

CAP-XX Limited
ABN 47 050 845 291

Annual report 2013

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Corporate directory

Directors

Patrick Elliott
Chairman

Anthony Kongats
Managing Director

Michael Quinn (Resigned December 31st, 2012)

Bruce Grey

Secretaries

Robert Buckingham
Michael Taylor

Notice of annual general meeting

The annual general meeting of CAP-XX Limited

will be held at:
CAP-XX Limited
Units 9 & 10, 12 Mars Road
Lane Cove NSW 2066
Australia

time: 7.00pm

date: 7th November 2013

Registered office

Suite 126
117 Old Pittwater Road
Brookvale NSW 2100
Australia

Principal place of business

Units 9 & 10
12 Mars Road
Lane Cove NSW 2066
Australia

Registrars to shares

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford
Victoria 3067
Australia

Registrars to depositary interests

Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol
BS99 6ZY
United Kingdom

Corporate directory (continued)

Nominated adviser and broker to the Company	Cenkos Securities 6.7.8. Tokenhouse Yard London EC2R 7AS United kingdom
Auditor	PricewaterhouseCoopers 201 Sussex Street Sydney NSW 1171 Australia
Solicitors to the Company as to Australian law	DibbsBarker Level 9, Angel Place 123 Pitt Street Sydney New South Wales 2000 Australia
Solicitors to the Company as to English law	Olswang Solicitors 90 High Holburn London WC1V 6XX United Kingdom
Bankers	Commonwealth Bank of Australia 120 Pitt Street Sydney, NSW 2000 Australia
Stock exchange listings	Shares are listed as Depositary Interests on AIM, a market regulated by London Stock Exchange plc under the code CPX
Website address	www.cap-xx.com

Chairman's statement

Interest in supercapacitor technology continues to increase on a worldwide basis, especially in the areas of automotive markets for larger cells and new emerging markets for the traditional CAP-XX products. The Company has made gains in the areas of product development, market awareness and overall operating performance.

Sales revenue for the 12 months to 30 June 2013, increased by AUD\$0.1 million to AUD\$3.6 million compared to AUD\$3.5 million in 2012. This 3% increase is due to a year on year volume increase of 6% despite the average selling price reducing by 3%, over the same period due to a competition in the market place. The focus on operational cost improvement through improved utilisation and increased yields is beginning to pay dividends with the gross margin increasing to 30.2% (2012: 21.4%). The reduction in total research and development expenditure was due to the reduction in other income. The other income in FY12 was comprised of government grants which required a one-off increase in CAP-XX R&D expenditure to support the receipt of the grant. The majority of this work was completed prior to July 2012. The operating result for the twelve months to 30 June 2013 was a loss of AUD\$2.3 million (2012: loss of AUD\$2.9 million) with cost control being the primary contributor to the improved result. The Company anticipates to be the recipient of a R&D tax incentive from the Australian Taxation Office with AUD\$1.0 million (2012: AUD\$1.1 million) expected to be received before the end of the current calendar year.

Since the launch of the sample quantity production line for the supercapacitor module for use in automotive applications, we have shipped product to automotive manufacturers and their tier-1 component suppliers for customer evaluation. This has led to enquiries including Non Disclosure Agreements (NDA's) being in place with world-wide tier 1 suppliers and automotive OEM's. Whilst initially developed for the Start-Stop applications, the module is gaining an interest and appeal in other automotive applications including road service repair. Further refinement and development of the module continues including the utilisation of new raw materials which is enhancing the performance of the module. The modest investment in plant and machinery located at Lane Cove has assisted with the timely delivery of sample modules and demonstrates the Company's capability of being able to produce the product at a relatively low cost of manufacturing. The Company remains confident, with the ongoing interest in the automotive module, that a licensing arrangement will be completed before the end of the current financial year.

As highlighted above, sales volumes were up 6% over the prior year with the majority of the sales still being generated by the Company's strong presence in the hand-held devices, point of sale systems and location tracking equipment. Orders continue to run at 3 months of sales which is consistent with historical averages. Sampling and testing from potential new customers is on the increase with interest from the medical, e-book reader, solid state drive, building and access control, consumer products and energy harvesting being the major markets. The sales start to the new financial year has been promising with the 1st quarter sales forecast to be above the Company's internal budget and above the prior year. The Average Sales Price is being held steady despite continuing competitive pressure from both end customers and competitors and the Directors expect it to remain relatively flat over the next 12 months.

Murata's sales volumes and associated royalties generated from the supercapacitor business remains disappointing at AUD\$50k in the financial year (2012: AUD\$47k). We understand through feedback from the distributors and end customers that Murata's presence in the markets is increasing. Murata has also informed the Company that it has been successful in securing design wins. It is also pleasing to note, that Murata continues to improve the product offering and last month released its latest new supercapacitors which are targeted at the solid state drive and communication system backup, power assistance for smart meters, and energy-harvesting markets. Given Murata's continuing commitment to the CAP-XX supercapacitor technology, the Company remains confident that the Murata royalties will grow in the near term.

The Company has embarked on a operational cost reduction process investigating methods to increase plant efficiency, reduce the cost of raw materials and improve current production yields. Progress to date is on track with the majority of the initiatives expected to begin making a positive contribution in the first half of the current financial year. Both contract manufacturers are progressing steadily and the Company is in the fortunate position of having excess production capacity which will be beneficial with the new sales opportunities that are being pursued.

CAP-XX was successful in completing a capital raise in August with 28,181,819 ordinary shares being issued at £0.055 per share. The proceeds will be used to further develop the automotive and surface mountable device and to extend the cost reduction program. Cash reserves, before the capital raising exercise stood at AUD\$1.1 million as at June 2013.

The Company has made solid progress in the areas of product development, cost reduction and the increase in sales. The Board remain confident that the progress will be sustained over the next 12 months especially in the above areas.



Patrick Elliott
Chairman

26 September 2013

Business Review

Review of Operations and Activities

Since CAP-XX, launched its first supercapacitor in 2002, approximately 9 million units have been sold. Since 2008, CAP-XX has established a new revenue stream with the commencement of license fees and other related payments including royalties from Murata. Whilst these payments have so far been modest, the Directors anticipate that they will increase in the future.

Sales revenue for the 12 months to 30 June 2013, increased by AUD\$0.1 million to AUD\$3.6 million compared to AUD\$3.5 million in 2012. This 3% increase is due to a year on year volume increase of 6% whilst the average selling price reduced by 3%, over the same period, due to a competitive market place. The Directors believe that the focus on operational cost improvement through improved utilisation and increased yields is beginning to pay dividends with the Gross Margin increasing to 30.2% (2012: 21.4%). The reduction in total research and development expenditure was due to the reduction in other income. The other income in FY12 was comprised of government grants which required a one-off increase in CAP-XX R&D expenditure to support the receipt of the grant. The major majority of this work was completed prior to July 2012. The operating result for the twelve months to 30 June 2013 was a loss of AUD\$2.3 million (2012: loss of AUD\$2.9 million) with cost control being the primary contributor to the improved result.

During the year, significant effort was made to redesign the Company's our products and processes to reduce manufacturing costs and to improve product performance. Results to date are encouraging and the Board expects to see the benefits progressively through the current financial year.

Business Environment

The Board believes that the portable electronic devices, one of the fastest growing segments of the electronics market, provide one of the greatest opportunities for CAP-XX's products. Driven by customer requests, manufacturers are constantly adding to the functions and applications available on these devices. This means that power management continues to be an increasingly important consideration. The other important factor is size as devices becomes smaller their capabilities increase.

Automotive applications such as Stop-Start systems, flat battery jump-starters, hybrid electric vehicles and electric vehicles are very attractive opportunity for CAP-XX's products. Numerous automotive OEMs and battery manufacturers have purchased samples and are currently evaluating CAP-XX's automotive products and the feedback to date has been pleasing. During the year, additional plant and equipment was purchased and commissioned to enhance our ability to produce these large supercapacitors and to assemble them into modules suitable for use in motor vehicles.

CAP-XX technology provides a competitive advantage over other supercapacitor manufacturers who are unable to match the CAP-XX technology for thinness, energy density and power density. Many competitors manufacture higher-capacity, large package devices and focus on applications where the combination of thinness, energy density and power density is not an issue. In the future, CAP-XX's surface mount capability will offer another very significant point of difference with the competition.

