000	-	5,000
Conversion of convertible notes	1,000	-	-	-	-	1,000
Issue of shares - placement	2,000	-	-	-	-	2,000
Disposal of investment (note 31)	-	-	(558)	-	-	(558)
Finance costs on conversion of convertible notes	225	-	-	-	-	225
<i>Transactions with owners in their capacity as owners:</i>						
Share-based payments (note 35)	-	(216)	-	-	-	(216)
Balance at 30 June 2019	<u>51,249</u>	<u>1,405</u>	<u>-</u>	<u>5,000</u>	<u>(60,632)</u>	<u>(2,978)</u>

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

Micro-X Ltd
Statement of cash flows
For the year ended 30 June 2019

		Consolidated	
	Note	2019	2018
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,818	1,173
Payments to suppliers (inclusive of GST)		(14,301)	(16,462)
Interest received		10	25
R&D incentive tax refunds		3,840	7,032
Interest paid		(259)	(176)
Net GST receipts		649	846
Rent expense		(316)	(276)
Grant funding received		1,405	-
Net cash used in operating activities	33	(7,154)	(7,838)
Cash flows from investing activities			
Payments for property, plant and equipment	10	(1,636)	(155)
Payments for intangibles	11	(72)	(112)
Net cash used in investing activities		(1,708)	(267)
Cash flows from financing activities			
Proceeds from issue of shares	18	2,000	-
Proceeds from issue of convertible notes	16	3,000	5,000
Proceeds from borrowings		3,000	1,600
Repayment of borrowings		(1,600)	-
Net cash from financing activities		6,400	6,600
Net decrease in cash and cash equivalents		(2,462)	(1,505)
Cash and cash equivalents at the beginning of the financial year		4,068	5,573
Cash and cash equivalents at the end of the financial year		1,606	4,068

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

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2019

Note 1. General information

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

Registered office

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

Principal place of business

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 August 2019. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

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

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

Other Income - Government subsidies

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

Note 2. Significant accounting policies (continued)

AASB 9 Financial Instruments

The Group has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

Impact to the Group assessed as below:

Recognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Financial assets are classified according to their business model and the characteristics of their contractual cash flows. Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Subsequent measurement of financial assets

For the purpose of subsequent measurement, the Group's financial assets are classified as financial assets at amortised cost.

Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of 'hold to collect' are accounted for at amortised cost using the effective interest method. The Group's trade and other receivables falls into this category.

Impairment of financial assets

AASB 9's new forward looking impairment model applies to the Group's investments held at amortised cost. The application of the new impairment model depends on whether there has been a significant increase in credit risk.

Trade and other receivables

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group has made an assessment in regard to expected credit losses for this reporting period and has determined that no expected credit losses can be foreseen, and hence have not impaired trade and other receivables at this point in time.

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely unchanged from AASB 139, the Group's financial liabilities were not impacted by the adoption of AASB 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Note 2. Significant accounting policies (continued)

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

The Group has designated its convertible note liabilities at FVPL in order to provide the most relevant information to users, and furthermore to keep consistency with initial recognition on inception of these instruments. An assessment will be made at each reporting period in regard to underlying valuation of this liability in regard to share price upon conversion of the convertible notes.

Impact of AASB 9 vs AASB 139

The only impact from change in accounting standards during the current period is the change in classification for trade and receivables from 'loans and receivables' per AASB 139 to 'amortised cost' per AASB 9. As noted above however, the Group has determined that no expected credit loss is to be recognised against these receivables and hence no change in the carrying amount of this asset in the current period.

AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below.

Going concern

The Group incurred a net loss after tax for the financial year ended 30 June 2019 of \$9.8M (year ended June 2018: \$16.6M) and had net cash outflows from operating activities of \$7.2M (year ended June 2018: \$7.8M). The Group had net deficit as for the financial year ended 30 June 2019 of (\$3.0M) (year ended June 2018: \$727K). The deficit was primarily caused by reductions in cash and receivables, the disposal of XinRay Systems Inc. investment, as well as increased borrowings with the second tranche of convertible notes sitting within liabilities as well as an increased loan balance to R&D Capital Pty Ltd. The convertible notes are a non-cash liability as there is no option for the noteholders to redeem a cash payment as the notes can only be converted to shares. The directors are satisfied that the consolidated entity is able to meet its working capital liabilities as and when they fall due.

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

- the operating loss and operating cash flow outcomes for the year ended 30 June 2019 reflect the results of the Group's major activities during that period, including the following, which were not directly revenue-generating nor cash-flow positive;
- the finalisation of research and development activities on the DRX Revolution Nano program which has now moved into full production, which will generate positive operating cash flows to the Group. Furthermore, the Group has begun development work on future product pipelines in order to continue to diversify the Group's operations;
- increased sales to customer, Carestream Health, consisting of both trial DRX-Revolution Nano units and service parts sales;
- convertible notes included within non-current liabilities are non-cash in nature and will not affect future cash-flows;
- the Group is planning to consolidate its operating activities at a profitable and cash flow-positive level going forward;
- as the Group is an ASX-listed entity, it has the ability to raise additional funds if required;
- the Group is due to receive approximately \$3.1M from the R&D tax incentive scheme in relation to FY2019 during Q1 FY20, \$3.0M of which will go to paying down the loan held with R&D Capital;
- the Group received a significant strategic investment with Thales in Calendar Year 2019; and
- the Board is of the opinion that the Group has sufficient funds to meet the planned corporate activities, research and development activities and working capital requirements.

Note 2. Significant accounting policies (continued)

The Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recognised in the financial report as at 30 June 2019.

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

Notwithstanding the above, there is a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

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

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Micro-X Ltd ('Company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. Micro-X Ltd and its subsidiaries together are referred to in these financial statements as the 'Group'.

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

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

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

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

Operating segments

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

Note 2. Significant accounting policies (continued)

Revenue recognition

The Group recognises revenue as follows:

Sale of goods

Revenue from sale of goods is currently recognised when the Group transfers control of assets to the customer and is recognised at a point in time only.

Control is determined to have transferred to the customer by reference to individual commercial contract terms with each customer.

Transaction price is then allocated on a per-unit basis, with a delivery of product on a unit-by-unit basis being considered as the performance obligation.

Amounts disclosed as revenue are net of sales returns and trade discounts.

Government subsidies

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

In relation to R&D, as the estimate is reliably measurable, the R&D tax incentive is measured on an accruals basis. AMGF Grants funds paid during the year are also being treated on an accruals basis.

Interest

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

Other revenue

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

Income tax

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

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

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

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

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

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

Note 2. Significant accounting policies (continued)

Current and non-current classification

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

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

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

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

Cash and cash equivalents

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

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 60 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on an average cost basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Associates

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

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

Note 2. Significant accounting policies (continued)

Property, plant and equipment

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

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

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

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

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

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

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

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

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

Intangible assets

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

Research and development

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

Patents and trademarks

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

Impairment of non-financial assets

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

Note 2. Significant accounting policies (continued)

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

Trade and other payables (Note 12)

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

Borrowings and other financial liabilities

Recognition and recognition

Financial liabilities are recognised at the fair value of the consideration received, when the Group becomes a party to the contractual provisions of the financial instrument.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

The Group has designated its convertible note liabilities at FVPL in order to provide the most relevant information to users, and furthermore to keep consistency with initial recognition on inception of these instruments. An assessment will be made at each reporting period in regard to underlying valuation of this liability in regard to share price upon conversion of the convertible notes.

Finance costs

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

Provisions

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

Employee benefits

Short-term employee benefits

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

Note 2. Significant accounting policies (continued)

Other long-term employee benefits

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

Share-based payments

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

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

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

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

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

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

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

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

Fair value measurement

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

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

Issued capital

Ordinary shares are classified as equity.

Note 2. Significant accounting policies (continued)

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

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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

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

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

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

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

Foreign Currency Translation

Functional and presentation currency:

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

Foreign currency transactions and balances:

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

Foreign operations:

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

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

Note 2. Significant accounting policies (continued)

AASB 16 Leases

AASB 16 was issued in January 2016 and it replaces AASB 117 Leases, AASB Interpretation 4 Determining whether an Arrangement contains a Lease, AASB Interpretation-115 Operating Leases-Incentives and AASB Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under AASB 16 is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

Transition to AASB 16

The Group plans to adopt AASB 16 under the modified retrospective approach from 1 July 2019. The Group will elect to apply the standard to contracts that were previously identified as leases applying AASB 117 and AASB Interpretation 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying AASB 117 and AASB Interpretation 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

The Group is still completing its detailed calculations in relation to transition under AASB 16. However an estimate of the impact is detailed below. Under the modified retrospective approach the approach adopted will be to recognise the right of use asset equal to the lease liability and therefore having no impact on retained earnings. It is expected that the value of the right of use asset and lease liability to be recognised will be between \$1.1m and \$1.3m. Note these estimates may be subject to further change upon completion of the detailed calculations for AASB 16 transition.

Note 3. Critical accounting judgements, estimates and assumptions

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

Share-based payment transactions (Note 34)

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

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

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

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

Income tax

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

Recovery of deferred tax assets

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

Research and development (R&D) tax incentive

The Group is entitled to claim R&D tax incentives in Australia. The R&D tax incentive is calculated using the estimated R&D expenditure multiplied by a 43.5% non-refundable tax offset. The Group accounts for this incentive as other income within the Statement of Profit or Loss and Other Comprehensive Income.

Note 4. Operating segments

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

Major customers

During the year ended 30 June 2019 approximately \$1.93M or 100% (2018: \$845K or 53%) of the Group's external revenue was derived from sales to Carestream. During the year ended 30 June 2019 none (2018: \$762K or 47%) of the Group's external revenue was derived from sales to Defence Science and Technology Group of the Department of Defence.

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Note 5. Other income

	Consolidated	
	2019	2018
	\$'000	\$'000
Interest received	10	25
R&D tax incentive refund*	3,076	3,838
Net foreign exchange gain/(loss)	(115)	7
Government grants income recognised per AASB 120	296	25
Net gain/(loss) on disposal of investments (note 30)	874	-
	<u>4,141</u>	<u>3,895</u>

*The R&D tax incentive refund is calculated based on combined eligible costs of \$7,998,929 (2018: \$8,827,427) which consist of direct development costs and direct employee compensation costs.