Strategies for Growth

The Company is in detailed discussions to secure business with global original equipment manufacturers active in portable consumer electronics. Relationships are being strengthened with these organisations and regular engineering meetings are held together with their integrated board providers and design teams. The Board are pleased with overall progress and is confident that the available market for supercapacitors is increasing as manufacturers become familiar with the technology. During the year new business was won in markets such as: security products; metering systems; flow control systems; location tracking; military products and mobile phone accessories.

The Company will continue to explore additional opportunities to increase the product offering both through the current distributors and direct to customers. These offerings may take the form of complementary energy storage devices and modules.

Separately, the Company is exploring the opportunities in several new markets to leverage its strong intellectual property and engineering expertise through new license agreements or joint ventures. Given the increasing levels of market interest in CAP-XX technology and high performance supercapacitors, the Company believes that the automotive market in particular offers significant opportunities for growth.

Outlook

The major short term focus for CAP-XX is to successfully complete the implementation of the product cost reduction strategies already underway and the licensing of its automotive and SMD technologies to end users and contract manufacturer partners. We will ensure that the increase in sales enquiries and associated demand are followed up, to maximise sales volumes from current and emerging markets; and to ensure that distributors are in place to support international demand for supercapacitor technology. We are encouraged by Murata's September launch of its second generation supercapacitor product, which is expected to drive royalties in 2014 and beyond. We are also delighted by the strong uptake from automotive manufacturers and their Tier-1 suppliers of our large supercapacitor as well as growing interest in our traditional product, following our first automotive contract award.

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of CAP-XX Limited (the Company or CAP-XX) and the entities it controlled at the end of, or during, the year ended 30 June 2013.

Directors

The following persons were directors of CAP-XX Limited during the financial year and up to the date of this report:

Patrick Elliott	Chairman
Anthony Kongats	Managing Director
Michael Quinn	(Resigned 30 st December 2012)
Bruce Grey	

Principal activities

The Group's principal continuing activities during the financial year consisted of the development, manufacture and sale of supercapacitors. There have been no significant changes in the nature of the Group's activities.

Dividends

No dividends were paid, declared or recommended during the financial year or since 30 June 2013.

Review of operations

The Group experienced net losses of \$2,279,432 during the year ended 30 June 2013 (2012: loss of \$2,912,819). Information on the operations and financial position of the Group and its business strategies and prospects is set out on pages 6 to 8 of this Annual Report.

Significant changes in the state of affairs

There were no significant changes in the Group's state of affairs during the financial year ended 30 June 2013.

Matters subsequent to the end of the financial year

On the 29th August, 2013, the Company successfully raised additional funding by way of issuing 28,181,819 new ordinary shares at £0.055 per share. Following this transaction the shares on issue totals 114,459,249.

Likely developments and expected results of operations

Information on likely developments in the Group's operations and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group holds an Environment Protection licence and is subject to standard waste management environmental regulations in respect of its research and manufacturing activities conducted at Lane Cove, Sydney, Australia. The licence requires discharges to air and water to be below specified levels of contaminants, and solid wastes to be removed to an appropriate disposal facility. These requirements arise under the Clean Air Act 1961, Clean Waters Act 1970, Pollution Control Act 1970, Noise Control Act 1975 and the Waste Minimisation & Management Act 1995.

During the year there were no breaches of the regulatory requirements.

Directors' report (continued)

Information on directors

Patrick Elliott *Non-executive director. Age 61.*

Experience and qualifications

Pat is a company director specialising in the resources sector with 35 years experience in investment and corporate management. His early career was at Consolidated Gold Fields Australia Limited and covered investment analysis and management, minerals marketing (copper, tin, rutile and zircon). In 1979 he went into investment banking and became Head of Corporate Finance for Morgan Grenfell Australia Limited in 1982. Pat subsequently became Managing Director of Natcorp Investments Ltd in 1986 which owned a number of manufacturing businesses. After its takeover he became an active early stage venture capital investor with an emphasis on resources. He is Chairman of Argonaut Resources NL, Australia Oriental Minerals NL and Tamboran Resources P/L. He is also a director of Platsearch NL Global Geoscience Limited and Crossland Uranium Mines Limited, and a number of privately owned companies. Pat holds an MBA in Mineral Economics (Macquarie University) and B Comm. (University NSW).

Specific Board responsibilities

Chairman of Audit Committee

Member of Remuneration Committee

Interests in shares and options

800,000 ordinary shares in CAP-XX Limited (including shares held by Panstyn Investments Pty Limited).

85,000 options over ordinary shares in CAP-XX Limited (including options held by Panstyn Investments Pty Limited).

Anthony Kongats *Managing Director. Age 55.*

Experience and qualifications

Anthony founded the Company in 1997. Prior to CAP-XX, he was the managing director of a manufacturer of passive components before selling the business to a competitor. Previously, Anthony worked as a management consultant with McKinsey & Company and held various engineering positions in Australia and Europe. He has a Bachelor of Engineering degree (honours) in engineering from the University of New South Wales, a Bachelor of Science degree from the University of Sydney and an MBA from the Australian Graduate School of Management.

Specific Board responsibilities

Nil.

Interests in shares and options

5,232,151 ordinary shares in CAP-XX Limited (including shares held by Ducon Management Pty Limited and Management Matters Pty Limited).

911,828 options over ordinary shares in CAP-XX Limited.

Bruce Grey *Non-executive director. Age 67.*

Experience and qualifications

Bruce was Managing Director of the Bishop Technology Group Limited, prior to becoming Managing Director of the Advanced Manufacturing Cooperative Research Centre. Bruce has been an Executive Director of two Australian public companies and for 10 years until 2009, was Chairman of a German joint venture between Bishop and Mercedes-Benz Lenkungen GmbH. Bruce has more than 20 years experience in managing industry R&D and 30 plus years experience in international commercialisation of Australian innovation and has been directly responsible for creating new manufacturing facilities in Germany, Thailand and South Korea and indirectly the US, all based on Australian innovation. Bruce was Group General Manager of Clyde Industries Limited from 1985 until 1995. In 2005 Bruce was appointed Chairman of the Federal Government's Advanced Manufacturing Action Agenda and is currently Chairman of the IP and Commercialisation Committee for the Murdoch Children's Research Institute and also Chairman of the Victorian Government's Small Technology Industry Uptake Program, Expert Advisory Panel. In 2013 Bruce was appointed to the Australian Federal Government's Clean Technology Investment Committee. Bruce is a Fellow of the Australian Academy of Technological Sciences and Engineering.

Specific Board responsibilities

Member of Audit Committee

Interests in shares and options

Nil

Directors' report (continued)

Company Secretaries

The Company Secretary is Robert Buckingham.

Robert is Managing Partner of Allan Hall Partnership, Chartered Accountants, a position he has held since 1989. He has a Bachelor of Commerce degree (honours) from the University of New South Wales and is a member of the Institute of Chartered Accountants in Australia and an Associate Member of CPA Australia.

On 25 November, 2008, Michael Taylor, Chief Financial Officer, was appointed as Co- Company Secretary.

Michael graduated from Kuring-Gai College with a Bachelor of Business and from Macquarie University with a Master of Applied Finance. He is a member of CPA Australia.

Meetings of Directors

The number of meetings of the Company's board of directors and of each board committee held, during the year ended 30 June 2013, and the number of meetings attended by each director were:

	Full Meetings of Directors		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Patrick Elliott	7	6	2	2	2	2
Michael Quinn	3	3				
Bruce Grey	5	5	2	2	2	2
Anthony Kongats	7	7				

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

Directors' remuneration

Details of the remuneration of each director of CAP-XX Limited, for the year ended 30 June 2013, are set out in the following table. The cash bonuses are dependent on the satisfaction of performance conditions. All other elements of remuneration are not directly related to performance.

Directors of CAP-XX Limited

2013 Name	Primary			Post-employment		Equity	Total \$
	Cash salary and accrued fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	
<i>Executive directors</i>							
Anthony Kongats	323,535	-	-	24,714	-	37,175	385,424
<i>Non-executive directors</i>							
Michael Quinn	24,500	-	-	-	-	-	24,500
Patrick Elliott	36,750	-	-	-	-	3,938	40,688
Bruce Grey	31,213	-	-	-	-	-	31,213
Total	415,998	-	-	24,714	-	41,113	481,825

Directors' report (continued)

Details of the remuneration of each director of CAP-XX Limited, for the year ended 30 June 2012, are set out in the following table. The cash bonuses are dependent on the satisfaction of performance conditions. All other elements of remuneration are not directly related to performance.

Directors of CAP-XX Limited

2012 Name	Primary			Post-employment		Equity	Total \$
	Cash salary and accrued fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	
<i>Executive directors</i> Anthony Kongats	310,443	-	-	27,940	-	32,163	370,546
<i>Non-executive directors</i> Michael Quinn	48,440	-	-	-	-	11,807	51,487
Brett Sandercock	36,330	-	-	3,270	-	11,807	51,407
Patrick Elliott	35,235	-	-	-	-	1,969	37,204
Total	430,448	-	-	31,210	-	57,746	519,404

Loans to directors and executives

The Group has no loans to directors and/or executives.

Share options granted to directors and the most highly remunerated officers

Options over unissued ordinary shares of CAP-XX granted during the financial year to any of the directors or the 5 most highly remunerated officers of the Company and Group as part of their remuneration were as follows:

<i>Directors</i>	Date Granted	Options Granted
Nil		

<i>Other executives of CAP-XX Limited</i>	Date Granted	Options Granted
Nil		

The options were granted under the terms and conditions of the CAP-XX Limited Employee Share Option Plan.

No options over unissued ordinary shares of CAP-XX have been granted since the end of the financial year to any of the directors or the 5 most highly remunerated officers of the Company and Group as part of their remuneration.

Directors' report (continued)

Shares under option

Unissued ordinary shares of CAP-XX Limited under option at the date of this report are as follows:

Date Options Granted	Expiry Date	Issue Price of Shares	Number Under Option
30 June 2004	31 May 2014	\$0.47	30,000
1 July 2005	31 May 2015	\$0.47	518,576
1 July 2005	31 May 2015	\$15.64	8,004
19 September 2006	19 September 2016	\$2.38	625,000
8 May 2007	8 May 2017	\$2.58	10,000
25 February 2008	25 February 2018	\$0.71	160,000
21 April 2008	21 April 2018	\$0.43	20,000
19 December 2008	19 December 2014	£0.25	855,000
1 March 2009	1 March 2015	£0.20	50,000
21 April 2009	21 April 2019	£0.17	20,000
6 April 2010	6 April 2016	£0.56	1,650,000
21 April 2010	21 April 2020	£0.33	20,000
21 April 2011	21 April 2021	£0.19	20,000
8 December 2011	8 December 2015	£0.21	1,835,000
21 April 2012	21 April 2022	£0.29	20,000
			<hr/> 5,841,580 <hr/>

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

Shares issued on the exercise of options

No ordinary shares of CAP-XX were issued during the year ended 30 June 2013 on the exercise of options granted under the CAP-XX Employee Option Plan. No other shares under option have been issued since that date. No amounts are unpaid on any of the shares.

Indemnification and Insurance of Officers

Indemnification

CAP-XX has agreed to indemnify the current directors and executive officers of the Group and former directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance Premiums

The directors have not included details of the nature of the liabilities covered nor the amount of the premium paid in respect of the Directors' and Officers' liability insurance contracts, as such disclosure is prohibited under the terms of the contract.

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 on page 17.

Directors' report (continued)

Non-audit Services

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided, during the year, are set out in Note 22 to the financial statements.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the directors.



Peter Elliott
Director

Sydney
26 September 2013

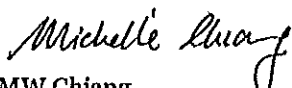


Auditor's Independence Declaration

As lead auditor for the audit of CAP-XX Ltd for the year ended 30 June 2013, 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.

This declaration is in respect of CAP-XX Ltd and the entities it controlled during the period.


MW Chiang
Partner
PricewaterhouseCoopers

Sydney
27 September 2013

Corporate Governance Statement

Over the past year the Board has conducted the affairs of the Company in accordance with principles of good corporate governance.

Whilst companies whose shares are listed on AIM are not formally required to comply with the Combined Code on Corporate Governance (July 2003), the Board supports the Code and applies it in so far as is practicable and appropriate for a public company of its size. The Board is committed to ensuring that high standards of corporate governance are maintained.

There is a clear division of responsibility between the Chairman and the Managing Director. The Board comprises three directors, two of whom are non-executive directors and two of whom are independent non-executive directors. None of the non-executive directors have any day-to-day involvement in the running of the business.

The Board is responsible for overall strategy, the policy and decision making framework in which this strategy is implemented, approval of budgets, monitoring performance, and risk management.

The Board meets at regular scheduled intervals and follows a formal agenda. It also meets as and when required. During the year ended 30 June 2013, seven Board meetings were held.

The directors may take independent professional advice at the Company's expense.

Board Committees

The Company has an audit committee and a remuneration committee both consisting of two non-executive directors. The terms of reference and composition of the audit and remuneration committees were determined as part of the process of the listing of the Company. During the year ended 30 June 2013, three audit committee and two remuneration committee meetings were held. Each committee is to meet at least twice a year.

The audit committee comprises Patrick Elliott (Chairman), and Bruce Grey. The remuneration committee comprises Patrick Elliott (Chairman), and Bruce Grey.

The audit committee assists the Board with its oversight responsibilities for the financial statements, the integrity of financial reporting and the effectiveness of the Company's internal controls over financial reporting.

The remuneration committee determines, agrees and reviews with the Board the framework or broad policy for the remuneration of the Company's Chairman and executives and within the terms of the agreed policy (in consultation with the Chairman and/or chief executive as appropriate) determines the total individual remuneration package of each senior executive. The remuneration committee also reviews and notes annually the remuneration trends across the Group.

Code of Conduct

The Company has a policy in place that complies with its obligations under Rule 21 of the AIM listing rules which provides that "the Company must ensure that its directors and applicable employees do not deal in any of its AIM securities during a closed period".

Relationships with Shareholders

The Board understands the need for clear communications with its shareholders. In addition to presentations after publication of results and the annual general meeting, meetings are held with fund managers, analysts, and institutional investors. Information is posted on the Company's web site, www.cap-xx.com.

Intellectual Property

The Board has always been vigilant in managing the Company's intellectual property ("IP") portfolio which currently consists of 26 patent families with 46 granted national patents (15 USA, 7 US continuations and 21 in Europe, 2 in Japan and 1 in China) with an additional 29 applications pending in various jurisdictions. The Company's IP strategy has been to build company value by focusing on opportunities to capture market share and exclude competition with an IP portfolio capable of generating licensing revenue. The directors believe comprehensive embodiments and interlocking patent groups, combined with a 'quick to file, quick to abandon' policy, have given the Company a strong and focused IP portfolio.

CAP-XX Limited

Financial statements

– 30 June 2013

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This financial report covers the Group consisting of CAP-XX Limited and its subsidiaries. The financial report is presented in the Australian currency.

CAP-XX Limited is a company limited by shares, incorporated and domiciled in Australia. Its principal place of business is:

Units 9-10
12 Mars Road
Lane Cove NSW 2066

Its registered office is:

Suite 126
117 Old Pittwater Road
Brookvale NSW 2100

A description of the nature of the Group's operations and its principal activities is included in the Chairman's statement on page 5, business review on pages 6 to 7 and in the directors' report on pages 8 to 13, all of which are not part of this financial report.

The financial report was authorised for issue by the directors on 26 September 2013. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available at our Investors' Centre on our website: www.cap-xx.com.

CAP-XX Limited
Income statement
For the year ended 30 June 2013

<i>Currency: Australian Dollars</i>	Notes	Consolidated	
		2013 \$	2012 \$
Revenue from continuing operations	5	3,569,833	3,466,502
Cost of sale of goods & services	7	<u>(2,492,111)</u>	<u>(2,725,562)</u>
Gross margin on sale of goods & services		1,077,722	740,940
Other revenue	5	97,232	107,610
Other income	6	1,084,932	1,444,754
General and administrative expenses		(2,205,774)	(2,354,639)
Process and engineering expenses		(441,692)	(367,327)
Selling and marketing expenses		(397,479)	(411,324)
Research and development expenses		(1,476,151)	(1,998,271)
Other expenses	7	<u>(18,222)</u>	<u>(74,562)</u>
Loss before income tax		<u>(2,279,432)</u>	<u>(2,912,819)</u>
Income tax benefit	8	-	-
Net loss for the year		<u>(2,279,432)</u>	<u>(2,912,819)</u>
Loss attributable to owners of CAP-XX Limited		<u>(2,279,432)</u>	<u>(2,912,819)</u>
Earnings per share for (loss) attributable to the ordinary equity holders of the Company		Cents	Cents
Basic earnings/(loss) per share	30	(2.6)	(3.7)
Diluted earnings/(loss) per share	30	(2.6)	(3.7)

The above income statement should be read in conjunction with the accompanying notes.