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

	Consolidated	
	2019	2018
	\$'000	\$'000
Share of profits of associates accounted for using the equity method	<u>(231)</u>	<u>(248)</u>

Note 7. Income tax

	Consolidated	
	2019	2018
	\$'000	\$'000
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	<u>(9,834)</u>	<u>(16,595)</u>
Tax at the statutory tax rate of 30%	(2,950)	(4,979)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	2	-
Share-based payments	(65)	91
Share of profits - associates	69	74
R&D tax incentive income	(923)	(1,151)
Feedstock adjustment	5	47
Other non-deductible expenses	-	(6)
R&D expenditure	2,427	2,648
Impairment of investment in associate	-	2,053
Disposal of investment in associate	(262)	-
Finance costs	68	-
Non-assessable income	(13)	-
	<u>(1,642)</u>	<u>(1,223)</u>
Current year tax losses not recognised	1,565	1,057
Current year temporary differences not recognised	<u>77</u>	<u>166</u>
Income tax expense	<u>-</u>	<u>-</u>

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Note 8. Current assets - trade and other receivables

	Consolidated	
	2019	2018
	\$'000	\$'000
Trade receivables	268	533
R&D tax incentive refund	3,076	3,840
Other receivables	-	25
	<u>3,344</u>	<u>4,398</u>
Deposits	-	4
GST receivable	62	65
	<u>3,406</u>	<u>4,467</u>

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

	Consolidated	
	2019	2018
	\$'000	\$'000
Investment in associate - XinRay Systems Inc.	-	1,911

Refer to note 31 for further information on interests in associates.

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

	Consolidated	
	2019	2018
	\$'000	\$'000
Leasehold improvements - at cost	244	244
Less: Accumulated depreciation	(70)	(46)
	<u>174</u>	<u>198</u>
Plant and equipment - at cost	1,110	132
Less: Accumulated depreciation	(187)	(49)
	<u>923</u>	<u>83</u>
Fixtures and fittings - at cost	83	67
Less: Accumulated depreciation	(61)	(38)
	<u>22</u>	<u>29</u>
Motor vehicles - at cost	10	28
Less: Accumulated depreciation	(3)	(1)
	<u>7</u>	<u>27</u>
Computer equipment - at cost	218	154
Less: Accumulated depreciation	(166)	(98)
	<u>52</u>	<u>56</u>
Work in progress - at cost	570	-
	<u>1,748</u>	<u>393</u>

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

Reconciliations

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

Consolidated	Leasehold improvements \$'000	Plant & equipment \$'000	Fixtures & fittings \$'000	Computer Equipment \$'000	Motor vehicles \$'000	Work in progress \$'000	Total \$'000
Balance at 1 July 2017	223	49	38	48	-	-	358
Additions	-	57	6	63	29	-	155
Depreciation expense	(24)	(23)	(16)	(55)	(2)	-	(120)
Balance at 30 June 2018	199	83	28	56	27	-	393
Additions	-	980	19	67	-	570	1,636
Disposals	-	(1)	(2)	(2)	(15)	-	(20)
Depreciation expense	(25)	(138)	(24)	(69)	(5)	-	(261)
Balance at 30 June 2019	<u>174</u>	<u>924</u>	<u>21</u>	<u>52</u>	<u>7</u>	<u>570</u>	<u>1,748</u>

Note 11. Non-current assets - intangibles

	Consolidated	
	2019 \$'000	2018 \$'000
Development - at amortised value	1,560	1,980
Patents and trademarks - at amortised value	268	259
	<u>1,828</u>	<u>2,239</u>

Reconciliations

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

Consolidated	Capitalised development costs \$'000	Patents & Trademarks \$'000	Total \$'000
Balance at 1 July 2017	1,980	147	2,127
Additions	-	112	112
Balance at 30 June 2018	1,980	259	2,239
Additions	-	72	72
Amortisation expense	(420)	(63)	(483)
Balance at 30 June 2019	<u>1,560</u>	<u>268</u>	<u>1,828</u>

Capitalised development costs

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

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

Recoverability of development costs

As a result of the impairment assessment at 30 June 2019, the directors and management of the Group determined that since commercial launch of the DRX Revolution Nano during the year, there were no triggers for impairment.

Note 12. Current liabilities - trade and other payables

	Consolidated	
	2019	2018
	\$'000	\$'000
Trade payables	2,060	3,528
Accrued payroll	103	64
PAYG	126	196
Unearned grant income	1,108	-
Other payables	856	1,533
	<u>4,253</u>	<u>5,321</u>

Refer to note 23 for further information on financial instruments.

Note 13. Current liabilities - borrowings

	Consolidated	
	2019	2018
	\$'000	\$'000
South Australian Government Financing Authority (SAFA) Loan*	-	3,000
R&D Capital Loan	3,000	1,600
	<u>3,000</u>	<u>4,600</u>

Refer to note 23 for further information on financial instruments.

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Note 13. Current liabilities - borrowings (continued)

Financing arrangements

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

	Consolidated	
	2019	2018
	\$'000	\$'000
Total facilities		
South Australian Financing Authority (SAFA) Loan*	3,000	3,000
R&D Capital Loan	3,000	3,200
	<u>6,000</u>	<u>6,200</u>
Used at the reporting date		
South Australian Financing Authority (SAFA) Loan*	3,000	3,000
R&D Capital Loan	3,000	1,600
	<u>6,000</u>	<u>4,600</u>
Unused at the reporting date		
South Australian Financing Authority (SAFA) Loan*	-	-
R&D Capital Loan	-	1,600
	<u>-</u>	<u>1,600</u>

*South Australian Government Financing Authority (SAFA) Loan is considered a non-current liability in 2019. Refer note 15 for further disclosure.

Note 14. Current liabilities - provisions

	Consolidated	
	2019	2018
	\$'000	\$'000
Annual leave	322	257
Deferred lease incentives	1	(5)
Payroll tax	16	11
	<u>339</u>	<u>263</u>

Note 15. Non-current liabilities - borrowings and other financial liabilities

	Consolidated	
	2019	2018
	\$'000	\$'000
South Australian Government Financing Authority (SAFA) Loan*	<u>3,000</u>	<u>-</u>

Refer to note 23 for further information on financial instruments.