CAP-XX Limited
Statement of comprehensive income
For the year ended 30 June 2013

	Notes	Consolidated	
		2013	2012
<i>Currency: Australian Dollars</i>		\$	\$
Loss for the year		(2,279,432)	(2,912,819)
Other comprehensive income			
Items that may be reclassified to equity			
Exchange differences on translation of foreign operations	20	(57,501)	(20,243)
Other comprehensive income for the year, net of tax		<u>(57,501)</u>	<u>(20,243)</u>
Total comprehensive income for the year attributable to owners of CAP-XX Limited		<u>(2,336,933)</u>	<u>(2,933,062)</u>

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

CAP-XX Limited
Balance sheet
As at 30 June 2013

<i>Currency: Australian Dollars</i>	Notes	Consolidated	
		2013 \$	2012 \$
ASSETS			
Current assets			
Cash and cash equivalents	9	1,105,523	3,816,979
Receivables	10	488,528	616,946
Inventories	11	996,739	758,027
Other	12	1,075,415	1,174,121
Total current assets		<u>3,666,205</u>	<u>6,366,073</u>
Non-current assets			
Property, plant and equipment	13	501,968	515,716
Other	14	236,507	236,507
Total non-current assets		<u>738,475</u>	<u>752,223</u>
Total assets		<u>4,404,680</u>	<u>7,118,296</u>
LIABILITIES			
Current liabilities			
Payables	15	1,024,628	900,264
Provisions	16	800,644	740,382
Other	17	193,579	772,650
Total current liabilities		<u>2,018,851</u>	<u>2,413,296</u>
Non-current liabilities			
Provisions	18	35,926	230,612
Total non-current liabilities		<u>35,926</u>	<u>230,612</u>
Total liabilities		<u>2,054,777</u>	<u>2,643,908</u>
Net assets		<u>2,349,903</u>	<u>4,474,388</u>
EQUITY			
Contributed equity	19	87,932,560	87,932,560
Reserves	20	3,461,424	3,306,477
Accumulated losses	20	(89,044,081)	(86,764,649)
TOTAL EQUITY		<u>2,349,903</u>	<u>4,474,388</u>

The above balance sheet should be read in conjunction with the accompanying notes.

CAP-XX Limited
Statement of changes in equity
For the year ended 30 June 2013

		Consolidated			
		Contributed Equity \$	Reserves \$	Accumulated losses \$	Total \$
		Notes			
	Balance at 1 July 2011	83,979,118	3,037,500	(83,851,830)	3,164,788
	Profit for the period as reported in the 2012 financial statements			(2,912,819)	(2,912,819)
	Other comprehensive income	-	(20,243)	-	(20,243)
	Transactions with owners in their capacity as owners:				
	Contributions of equity, net of transaction costs	19	3,953,442	-	-
	Employee share options - value of employee services	20	-	289,220	-
			3,953,442	289,220	-
	Balance at 30 June 2012	87,932,560	3,306,477	(86,764,649)	4,474,388
	Profit for the period as reported in the 2011 financial statements			(2,279,432)	(2,279,432)
	Other comprehensive income	-	(57,501)	-	(57,501)
	Transactions with owners in their capacity as owners:				
	Contributions of equity, net of transaction costs and tax	19	-	-	-
	Employee share options - value of employee services	20	-	212,448	-
			-	212,448	-
	Balance at 30 June 2013	87,932,560	3,461,424	(89,044,081)	2,349,903

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

CAP-XX Limited
Cash flow statement
For the year ended 30 June 2013

		Consolidated	
		2013	2012
<i>Currency: Australian Dollars</i>	Notes	\$	\$
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		4,055,235	3,793,426
Payments to suppliers and employees (inclusive of goods and services tax)		<u>(7,555,968)</u>	<u>(7,988,747)</u>
		(3,500,733)	(4,195,321)
Tax credit received		1,065,552	693,986
Grants received		12,500	304,521
Interest received		<u>97,232</u>	<u>107,610</u>
Net cash (outflow) from operating activities	27	<u><u>(2,325,449)</u></u>	<u><u>(3,089,204)</u></u>
Cash flows from investing activities			
Payments for property, plant and equipment		<u>(328,506)</u>	<u>(100,497)</u>
Net cash (outflow) from investing activities		<u><u>(328,506)</u></u>	<u><u>(100,497)</u></u>
Cash flows from financing activities			
Proceeds from issue of shares (net of costs)	19	<u>-</u>	<u>3,953,442</u>
Net cash inflow from financing activities		<u><u>-</u></u>	<u><u>3,953,442</u></u>
Net increase in cash and cash equivalents		(2,653,955)	763,741
Cash and cash equivalents at the beginning of the financial year		3,816,979	3,073,481
Effects of exchange rate changes on cash and cash equivalents		<u>(57,501)</u>	<u>(20,243)</u>
Cash and cash equivalents at the end of the financial year	9	<u><u>1,105,523</u></u>	<u><u>3,816,979</u></u>

The above cash flow statement should be read in conjunction with the accompanying notes.

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CAP-XX Limited
Notes to the financial statements
30 June 2013

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of CAP-XX Limited and its subsidiaries.

All amounts shown are in Australian Dollars unless otherwise stated.

(a) 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 and the *Corporations Act 2001*. CAP-XX Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of the CAP-XX Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards 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.

(b) Continuation as a going concern

During the year ended 30 June 2013, the Group incurred an operating loss before tax and net cash outflows from operating activities as disclosed in the income statement and the cash flow statement, respectively. The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as they fall due are dependent upon the Group being successful with respect to the following factors:

- i. The Company receiving the proceeds from the R&D Tax concession which has been lodged with the Australian Taxation Office in September 2013. The quantum of the rebate is similar to previous years;
- ii. Sales opportunities from existing and emerging markets continuing to prosper with the Company ensuring that product development and manufacturing capacity is available to satisfy the customers' demands;
- iii. Ongoing technology license discussions with numerous existing and new customers being finalised to ensure that ongoing revenue and cash flow is generated in a timely manner;
- iv. Continued close and effective monitoring of the Company's operating expenditure, including the undertaking of operating cost initiatives as necessary. The board approves an annual budget and regularly receives forecasts from management to monitor performance against budget and to consider longer term prospects;
- v. The ability of the Group to raise additional funds from shareholders and new investors. The Company has successfully conducted a number of small equity placements over the last five years.

As a result of these matters, there is material uncertainty 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 settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial statements.

However, the Directors believe that the Group will be successful in achieving favourable outcomes on the above matters and that it will have sufficient funds to pay its debts and meet its commitments for at least the next 12 months from the date of this financial report, and accordingly, have prepared the financial report on a going concern basis. At this time, 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 recorded in the financial report at 30 June 2013. As such, no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or classification of liabilities that might be necessary should the Group not continue as a going concern.

On 29th August 2013 the Company successfully completed a fundraising - refer to Note 26.

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 1 Summary of significant accounting policies (continued)

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of CAP-XX Limited ("Company") as at 30 June 2013 and the results of all subsidiaries for the year then ended. CAP-XX Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies 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.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is CAP-XX Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement on a net basis within other income or other expenses.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

When a foreign operation is sold, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 1 Summary of significant accounting policies (continued)

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Sale of goods are recognised when products have been delivered to the customer. Sales of services are recognised in the accounting period in which the services are rendered. For fixed term contracts revenue is recognised under the percentage of completion method, based on the actual service provided as a proportion of the total services provided. Where this cannot be reliably measured revenue is spread evenly over the contract term.

Interest income is recognised on a time proportion basis using the effective interest method.

(g) Government grants

Grants from the government, including the R&D Tax incentive, are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

(h) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised directly in equity.

Tax consolidation legislation

CAP-XX Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002.

The head entity, CAP-XX Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, CAP-XX Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Tax funding agreements are currently not in place. Amounts assumed are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

Note 1 Summary of significant accounting policies (continued)

(i) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 23). Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Cash and cash equivalents

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

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

(m) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on a basis of first in first out. 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.

Raw materials held for development purposes are also stated at the lower of cost and net realisable value, hence are generally recognised in the income statement as an expense when received.

(n) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 1 Summary of significant accounting policies (continued)

(o) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Capital work in progress is not depreciated until the asset is installed ready for use.

Depreciation on assets is calculated using the straight-line method to allocate their cost amounts, net of their residual values over their estimate useful lives as follows:

Furniture and fittings	2-10 years
Plant and equipment – Manufacturing	2-10 years
Plant and equipment – Research & Development	2-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(p) Research & development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 5 years.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 55 days of recognition.

(r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(s) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Note 1 Summary of significant accounting policies (continued)

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as 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 national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

The Group does not maintain a Group superannuation plan. The Group makes defined fixed percentage contributions for all Australian resident employees to complying third party superannuation funds. The Group's legal or constructive obligation is limited to these contributions.

Contributions to the defined contribution complying third party superannuation funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the CAP-XX Limited Share Option Exchange Plan and the CAP-XX Limited Employee Share Option Plan. Information relating to these schemes is set out in note 28.

The fair value of options granted under the CAP-XX Limited Share Option Exchange Plan and the CAP-XX Limited Employee Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is 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 non-tradeable nature of the option, 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.

Non marketing vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The 2006 Share Option Exchange Plan and the CAP-XX Limited Employee Share Option Plan are both administered by the Board of Directors of CAP-XX Limited. When options are exercised, the entity transfers the appropriate amount of shares to the employee. The proceeds received net of any directly attributable transactions costs are credited directly to equity.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(t) Contributed equity

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

Where such ordinary shares are subsequently re-issues, any consideration received, net of any directly attributable incremental transactions costs and the related income tax effects, is included in equity attributable to the owners of CAP-XX Limited.

(u) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, 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 year.

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 1 Summary of significant accounting policies (continued)

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account 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.

(v) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of 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 taxation authority is included with other receivables or payables in the balance sheet.

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 taxation authority, are presented as operating cash flow.

(w) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The Group's has not adopted these new standards and interpretations and it is not expected that their adoption will have a material impact on future financial statements.

(x) Parent entity financial information

The financial information for the parent entity, Cap-XX Limited, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements, except as set out below:

(i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Cap-XX Limited.

Note 2 Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, interest rate risk and price 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 holds the following financial instruments:

	Consolidated	
	2013	2012
	\$	\$
Financial assets		
Cash and cash equivalents	1,105,523	3,816,979
Trade and other receivables	1,492,051	1,709,390
	2,597,574	5,526,369
Financial liabilities		
Trade and other payables	1,024,628	900,264
	1,024,628	900,264

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 2 Financial risk management (continued)

(a) Market risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising particularly from currency exposures to the US dollar. The Group sells most of its products and services in US dollars, buys the majority of its raw materials and pays its contract tolling fees in US dollars. Its USA operations are financed out of the net proceeds.

Sensitivity analysis

The Group's after tax profit and equity for the year would have been \$131,347 lower/ \$144,482 higher (2012: \$175,134 lower/\$192,647 higher) had the Australian dollar strengthened/weakened by 10% against the US dollar, mainly as a result of foreign exchange gains/losses on the translation of US dollar denominated sales and purchases of goods and services.

The group's exposure to foreign currency risk at the end of the reporting period, as expressed in Australian dollar, was as follows:

	2013			2012		
	USD \$	GBP \$	Other \$	USD \$	GBP \$	Other \$
Cash and cash equivalents	388,369	49	1,587	187,422	2,945	4,205
Trade receivables	464,160	-	-	592,323	-	-
Trade payables	271,111	10,582	-	238,278	6,089	-

(b) Credit risk

The Group has some concentrations of credit risk. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Cash and cash equivalents are placed in financial institutions with good credit ratings.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, to ensure debts are paid as and when they fall due. The Group has experienced recurring operating losses and operating cash outflows since inception to 30 June 2013 as the Group is transitioning from development stage. Due to the negative cash flow position the Group has not committed to any credit facilities rather relied upon equity financing through private and public equity investors.

(d) Interest rate risk

The Group's interest-rate risk mainly arises from interest bearing assets, with the Group's income and operating cash flows exposed to changes in market interest rates. The interest bearing assets have been predominantly deposited at short term fixed rates exposing the Group to cash flow interest-rate risk.

The Group's exposure to interest-rate risk is immaterial in terms of the possible impact on profit or loss or equity. It has therefore not been included in the sensitivity analysis.

As at 30 June 2013, the Group had no borrowings.

(e) Fair value estimation

The carrying amount of financial assets and liabilities recorded in the financial statements represents their respective net fair value unless otherwise noted, determined in accordance with the accounting policies disclosed in note 1.

Note 3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Apart from the going concern assumption as discussed in note 1(b), the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(b) Critical judgements in applying the entity's accounting policies

(i) Impairment loss on plant and equipment

The Group has continued to use the Sydney, Australia manufacturing site for the production of electrode material and selected supercapacitor product lines, whilst the larger volume supercapacitor product lines are outsourced. In assessing the carrying value of its plant and equipment, the Group considers whether previous impairment write downs remain adequate and the current depreciation rates fairly reflect the carrying value of such assets.

(ii) Fair value of share options

Share-based compensation benefits are provided to employees via the 2006 Share Option Exchange Plan and the CAP-XX Limited Employee Share Option Plan. The fair value of options granted under the 2006 Share Option Exchange Plan and the CAP-XX Limited Employee Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. The fair value at grant date is determined using the Black-Scholes option pricing model. The key inputs and assumptions used in the model is set out in note 28.

(iii) Inventory provision

The Group makes estimates and assumptions concerning the future saleability of inventory for amounts in excess of cost. The provision for inventory obsolescence is based on management's expectation of the future price of inventory, taking into account the age and condition and demand of the inventory and management's assessment of future demand for the inventory.

Note 4 Segment information

(a) Description of segments

Management has determined the operating segment based on the reports reviewed by the Board that are used to make strategic decisions. Management has identified one reportable segment which is the development, manufacture and sale of supercapacitors.

Although the Group is managed on a global basis, it operates in 3 main geographical areas being Asia Pacific, North America and Europe.

(b) Other segment information

(i) Segment revenue

Revenues from external customers are derived from the sale of supercapacitors and related services.

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 4 Segment information (continued)

Segment revenue reconciles to revenue from sale of goods and services as follows:

	Segment revenues from sales to external customers	
	2013	2012
	\$	\$
Asia Pacific	2,043,572	1,975,906
Europe	1,326,042	970,621
North America	200,219	519,975
Total revenue from sale of goods and services (note 5)	3,569,833	3,466,502

The entity is domiciled in Australia. The amount of its revenue from external customers in Australia is \$54,340 (2012: \$23,803) and the total revenue from external customers in other countries is \$3,515,494 (2012: \$3,442,699). Segment revenues are allocated based on the country in which the customer is located. Revenues of approximately \$2,689,436 (2012: \$2,626,758) are derived from three external customers.

(ii) Segment assets

Segment assets and capital expenditure are allocated based on the physical location of the asset.

Reportable segment assets are reconciled to total assets as follows:

	Segment assets	
	2013	2012
	\$	\$
Asia Pacific	4,404,680	7,118,296
Europe	-	-
North America	-	-
Total assets as per balance sheet	4,404,680	7,118,296

The total of non-current assets located in Australia is \$686,409 (2012: \$491,893) and the total of non-current assets located in other countries is \$ 52,066 (2012: \$260,331). The value of the non-current assets located in other countries represents the manufacturing equipment that has been re-located to the Nationgate manufacturing facility in Penang, Malaysia during the current financial year.

Note 5 Revenue

	Consolidated	
	2013	2012
	\$	\$
Sales revenue		
Sale of goods	3,569,833	3,466,502
Sale of services	-	-
	3,569,833	3,466,502
Other revenue		
Interest	97,232	107,610
Total revenue	3,667,065	3,574,112

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 6 Other income

	Consolidated	
	2013	2012
	\$	\$
Foreign Exchange Gains – (net)	95,801	28,803
Government grants (note 1(g))	12,500	304,521
R&D Tax Incentive	976,631	1,111,430
	<u>1,084,932</u>	<u>1,444,754</u>

CAP-XX has reclassified the R&D tax incentive from income tax benefit (Note 8) to a government grant in accordance with AASB 120.