*South Australian Government Financing Authority (SAFA) Loan was considered a current liability in 2018. Refer note 13 for further disclosure.

Note 16. Non-current liabilities - derivative financial instruments

	Consolidated	
	2019	2018
	\$'000	\$'000
Convertible notes payable*	2,000	5,000

Refer to note 23 for further information on financial instruments.

* April 2018 tranche of \$5.0M shown was classified to equity from non-current liabilities during the reporting period upon meeting the 'fixed-for-fixed' criteria. October 2018 tranche fair value equal to consideration paid, less converted amounts during the reporting period. Refer further explanation below.

Convertible Note Payable

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

April 2018 Convertible Note:

In order to classify this note, the Group assessed AASB9 and made assessment that the notes were derivative in nature as all characteristics under this section were met.

The 'fixed for fixed' test per AASB9 was then consequently assessed to determine whether the notes were of an equity or liability nature. As a qualifying capital raise did not occur before 30 September 2018, on maturity conversion the notes will convert into ordinary shares at a fixed price, indicating that this test is now passed, causing the notes to be change classification from liability to equity during the current reporting period.

In relation to the fair value of these notes, the Group has made the assessment to recognise the notes at the sum of consideration paid as at time of completion of convertible note capital raising. No fair value adjustments have been made to this instrument during the current reporting period.

October 2018 Convertible Note:

In order to classify this note, the Group assessed AASB9 and made assessment that the notes were derivative in nature as all characteristics under this section were met.

The 'fixed for fixed' test per AASB9 was then consequently assessed to determine whether the notes were of an equity or liability nature. Per the terms of the note, the continued variable nature of the conversion price and hence number of shares issued on conversion, indicates that the fixed-for-fixed test as noted above was failed and notes have been recognised as a financial liability and within scope of AASB 9. Per the terms of the notes and depending on qualifying capital raisings occurring, there is a floor price on conversion of \$0.23/share, and a ceiling price on conversion of \$0.40/share which has led to the above classification. The notes are perpetual in nature with no expiry date.

In relation to the fair value of these notes, the Group has made the assessment to recognise the notes at the sum of consideration paid as at time of completion of convertible note capital raising being \$3.0M, less amounts converted into shares to balance date. \$1.0M of notes was converted prior to reporting date, as per note 18, leaving a closing fair value of \$2.0M as at reporting date.

A number of factors were assessed before making this conclusion. The notes are inherently complex in nature, which makes valuation difficult and furthermore current volatility in the Group's share price has further added to this complexity. Comparisons were made between the 20 day VWAP prior to reporting date with a 20% discount applied per terms of the notes and the 20 day VWAP prior to reporting date, in relation to floor cap and maximum conversion price of the Convertible Notes. The 20 day VWAP was immaterially different from the initial issue price of these notes, which has further supported the fair value chosen.

Noted that a finance cost was recognised as at 31 December 2018 half-year reporting based on the share price as at that date, however this finance cost has now been eliminated based on the above factors and 20 day VWAP at 30 June 2019 reporting date. A finance cost was recognised on conversion of the two tranches before period end in relation to the 20% discount, which has been recognised within the statement of profit or loss and other comprehensive income.

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Note 17. Non-current liabilities - provisions

	Consolidated	
	2019	2018
	\$'000	\$'000
Long service leave	45	20
Deferred lease incentives	164	165
Warranties	48	13
	<u>257</u>	<u>198</u>

Note 18. Equity - Issued capital

	Consolidated			
	2019	2018	2019	2018
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	<u>156,093,707</u>	<u>144,350,698</u>	<u>51,249</u>	<u>48,024</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2017	144,350,698		48,024
Balance	30 June 2018	144,350,698		48,024
Issue of shares - placement	2 January 2019	7,407,401	\$0.270	2,000
Issue of shares - conversion of convertible notes (\$0.231 represents conversion at 20% discount to 20-day VWAP prior to conversion date per terms of security)	4 June 2019	2,161,695	\$0.231	500
Finance cost on conversion of convertible notes	4 June 2019	-	\$0.000	97
Issue of shares - conversion of convertible notes (\$0.23 represents conversion at floor price per terms of security)	14 June 2019	2,173,913	\$0.230	500
Finance cost on conversion of convertible notes	14 June 2019	-	\$0.000	128
Balance	30 June 2019	<u>156,093,707</u>		<u>51,249</u>

Ordinary shares

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

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

Capital risk management

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

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Note 19. Equity - Foreign currency translation reserve

	Consolidated	
	2019	2018
	\$'000	\$'000
Exchange differences on translating foreign operations	-	426

Note 20. Equity - Convertible notes

	Consolidated	
	2019	2018
	\$'000	\$'000
Convertible notes*	5,000	-

*Refer note 16 for further disclosure of convertible notes.

Note 21. Equity - Share based payments reserve

	Consolidated	
	2019	2018
	\$'000	\$'000
Share-based payments reserve	1,405	1,621

Share-based payments reserve

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

Movements in reserves

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

Consolidated	Share-based payment reserve \$'000	Total \$'000
Balance at 1 July 2017	1,317	1,317
Share option expense	304	304
Balance at 30 June 2018	1,621	1,621
Share option expense (note 35)	(216)	(216)
Balance at 30 June 2019	1,405	1,405

Note 22. Equity - dividends

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

Note 23. Financial instruments

Financial risk management objectives

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

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

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

Market risk

Foreign currency risk

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

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

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

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

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

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

Cash at bank of \$1.6M (2018: \$4.1M). The sensitivity of the cash at bank balance to changes in interest rate (of +/-1%) equates to +/- \$16,063 (2018: +/- \$40,680). The sensitivity of 1% is based on reasonable, possible changes, over a financial year, using the observed range of actual historical short-term deposit rate movements and management's expectation of future movements.