(a) Government grants

The following grants were recognised as other income by the Group during the year ended 30 June 2013. There are no unfulfilled conditions attached to these grants:

	2013	2012
	\$	\$
NSW Global Growth	-	10,000
Commercialisation Australia	12,500	237,500
Advanced Manufacturing Cooperative Research Centre	-	57,021
	<u>12,500</u>	<u>304,521</u>

Note 7 Expenses

	Consolidated	
	2013	2012
	\$	\$
<i>Loss before income tax includes the following specific expenses:</i>		
<i>Cost of sale of goods</i>		
Direct materials and labour	1,656,201	1,773,122
Indirect manufacturing expenses	835,910	952,440
Total cost of sale of goods	<u>2,492,111</u>	<u>2,725,562</u>
<i>Depreciation</i>		
Plant and equipment	338,017	336,295
Furniture and fittings	3,597	3,597
Leasehold improvements	641	-
Total depreciation	<u>342,255</u>	<u>339,892</u>
<i>Other expenses</i>		
Provision for credit notes / doubtful debts	3,881	18,912
Provision for make good on premises	10,000	40,000
Provision for Withholding Tax Diminution	2,701	1,650
Provision for returns and rework	1,640	14,000
	<u>18,222</u>	<u>74,562</u>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	332,071	318,361
<i>Employee benefits expense</i>	2,377,280	2,412,025
<i>Share based payments</i>	212,448	289,220

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 8 Income tax benefit

	Consolidated	
	2013	2012
	\$	\$
(a) Numerical reconciliation of income tax benefit to prima facie tax benefit		
(Loss) before tax	(2,279,432)	(2,912,819)
Tax at the Australian tax rate of 30%	(683,830)	(873,846)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	63,735	86,766
R&D Additional claims	(335,331)	(364,148)
	(955,426)	(1,151,228)
Deferred income tax (revenue)/expense not recognised	2,857	(159,923)
Benefit arising from tax losses not recognised	952,569	1,311,151
Income tax benefit	-	-

(b) Tax losses

Unused tax losses for which no deferred tax asset has been recognised	90,215,215	89,924,785
Potential tax benefit @ 30%	27,064,564	26,977,436

All unused tax losses were incurred by Australian entities. The deferred tax assets in relation to the tax losses will only be obtained if:

- i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, and
- ii) the Group continues to comply with the conditions for deductibility imposed by tax legislation, and
- iii) no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

(c) Deferred Tax Assets

The balance comprised temporary differences attributable to employee benefits & other provisions	720,230	735,782
Set-off of deferred tax liabilities	(131,007)	(143,702)
Net deferred tax assets	589,223	592,080

(d) Unrecognised temporary differences

Temporary differences for which no deferred tax asset has been recognised	1,964,077	1,973,600
Potential tax benefit @ 30%	589,223	592,080

CAP-XX Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002. The accounting policy in relation to this legislation is set out in note 1(h). CAP-XX Limited has not recognised any tax consolidation distribution from or to wholly tax consolidated entities.

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 9 Current assets – Cash and cash equivalents

	Consolidated	
	2013	2012
	\$	\$
Cash at bank and on hand	494,353	285,344
Cash on deposit	611,170	3,531,635
	1,105,523	3,816,979

Note 10 Current assets – Receivables

	Consolidated	
	2013	2012
	\$	\$
Trade receivables	500,442	600,288
Provision for doubtful receivables	(33,896)	(30,015)
	466,546	570,273
Other receivables	21,982	46,673
	21,982	46,673

(a) Impaired trade receivables

There were no impaired trade receivables for the Group in 2013 (2012: Nil).

(b) Past due but not impaired

As at 30 June 2013, trade receivables of \$63,892 (2012: \$78,864) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated	
	2013	2012
	\$	\$
Up to 3 months	63,892	53,155
3 to 6 months	-	25,709
	63,892	78,864

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. The current receivables are non-interest bearing. Further information relating to amounts due from related parties is set out in note 25. There is some concentration of credit risk with respect to current receivables, as the Group has a limited number of customers, internationally dispersed. The total amount outstanding is comprised of 16 customers with the top 3 making up 81% of the total balance.

(d) Foreign exchange and interest rate risk

Information about the Group's and the exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 2.

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 11 Current assets – Inventories

	Consolidated	
	2013 \$	2012 \$
Raw materials and stores - net realisable value	568,481	347,427
Finished goods - net realisable value	428,258	410,600
	<u>996,739</u>	<u>758,027</u>

Note 12 Current assets – Other

	Consolidated	
	2013 \$	2012 \$
Research & Development - Tax Credit	1,003,523	1,092,444
Prepayments	63,370	73,895
Other	8,522	7,782
	<u>1,075,415</u>	<u>1,174,121</u>

Note 13 Non-current assets – Property, plant and equipment

	Consolidated	
	2013 \$	2012 \$
Plant and equipment at cost	16,141,265	16,257,901
Accumulated depreciation	(15,654,241)	(15,755,597)
Net book amount	<u>487,024</u>	<u>502,304</u>
Furniture and fittings at cost	66,779	66,779
Accumulated depreciation	(56,964)	(53,367)
Net book amount	<u>9,815</u>	<u>13,412</u>
Leasehold improvements at cost	442,647	436,877
Accumulated depreciation	(437,518)	(436,877)
Net book amount	<u>5,129</u>	<u>-</u>
Total property, plant and equipment	16,650,691	16,761,557
Total accumulated depreciation	(16,148,723)	(16,245,841)
Total net book amount	<u>501,968</u>	<u>515,716</u>

Movement in classes of assets: Consolidated	Plant and equipment \$	Leasehold improvements \$	Furniture and fittings \$	Total \$
Year ended 2013				
Opening net book amount	502,304	-	13,412	515,716
Additions	322,736	5,770	-	328,506
Disposals	-	-	-	-
Depreciation	(338,016)	(641)	(3,597)	(342,254)
Closing net book amount	<u>487,024</u>	<u>5,129</u>	<u>9,815</u>	<u>501,968</u>

Movement in classes of assets: Consolidated	Plant and equipment \$	Leasehold improvements \$	Furniture and fittings \$	Total \$
Year ended 2012				
Opening net book amount	738,102	-	17,009	755,111
Additions	100,497	-	-	100,497
Disposals	-	-	-	-
Depreciation	(336,295)	-	(3,597)	(339,892)
Closing net book amount	<u>502,304</u>	<u>-</u>	<u>13,412</u>	<u>515,716</u>

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 13 Non-current assets – Property, plant and equipment (Continued)

Plant & equipment impairment provision adjustment - (note 3(b)).

The useful lives of the assets transferred to the Natiogate manufacturing facility in Malaysia have been extended to equal the remaining term of the manufacturing contract between CAP-XX and Natiogate.

Note 14 Non-current assets – Other

	Consolidated	
	2013	2012
	\$	\$
Rental bond	<u>236,507</u>	<u>236,507</u>

A term of the current lease agreement for the Lane Cove premises is a requirement for CAP-XX to have a bank guarantee in place as security for the landlord against loss or damage from any event of default. The rental bond of \$236,507 represents the current value of this bank guarantee.

Note 15 Current liabilities – Payables

	Consolidated	
	2013	2012
	\$	\$
Trade payables	852,444	624,419
Other payables and accrued expenses	<u>172,184</u>	<u>275,845</u>
	<u>1,024,628</u>	<u>900,264</u>

Note 16 Current liabilities – Provisions

	Consolidated	
	2013	2012
	\$	\$
Employee benefits – annual leave and long service leave	539,004	490,382
Product returns and warranties	51,640	50,000
Make good provision	<u>210,000</u>	<u>200,000</u>
	<u>800,644</u>	<u>740,382</u>

(a) Make good provision

CAP-XX Ltd is required to restore the leased premises of its office/warehouse to their original condition at the end of the respective lease term. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements.

(b) Amounts not expected to be settled within the next 12 months

Provision for employee benefits includes accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months. The following amounts reflect leave that is not expected to be taken within the next 12 months:

	Consolidated	
	2013	2012
	\$	\$
Annual leave obligation expected to be settled after 12 months	<u>106,869</u>	<u>96,599</u>

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 16 Current liabilities - Provisions (continued)

(c) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 2.

(d) Product returns and warranties

Provision is made for estimated product returns and warranty claims in respect of products sold. The Group provides a one year warranty on products sold to customers. The Group has to date experienced minimal product returns and warranty claims.

(e) Movements in provisions

Movements in the product returns and warranties provision during the financial years are set out below:

	Consolidated	
	2013	2012
	\$	\$
Carrying amount at start of year	50,000	36,000
Charged to profit or loss		
- provision adjustment	1,640	14,000
Carrying amount at end of year	51,640	50,000

The product returns and warranties provision has been adjusted to reflect the increased level of product returns from existing customers.

Movements in the make good on premises provision during the financial year is set out below:

	Consolidated	
	2013	2012
	\$	\$
Carrying amount at start of year	200,000	160,000
Charged to profit or loss		
- additional provisions recognised	10,000	40,000
Carrying amount at end of year	210,000	200,000

Note 17 Current liabilities – Other liabilities

	Consolidated	
	2013	2012
	\$	\$
Unearned Income on sale of plant and equipment	193,579	772,650
	193,579	772,650

The unearned income received from Natingate for the transfer of supercapacitor manufacturing equipment is being amortised over the remaining term of the manufacturing contract between CAP-XX and Natingate.

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 18 Non-current liabilities – Provisions and Other liabilities

	2013 \$	2012 \$
Employee benefits – long service leave	35,926	35,367
Unearned income on sale of plant and equipment	-	195,245
	<u>35,926</u>	<u>230,612</u>

Note 19 Contributed equity

Consolidated

	2013 Shares	2012 Shares
(a) Share capital		
Fully paid ordinary shares (no par value)	<u>86,277,430</u>	<u>86,277,430</u>

(b) Movement in ordinary share capital:

Date	Details	Number of shares	Issue price	\$
1 July 2011	Opening balance	77,032,097		83,979,118
15 March 2012	Allotment of shares	9,245,333	\$0.25	4,164,006
15 March 2012	Share issuance costs			(210,564)
30 June 2012	Balance	<u>86,277,430</u>		<u>87,932,560</u>
1 July 2012	Opening balance	<u>86,277,430</u>		<u>87,932,560</u>
30 June 2013	Balance	<u>86,277,430</u>		<u>87,932,560</u>

(c) Ordinary shares

At 30 June 2013, there were 86,277,430 (2012: 86,277,430) issued ordinary shares which were fully paid, with no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Options

Information relating to the CAP-XX Limited Share Option Exchange and CAP-XX Limited Employee Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 28.

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 20 Reserves and accumulated losses

	Consolidated	
	2013	2012
	\$	\$
(a) Reserves		
Foreign currency translation reserve note 20(c)(i)	(53,646)	3,855
Share-based payments reserve note 20(c) (ii)	3,515,070	3,302,622
	3,461,424	3,306,477

Movements:

Foreign currency translation reserve

Balance 1 July	3,855	24,098
Currency translation differences arising during the year	(57,501)	(20,243)
Balance 30 June	(53,646)	3,855

Share-based payments reserve

Balance 1 July	3,302,622	3,013,402
Option expense	212,448	289,220
Balance 30 June	3,515,070	3,302,622

(b) Accumulated losses

Movements in accumulated losses were as follows:

Balance 1 July	(86,764,649)	(83,851,830)
Net (loss) for the year	(2,279,432)	(2,912,819)
Balance 30 June	(89,044,081)	(86,764,649)

(c) Nature and purpose of reserves

(i) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(e). The reserve is recognised in profit and loss when the net investment is disposed of.

(ii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

Note 21 Key management personnel disclosures

(a) Directors

The names of the directors who have held office during the financial year are as follows:

Executive director

Anthony Kongats (Managing Director)

Non-executive directors

Michael Quinn (Resigned December 31, 2012)

Patrick Elliott (Chairman)

Bruce Grey (Appointed August 24, 2012)

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 21 Key management personnel disclosures (Continued)

(b) Key management personnel compensation

Key management personnel compensation is set out below. The key management personnel include all the directors of the Company and those executives that report directly to the Managing Director, including:

Jean Pierre Mars, VP Applications Engineering
 Michael Taylor, Chief Financial Officer/Chief Operating Officer
 Peter Buckle, VP Sales & Marketing Asia
 Phil Aitchison, VP Research

	Consolidated	
	2013	2012
	\$	\$
Short-term benefits	1,283,990	1,274,060
Post-employment benefits	103,301	106,964
Share-based payments	155,505	182,083
Total	1,542,796	1,563,107

(c) Other transactions with key management personnel or entities related to them

There were no other transactions with key management personnel.

Note 22 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

	Consolidated	
	2013	2012
	\$	\$
(a) PricewaterhouseCoopers Australia		
<i>Audit services</i>		
Audit and review of financial statements	118,000	104,000
Total remuneration for audit services	118,000	104,000
<i>Taxation services</i>		
Tax compliance services, including review of company income tax returns, employee share scheme and R&D Tax concession	34,500	34,000
Total remuneration of PricewaterhouseCoopers Australia	152,500	138,000
(b) Related practices of PricewaterhouseCoopers Australia		
<i>Taxation services</i>		
Tax compliance services, including review of company income tax returns	11,320	12,500
Total remuneration for related practices of PricewaterhouseCoopers Australia	11,320	12,500

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 23 Commitments

(a) Lease commitments: Group / company as lessee

The Group leases factory space with an office and warehouse under a non-cancellable operating lease which commenced on the 1st July 2011 and is due to expire on 30th June 2013. The lease has been extended by a further 12 months to 30th June, 2014.

The Group also leases office equipment under cancellable operating leases. The Group is required to give 3 months notice for termination of these leases.

	Consolidated	
	2013	2012
	\$	\$
Commitments for minimum lease payments in relation to operating leases are payable as follows:		
Within one year	376,072	367,991
Later than one year but not later than 5 years	13,398	18,270
Later than 5 years	-	-
	389,470	386,261

Note 24 Related party transactions

(a) Parent entity

The ultimate parent entity within the Group is CAP-XX Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 25.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 21.

Note 25 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c):

Name of entity	Country of incorporation	Class of shares	Equity holding *	
			30 June 2013	30 June 2012
			%	%
CAP-XX (Australia) Pty Ltd	Australia	Ordinary	100	100
CAP-XX Research Pty Ltd	Australia	Ordinary	100	100
CAP-XX USA, Inc	United States	Ordinary	100	100

* The proportion of ownership interest is equal to the proportion of voting power held.

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 26 Events occurring after the balance sheet date

On the 29th August, 2013, the Company successfully raised additional funding by way of issuing 28,181,819 new ordinary shares at £0.055 per share. Following this transaction the shares on issue totals 114,459,249.

Note 27 Reconciliation of profit after tax to net cash (outflow) from operating activities

	Consolidated	
	2013	2012
	\$	\$
Net loss	(2,279,432)	(2,912,819)
Depreciation and amortisation	342,255	339,892
Non-cash employee benefit expense – share based payments	212,448	289,220
Reversal of impairment	-	-
<i>Changes in assets and liabilities:</i>		
(Increase) / decrease in receivables	128,418	(352,443)
(Increase) / decrease in inventories	(238,712)	708,230
(Increase) / decrease in other assets	98,707	(135,419)
(Decrease) / increase in payables	(649,952)	(1,121,126)
(Decrease) / increase in provisions	60,821	95,261
Net cash (outflow) from operating activities	<u>(2,325,449)</u>	<u>(3,089,204)</u>

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 28 Share-based payments

(a) 2006 Share Option Exchange

The establishment of the 2006 Share Option Exchange (the "CAP-XX Limited Exchange") was approved by the Company's Board of Directors with effect from on 5 April CAP-XX Limited. The 2006 Share Option Exchange provides for the issuance of stock options for the purchase of ordinary shares of the Company's in exchange for the surrender of options previously granted but unexercised in CAP-XX, Inc. The 2006 Exchange provides for the grant of share options for the purchase of shares of the Company's ordinary shares by officers, employees, independent contractors, consultants, advisers and directors of the Company and/or any of its subsidiaries. The Board is responsible for administration of the 2006 Exchange.

Set out below are summaries of options granted under the 2006 Exchange:

Grant Date	Expiry date	Exercise price A\$	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited & expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Consolidated – 2013								
1 November 2002	30 September 2013	\$15.64	26,001	-	-	(26,001)	-	-
1 April 2004	30 September 2013	\$15.64	11,502	-	-	(11,502)	-	-
30 June 2004	31 May 2014	\$0.47	30,000	-	-	-	30,000	30,000
1 July 2005	31 May 2015	\$0.47	518,576	-	-	-	518,576	518,576
1 July 2005	31 May 2015	\$15.64	8,004	-	-	-	8,004	8,004
			594,083	-	-	(37,503)	556,580	556,580
Weighted Average Exercise Price			\$1.63	-	-	\$15.64	\$0.69	\$0.69

Grant Date	Expiry date	Exercise price A\$	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited & expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Consolidated – 2012								
1 November 2002	30 September 2013	\$15.64	26,001	-	-	-	26,001	26,001
1 April 2004	30 September 2013	\$15.64	12,003	-	-	(501)	11,502	11,502
30 June 2004	31 May 2014	\$0.47	30,000	-	-	-	30,000	30,000
1 July 2005	31 May 2015	\$0.47	522,451	-	-	(3,875)	518,576	518,576
1 July 2005	31 May 2015	\$15.64	8,004	-	-	-	8,004	8,004
			598,459	-	-	(4,376)	594,083	594,083
Weighted Average Exercise Price			\$1.64	-	-	\$2.21	\$1.63	\$1.63

The share options are governed by their original terms and conditions and will continue to vest pursuant to the same vesting schedule.