Credit risk

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Note 23. Financial instruments (continued)

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

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

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

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

Liquidity risk

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

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

Trade payables are generally payable on 30-day terms.

Remaining contractual maturities

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

Consolidated - 2019	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Interest-bearing - fixed rate</i>						
SAFA Loan*	6.75%	-	3,335	-	-	3,335
R&D Capital Loan**	9.00%	3,150	-	-	-	3,150
Total non-derivatives		3,150	3,335	-	-	6,485
Derivatives						
Convertible notes payable***	-	7,000	-	-	-	7,000
Total derivatives		7,000	-	-	-	7,000

* No debt covenants exist in relation to this facility.

Lender holds security over all present and after-acquired property of the Group, except the FY19 R&D refund from the ATO which is held by R&D Capital Pty Ltd as below.

Refer Note 13 for further disclosure of facility.

** Facility taken out with R&D Capital in relation to a prepayment loan on FY19 R&D refund from ATO.

No principle repayment due until the Group receives its FY19 refund or 31 December 2019, whichever is first.

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

No debt covenants exist in relation to this facility.

Lender holds security over the cash refund for the FY19 R&D refund from the ATO.

Refer Note 13 for further disclosure of facility.

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

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

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Note 23. Financial instruments (continued)

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

* No debt covenants exist in relation to this facility.

Refer Note 13 for further disclosure of facility.

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

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

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

No debt covenants exist in relation to this facility.

Refer Note 13 for further disclosure of facility.

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

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

Refer Note 2 for further disclosure of facility.

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

Fair value of financial instruments

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

Note 24. Key management personnel disclosures

Compensation

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

	Consolidated	
	2019	2018
	\$	\$
Short-term employee benefits	852,979	675,205
Post-employment benefits	49,081	52,001
Share-based payments	(49,308)	84,691
	<u>852,752</u>	<u>811,897</u>

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Note 25. Remuneration of auditors

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

	Consolidated	
	2019	2018
	\$	\$
<i>Audit services - Grant Thornton Audit Pty Ltd</i>		
Audit or review of the financial statements	89,500	87,000
<i>Other services - Grant Thornton Audit Pty Ltd</i>		
Other services	13,750	30,500
	<u>103,250</u>	<u>117,500</u>

Note 26. Contingent liabilities

The Group has no contingent liabilities as at 30 June 2019.

Note 27. Commitments

	Consolidated	
	2019	2018
	\$'000	\$'000
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	1,798	-
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	268	317
One to five years	1,806	2,262
More than five years	1,043	1,063
	<u>3,117</u>	<u>3,642</u>

Capital commitments relate to committed fitout and management charges for a further expansion of facilities at Tonsley

Operating lease commitments includes contracted amounts for a non-cancellable operating commercial property lease of a purpose-designed facility at Tonsley, South Australia. The lease will have a term of 10 years, with a 10-year option to renew. Annual lease payments are approximately \$189,000 and there is a 3.5% annual rent increase.

During the prior period, a contract was signed for an expansion of current office & production facilities at Tonsley, South Australia, with the Group taking custody of this new space after reporting date. The lease variation will fall in line with lease terms already standing for a period of 10 years, with a 10-year option to renew. Annual lease payments for this extension are approximately \$220,000 and there is a 3.5% annual rent increase. The Group have moved into the expanded facilities subsequent to year end.

Note 28. Related party transactions

Subsidiaries

Interests in subsidiaries are set out in note 30.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2019

Note 28. Related party transactions (continued)

Associates

Interests in associates are set out in note 31.

Key management personnel

Disclosures relating to key management personnel are set out in note 24 and the remuneration report included in the directors' report.

Transactions with related parties

During the year XinRay Systems Inc. was engaged by the Group to develop and produce the Carbon-Nano Tube for the DRX Revolution Nano. During the year the Group was invoiced under the Design and Development Agreement \$2.1M (2018: \$5.5M), and upon termination of that agreement was invoiced \$1.1M (2018: nil) under the subsequent Product Purchase Agreement.

Also during the year, \$220k was paid to Richard Hannebery for work performed in an Executive Director capacity.

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

Receivable from and payable to related parties

Noted as at reporting date, a \$60k payable to Patrick O'Brien is included within trade payables for director fees during the year.

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

Loans to/from related parties

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

Note 29. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2019	2018
	\$'000	\$'000
Loss after income tax	(9,877)	(16,618)
Total comprehensive income	(9,745)	(16,378)

Micro-X Ltd
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Note 29. Parent entity information (continued)

Statement of financial position

	Parent	
	2019	2018
	\$'000	\$'000
Total current assets	6,222	10,105
Total assets	9,799	14,648
Total current liabilities	9,587	10,215
Total liabilities	12,844	15,400
Equity		
Issued capital	51,250	48,024
Foreign currency translation reserve	-	425
Convertible notes	5,000	-
Share-based payments reserve	1,405	1,621
Accumulated losses	(60,700)	(50,822)
Total deficiency in equity	(3,045)	(752)

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

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 2019.

Contingent liabilities

The parent entity had no contingent liabilities as at 2019 and 2018.