37,503 share options were forfeited during the year ended 30 June 2013 (2012: 4,376).

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.8 years (2012: 2.7 years).

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 28 Share-based payments (continued)

(b) CAP-XX Limited Employee Share Option Plan

The CAP-XX Limited Employee Share Option Plan (the "CAP-XX Limited Plan"), provides for the grant of share options for the purchase of ordinary shares of the Company by officers, employees, consultants, advisors and directors of the Company or a related body corporate. The Board is responsible for administration of the CAP-XX Limited Plan. The Board determines the term of each option, the option exercise price, and the number of shares for which each option is granted and the rate at which each option is exercisable. Unless otherwise determined by the Board an offer of Options must not provide for an exercise price that is less than the volume weighted average sale price of a share traded on AIM over a defined period.

Set out below is a summary of options granted under the CAP-XX Limited Plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited & expired during the year	Balance at end of the year	Exercisable at end of the year
		\$	Number	Number	Number	Number	Number	Number
Consolidated – 2013								
19 September 2006	19 September 2016	\$2.38	625,000	-	-	-	625,000	625,000
08 May 2007	08 May 2017	\$2.58	10,000	-	-	-	10,000	10,000
25 February 2008	25 February 2018	\$0.71	160,000	-	-	-	160,000	160,000
21 April 2008	21 April 2018	\$0.43	20,000	-	-	-	20,000	20,000
19 December 2008	19 December 2014	£0.25	855,000	-	-	-	855,000	855,000
01 March 2009	01 March 2015	£0.20	50,000	-	-	-	50,000	50,000
21 April 2009	21 April 2019	£0.167	20,000	-	-	-	20,000	20,000
06 April 2010	06 April 2016	£0.56	1,650,000	-	-	-	1,650,000	1,335,822
21 April 2010	21 April 2020	£0.33	20,000	-	-	-	20,000	20,000
21 April 2011	21 April 2021	£0.19	20,000	-	-	-	20,000	20,000
08 December 2011	8 December 2015	£0.21	1,835,000	-	-	-	1,835,000	717,861
21 April 2012	21 April 2022	£0.29	20,000	-	-	-	20,000	20,000
			5,285,000	-	-	-	5,285,000	3,853,483
Weighted Average Exercise Price			\$0.81	-	-	-	\$0.81	\$0.93

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 28 Share-based payments (continued)

Grant Date	Expiry date	Exercise price \$	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited & expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Consolidated – 2012								
19 September 2006	19 September 2016	\$2.38	625,000	-	-	-	625,000	625,000
08 May 2007	08 May 2017	\$2.58	20,000	-	-	(10,000)	10,000	10,000
25 February 2008	25 February 2018	\$0.71	160,000	-	-	-	160,000	160,000
21 April 2008	21 April 2018	\$0.43	30,000	-	-	(10,000)	20,000	20,000
19 December 2008	19 December 2014	£0.25	955,000	-	-	(100,000)	855,000	755,445
01 March 2009	01 March 2015	£0.20	50,000	-	-	-	50,000	50,000
21 April 2009	21 April 2019	£0.167	30,000	-	-	(10,000)	20,000	20,000
06 April 2010	06 April 2016	£0.56	2,225,000	-	-	(575,000)	1,650,000	923,322
21 April 2010	21 April 2020	£0.33	20,000	-	-	-	20,000	20,000
21 April 2011	21 April 2021	£0.19	30,000	-	-	(10,000)	20,000	20,000
08 December 2011	8 December 2015	£0.21	-	1,985,000	-	(150,000)	1,835,000	-
21 April 2012	21 April 2022	£0.29	-	20,000	-	-	20,000	20,000
			4,145,000	2,005,000	-	(825,000)	5,285,000	2,583,767
Weighted Average Exercise Price			\$1.05	\$0.32		\$0.81	\$0.81	\$1.11

The Stock Options are governed by their original terms and conditions and will continue to vest pursuant to the same vesting schedule. Nil share options were forfeited & expired during the year ended 30 June 2013 (2012: 865,000). The weighted average remaining contractual life of share options outstanding at the end of the period was 2.3 years (2012: 3.2 years).

Fair value of options granted

There were no share options issued for the year ended 30 June 2013 (2012: 2,005,000)

The assessed fair value at grant date of options granted, during the year ended 30 June 2012, under the CAP-XX Limited Plan were A\$0.21 on 8 December 2011 and A\$0.32 on 21 April 2012 per option, respectively. The assessed fair value at grant date of options granted, during the year ended 30 June 2011, under the CAP-XX Limited Plan were A\$0.31 on 21 April 2011 per option. The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, 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.

The model inputs for options granted included:

- (a) options are granted for nil consideration, have a:
 - o 6-10 year life and 25% vest 12 months after the Vesting Commencement Date, and 1/48 of Total Option shall vest on each monthly anniversary of the Vesting Commencement Date thereafter;
 - o specific vesting criteria in some minor instances.
- (b) exercise price: refer tables above
- (c) grant date: refer tables above
- (d) expiry date: refer tables above
- (e) share price at grant date

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 28 Share-based payments (continued)

- (f) expected price volatility of the Company's shares: 75% (2012: 78%)
- (g) no expected dividend yield
- (h) risk-free interest rate: 1.88% (2011: 3.56%)

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated	
	2013	2012
	\$	\$
Options issued under CAP-XX Limited Employee Share Option Plan	212,448	289,220
	<u>212,448</u>	<u>289,220</u>

Note 29 Economic dependency

The Group is highly dependent upon a small number of customers and potential customers. Alternative sources of revenue are being sought to reduce future dependency on any particular entity.

The Group is also highly dependent upon a Malaysian contract manufacturer to fulfil a large proportion of sales orders.

Note 30 Earnings per share

Earnings per share for (loss) attributable to the ordinary equity holders of the Company

	Consolidated	
	2013	2012
	Cents	Cents
(a) Basic earnings per share		
(Loss) attributable to the ordinary equity holders of the Company	(2.6)	(3.7)
(b) Diluted earnings per share		
(Loss) attributable to the ordinary equity holders of the Company	(2.6)	(3.7)
	Consolidated	
	2013	2012
	Number	Number
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	86,277,430	79,760,228
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	86,277,430	79,760,228

CAP-XX Limited
Notes to the financial statements
30 June 2013 (continued)

Note 30 Earnings per share (continued)

Options are considered to be potential ordinary shares. The options are not included in the calculation of diluted earnings per share because they are antidilutive. These options could potentially dilute basic earnings per share in the future.

Note 31 Parent Entity

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2013 \$	2012 \$
Balance sheet		
Current assets	1,632,005	4,653,127
Total assets	<u>1,632,005</u>	<u>4,653,127</u>
Current liabilities	245,617	263,491
Total liabilities	<u>245,617</u>	<u>263,491</u>
Net Assets	<u>1,386,388</u>	<u>4,389,636</u>
<i>Shareholders' equity</i>		
Issued capital	87,932,559	87,932,559
Reserves		
Share-based payments	3,515,070	3,302,621
Retained earnings (i)	(90,061,241)	(86,845,544)
Loss for the year	(3,215,697)	(3,079,609)
Total comprehensive income	(3,215,697)	(3,079,609)
<i>(i) Reconciliation to prior year retained earnings</i>		
Balance at beginning of period 1/07/2012	(86,845,544)	
Net loss for the year	(3,215,697)	
Balance at end of period 30/06/2013	(90,061,241)	

CAP-XX Limited
Directors' declaration
30 June 2013

Directors' declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 16 to 48 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's and Group's financial position as at 30 June 2013 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer in the form contained in section 295A of the *Corporations Act 2001*.

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



Paul G. Elliott
Director

Sydney
26 September 2013



Independent auditor's report to the members of CAP-XX Limited

Report on the financial report

We have audited the accompanying financial report of CAP-XX Limited (the company), which comprises the balance sheet as at 30 June 2013, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the CAP-XX Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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Auditor's opinion

In our opinion:

- (a) the financial report of CAP-XX Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report which indicates that the Company incurred an operating loss and net cash outflows from operating activities during the year ended 30 June 2013. These conditions, along with the matters as set forth in Note 1, indicates the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

PricewaterhouseCoopers
PricewaterhouseCoopers

Mitchell Chiang
MW Chiang
Partner

Sydney
27 September 2013