Capital commitments - Property, plant and equipment

The parent entity had capital commitments for property, plant and equipment as at 2019 - refer Note 27 for further disclosure. The parent entity had no capital commitments for property, plant and equipment as at 2018.

Significant accounting policies

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

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

Note 30. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2019	2018
		%	%
Micro-X Incorporated	USA	100%	100%

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2019

Note 31. Interests in associates

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2019 %	2018 %
XinRay Systems Inc.	United States of America	-	30%
<i>Summarised financial information - at the point of disposal by the Group</i>			
		2019 \$'000	2018 \$'000
<i>Summarised statement of financial position to point of loss of significant influence</i>			
Current assets		3,236	2,878
Non-current assets		5,290	4,746
Total assets		8,526	7,624
Current liabilities		949	1,226
Non-current liabilities		1,536	28
Total liabilities		2,485	1,254
Net assets		6,041	6,370
<i>Summarised statement of profit or loss and other comprehensive income to point of loss of significant influence</i>			
Revenue		3,239	5,662
Expenses		(3,852)	(5,951)
Loss before income tax		(613)	(289)
Other comprehensive income		-	-
Total comprehensive income		(613)	(289)
<i>Reconciliation of the Group's carrying amount</i>			
Closing net assets		6,041	6,370
Group's share in %		30	30
Group's share in \$		1,812	1,911
Goodwill		-	6,844
Impairment Gain/(Loss)		-	(6,844)
Disposal of Investment*		(1,812)	-
Closing carrying amount		-	1,911

*During the period, the Group disposed of its 30% shareholding in XinRay Systems Inc. The disposal of the shares took place by way of a buy-back by XinRay. The proceeds of the disposal, which exceeded the carrying value of the Group's investment at that point in time, was used as a credit against invoices relating to the supply of x-ray tubes from XinRay.

Note 31. Interests in associates (continued)

An overall net gain of \$874k was recognised in relation to this transaction - refer note 5. Gain calculated as follows:

	2019 \$'000
Carrying value at point of disposal	(1,812)
Proceeds from disposal	2,160
Recycle of FX Translation reserve at disposal	558
Realised FX on invoices credited at disposal	(32)
	<hr/>
Net book gain on disposal	<u><u>874</u></u>

Note 32. Events after the reporting period

On 2 July 2019, the Group announced that Thales SA had completed a A\$10M investment, as part of a collaboration to finance the next generations of unique x-ray products.

Thales' investment was first announced on 1 April 2019, however was subject to certain conditions precedent including the approval of the Foreign Investment Review Board which has now been granted. Following completion of the deal, the first \$5M draw-down was made by the Group against the 6-year A\$10M convertible loan. The loan will be convertible at Thales' sole discretion, at any time in the 12 months following 2 July 2024, at a 20% discount to the 30-day VWAP at the time of conversion. The loan will pay an annual interest rate of 185 bps above the 6-month BBSW, equating to a rate of approximately 2.8% at present.

On 15 July 2019, the Group announced that it had reached substantial completion on a major technology project for the development and manufacture of the next generation of Carbon Nano Tube (CNT) x-ray tubes, proprietary to and manufactured by the Group.

The core of the Group's revolutionary technology platform involves an x-ray tube containing a CNT electron emitter. Originally this was manufactured by a third party supplier, XinRay, and this x-ray tube was the world's first and only not to use heated-filament electron emission which is the key to reducing size, weight, heat and power. Now the Group has its own proprietary CNT emitter, manufactured at its Tonsley facility in Adelaide, Australia. This technology will be used in all current and future x-ray products.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2019

Note 33. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2019	2018
	\$'000	\$'000
Loss after income tax expense for the year	(9,834)	(16,595)
Adjustments for:		
Depreciation and amortisation	744	120
Net loss on disposal of property, plant and equipment	19	-
Share of loss - associates	231	248
Share-based payments	(216)	304
Non-cash finance costs	225	-
Lease Incentive	5	12
Impairment of investments	-	6,844
Increase in warranties	-	13
Gain on disposal of XinRay investment	(874)	-
Change in operating assets and liabilities:		
Decrease in trade and other receivables	1,076	3,192
Decrease in trade and other payables	(40)	(1,758)
Increase in employee benefits	124	136
Increase in inventories	278	(354)
Increase in unearned income	1,108	-
Net cash used in operating activities	<u>(7,154)</u>	<u>(7,838)</u>

Note 34. Earnings per share

	Consolidated	
	2019	2018
	\$'000	\$'000
Loss after income tax attributable to the owners of Micro-X Ltd	<u>(9,834)</u>	<u>(16,595)</u>
	Cents	Cents
Basic earnings per share	(6.63)	(11.50)
Diluted earnings per share	(6.63)	(11.50)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>148,264,820</u>	<u>144,350,698</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>148,264,820</u>	<u>144,350,698</u>

Note 34. Earnings per share (continued)

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

The total number of options granted and outstanding is 9,999,340 of which 9,006,006 were vested at 30 June 2019.

The potential number of shares on conversion of the March 2018 mandatorily convertible notes which are unconverted is 12,500,000 ordinary shares based on conversion prices of \$0.40 (Ceiling Cap).

The potential number of shares on conversion of the October 2018 mandatorily convertible notes which are unconverted ranges from 8,695,650 ordinary shares to 5,000,000 ordinary shares based on conversion prices ranging from \$0.23 (Floor Cap) to \$0.40 (Ceiling Cap) respectively.

Basic EPS is calculated by dividing the loss for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the loss attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. It is noted that diluted EPS cannot be calculated on the loss for the year and accordingly the diluted EPS equals the basic EPS.

Note 35. Share-based payments

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

The general terms and conditions of the Award Options are:

Note 35. Share-based payments (continued)

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

Micro-X Ltd
Notes to the financial statements
For the year ended 30 June 2019

Note 35. Share-based payments (continued)

- issues to Non-Executive Directors (during 2018 financial year):
- one half (Tranche 1) vest on 11 September 2019, provided the holder remains employed by the Group on that date;
- one half (Tranche 2) vest on 11 September 2020, provided the holder remains employed by the Group on that date;
- exercise price for Tranche 1 and 2 is \$0.625 (62.5 cents) per option.
- these options expire on 1 September 2021;
- all options will be settled by issues of fully paid ordinary shares in the Group.

During the year the share-based payments expense recognised was -\$216K. This was driven by expiry of options held by previous directors and employees of the Group, upon both their resignation dates as well as 6 month anniversary from resignation.

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

2019							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/09/2014	31/12/2019	\$0.575	1,393,112	-	-	-	1,393,112
01/09/2014	31/12/2019	\$0.625	2,786,228	-	-	-	2,786,228
21/12/2015	31/12/2019	\$0.575	1,800,000	-	-	(799,999)	1,000,001
21/12/2015	31/12/2019	\$0.625	3,600,000	-	-	(1,600,001)	1,999,999
05/12/2016	01/12/2020	\$0.625	320,000	-	-	-	320,000
01/04/2017	01/04/2021	\$0.625	2,500,000	-	-	-	2,500,000
11/09/2017	01/09/2021	\$0.625	320,000	-	-	(320,000)	-
			12,719,340	-	-	(2,720,000)	9,999,340
Weighted average exercise price			\$0.612	\$0.000	\$0.000	\$0.537	\$0.613
2018							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/09/2014	31/12/2019	\$0.575	1,393,112	-	-	-	1,393,112
01/09/2014	31/12/2019	\$0.625	2,786,228	-	-	-	2,786,228
21/12/2015	31/12/2019	\$0.575	2,050,000	-	-	(250,000)	1,800,000
21/12/2015	31/12/2019	\$0.625	4,100,000	-	-	(500,000)	3,600,000
05/12/2016	01/12/2020	\$0.625	320,000	-	-	-	320,000
01/04/2017	01/04/2021	\$0.625	2,500,000	-	-	-	2,500,000
11/09/2017	01/09/2021	\$0.625	-	320,000	-	-	320,000
			13,149,340	320,000	-	(750,000)	12,719,340
Weighted average exercise price			\$0.612	\$0.625	\$0.000	\$0.608	\$0.612

Note 35. Share-based payments (continued)

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

Grant date	Expiry date	2019 Number	2018 Number
01/09/2014	31/12/2019	4,179,340	4,179,340
21/12/2015	31/12/2019	3,000,000	3,599,997
05/12/2016	01/12/2020	160,000	-
01/04/2017	01/04/2021	1,666,666	-
		<u>9,006,006</u>	<u>7,779,337</u>

The weighted average remaining contractual life of options outstanding at the end of the financial year was 0.84 years (2018: 1.81 years).

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

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

Micro-X Ltd
Directors' declaration
For the year ended 30 June 2019

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the directors



Patrick O'Brien
Non-Executive Chairman

30 August 2019

Independent Auditor's Report

To the Members of Micro-X Ltd

Report on the audit of the financial report

Opinion

We have audited the financial report of Micro-X Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- a giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Material uncertainty related to going concern

We draw attention to Note 2 in the financial statements, which indicates that the Group incurred a net loss of \$9.8 million during the year ended 30 June 2019, and as of that date, the Group's current liabilities exceeded its current assets by \$1.3 million. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
<p>Financial instruments – Notes 2, 16 and 20</p> <p>During the prior financial year, the Group issued 50,000 convertible notes with a collective face value of \$5.0 million.</p> <p>During the year ended 30 June 2019, there was a requirement to reconsider the classification of the convertible notes based on the agreed conversion terms when a Qualifying Capital Raise did not occur. Prior to the reclassification event, the notes were classified as a liability, but have subsequently been reclassified to equity following the satisfaction of the 'fixed for fixed' criteria.</p> <p>In October 2018, the Group issued a further 30,000 convertible notes with a face value of \$3.0 million, with similar conversion options to those above, but a modified window of time for a successful Qualifying Capital Raise.</p> <p>There were some conversion of tranches into issued capital of the Group during the year.</p> <p>Accordingly, management must consider the change in nature of the existing notes, as well as the classification of the new notes, and assess their classification and fair value in accordance with AASB 132 <i>Financial Instruments: Presentation</i> and AASB 9 <i>Financial Instruments</i>.</p> <p>These assessments can be complex and involve management judgement. These judgements include:</p> <ul style="list-style-type: none"> • whether the instrument includes an embedded or standalone derivative to be separately accounted for; • determining the appropriate classification of the instrument within the financial statements as defined in accounting standard AASB 132 <i>Financial Instruments: Presentation</i>; • determining the fair value of the upon initial recognition of the instrument, considering the following: <ul style="list-style-type: none"> – instrument as a whole; – liability component; – conversion features; and, if applicable – derivative component; and • determining the fair value of each component at 30 June 2019. <p>This area is a key audit matter due to the management judgements involved and valuation complexities of the instruments.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • obtaining the convertible note agreements to understand the terms and conditions of the contracts; • performing enquiries with management to understand the substance of the transaction in order to identify any surrounding circumstances that would influence the fair value of the convertible notes at 30 June 2019; • assessing the appropriateness of management's classification of the financial instrument in accordance with AASB 132; • assessing management's conclusions on identification of the separate components implied within the instrument; • evaluating the reasonableness of management's assigned fair value of each component upon initial recognition of the instrument, as well as any subsequent measurement at the reporting date; • reviewing the fair value on conversion of instruments during the year to share capital; and • assessing the adequacy of disclosures in the financial statements.

Key audit matter

How our audit addressed the key audit matter

Valuation and disposal of investment in associate – Notes 2, 9 and 31

On 28 February 2019, Management announced the execution of a binding agreement with XinRay to sell back the Group's 30% stake in exchange for the settlement of outstanding trade payables owed to the Associate, totalling approximately USD\$1.5 million (~AUD\$2.2 million).

Up to its disposal, the investment in XinRay was required to be measured in accordance with AASB 128 *Investments in Associates and Joint Ventures*.

Accounting for this transaction requires judgement and estimate by management to determine the carrying amount of the investment on the date of disposal.

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

Our procedures included, amongst others:

- reviewing the measurement of the performance captured in the investment up to the point of disposal, against the requirements of AASB 128, including the elimination of profit on related party sales;
- obtaining managements calculation of the profit on disposal of the investment and agreeing pertinent data to supporting documentation; and
- assessing the adequacy of the disclosures in the financial statements.

Recognition of research and development tax incentive – Notes 2, 3, 5 and 8

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

Management have performed a detailed review of the Group's total R&D expenditure to determine the potential claim under the R&D tax incentive legislation.

The receivable at year-end for the incentive was \$3.0 million. This represents an estimated claim for the period 1 July 2018 to 30 June 2019.

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

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

Our procedures included, amongst others:

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

Key audit matter

How our audit addressed the key audit matter

Valuation of intangible assets – Notes 2, 3 and 11

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

Management have performed a detailed review of the Group's total R&D expenditure to determine the potential claim under the R&D tax incentive legislation.

The receivable at year-end for the incentive was \$3.0 million. This represents an estimated claim for the period 1 July 2018 to 30 June 2019.

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

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

Our procedures included, amongst others:

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

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

The Directors are responsible for the other information. The other information comprises the information included in the Group's Annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Micro-X Ltd, for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



B K Wundersitz
Partner – Audit & Assurance

Adelaide, 30 August 2019

Micro-X Ltd
Shareholder information
For the year ended 30 June 2019

The shareholder information set out below was applicable as at 23 August 2019.

Distribution of equitable securities

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

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	22	-
1,001 to 5,000	270	-
5,001 to 10,000	173	-
10,001 to 100,000	550	-
100,001 and over	162	28
	1,177	28
Holding less than a marketable parcel	62	-

Equity security holders

Twenty largest equity security holders

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

	Ordinary shares Number held	% of total shares issued
BNP PARIBAS NOMINEES PTY LTD (IB AU NOMS RETAILCLIENT DRP)	15,606,470	9.51
MR PETER ROBIN ROWLAND	12,425,000	7.57
CARESTREAM HEALTH INC	9,405,000	5.73
UBS NOMINEES PTY LTD	9,160,211	5.58
NATIONAL NOMINEES LIMITED	5,200,590	3.17
HARMAN NOMINEES PTY LTD (HARMANIS INVESTMENT)	5,071,585	3.09
LONSDALE NOMINEES PTY LTD (THE LONSDALE FUND A/C)	4,625,380	2.82
HAMMOND ROYCE CORPORATION PTY LTD (LEN DAVID SUPER FUND A/C)	4,426,588	2.70
BRONTE INVESTMENTS PTY LTD (MCMAHON SUPERANNUATION A/C)	3,310,000	2.02
MEDDISCOPE PTY LTD (PODESTA FAMILY A/C)	3,244,565	1.98
OBRIEN PF PTY LTD (OBRIEN PENSION A/C)	3,190,804	1.94
ANGLESEA INVESTMENTS PTY LIMITED (DAMIEN OBRIEN FAMILY A/C)	2,485,288	1.51
WALES RIDING PTY LTD	2,481,400	1.51
BT PORTFOLIO SERVICES LIMITED (THE VABEN S/F A/C)	2,329,487	1.42
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,009,787	1.22
TITANIUM HOLDINGS (VIC) PTY LTD	1,873,450	1.14
DURBIN SUPERANNUATION PTY LTD (DURBIN FAMILY S FUND A/C)	1,833,175	1.12
KANAT NOMINEES PTY LTD (AARON KANAT ML A/C)	1,539,935	0.94
COMO GROUP HOLDINGS PTY LTD (KIRKWOOD SUPER FUND A/C)	1,465,378	0.89
O'BRIEN PF PTY LTD (OBRIEN PENSION FUND 2 A/C)	1,429,153	0.87
	93,113,246	56.73

Micro-X Ltd
Shareholder information
For the year ended 30 June 2019

Unquoted equity securities

	Number on issue	Number of holders
Unquoted options - Award options issued to directors and employees	9,999,340	9

Substantial holders

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

	Ordinary shares	
	Number held	% of total shares issued
MR PETER ROBIN ROWLAND AND ASSOCIATES	12,425,000	7.57
CARESTREAM HEALTH INC	9,405,000	5.73
UBS NOMINEES PTY LTD	9,160,211	5.58

Voting rights

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

Ordinary shares

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

Shares subject to escrow (Restricted Securities)

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

Options

Options do not have voting rights attached.

There are no other classes of equity securities.