CAP-XX Limited
ABN 47 050 845 291

Annual report 2016

Contents

Corporate directory

Directors	Patrick Elliott *Chairman* Bruce Grey *Non-Executive Director* Anthony Kongats *Managing Director*
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:** 29th November 2016
Registered office	Suite 126 117 Old Pittwater Road Brookvale NSW 2100 Australia
Principal place of business	Units 9 and 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	Allenby Capital 3 St Helen Place London EC3A 6AB
Auditor	BDO East Coast Partnership Level 11 1 Margaret Street Sydney NSW 2000 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

This has been another year of strong progress as the Company has continued to diversify its income base from the sales of its traditional supercapacitor products with the sale of a non exclusive licence to AVX; another year of plus 100% growth in Murata royalties; expansion of our efforts in the automotive markets and the first design win for the Thinline range of supercapacitors.

Licensing activity for the past twelve months has been extremely positive, with the finalisation of the AVX license and the broadening of the Murata agreement. CAP-XX licensed its patents to AVX on a non-exclusive basis for a range of prismatic and cylindrical sizes of supercapacitors. Under the terms of the licence, CAP-XX will receive annual licence fees, plus quarterly guaranteed minimum royalty payments, over a three-year period denominated in Sterling, reflecting the fact that CAP-XX is quoted on AIM. Thereafter, CAP-XX will receive a 5% royalty for the life of the patents, with the royalty being based on the volume of sales of supercapacitors sold by AVX covered by CAP-XX patents. The initial licence fee of £1 million, which has been booked as revenue in the FY16 financial year, was paid by AVX in early July 16, with the first royalties under this licence already having been received. For the Company, the AVX licence deal is very significant. Not only does it provide further validation of the strength of the CAP-XX intellectual property but it also validates our belief that the Company can successfully monetise the value of this intellectual property in ways other than through direct product sales. In addition, this agreement opens up new income streams and sales markets for CAP-XX and new possibilities for ongoing collaboration.

In April 2016, Murata and CAP-XX reached agreement to broaden the existing licence agreement to include battery markets and additional supercapacitor sizes. Following this agreement, Murata announced in late June 16 that it was launching a range of lithium ion batteries. Murata has confirmed that mass production of the new device commenced in June 2016 and that it plans to expand its product line-up to meet future demand for large capacity devices. Royalty payments from Murata continue to grow with total royalties for the year ended June 16 totalling A$238K. This is the second successive year that Murata's royalties have doubled from the previous year (2015: A$108K). The Board remains confident that the cash flow from Murata's royalty stream will continue to grow.

Total sales revenue for the year to 30 June 16 increased by A$0.6 million to AUD$5.0 million compared to A$4.4 million in 2015. The CAP-XX sales revenue has also seen a significant shift in mix. While sales from licencing and royalties have increased, sales of the traditional small supercapacitors have declined over the last twelve months as many of CAP-XX's customers have experienced difficult market conditions and looked to reshape their own businesses. Some of the Company's traditionally strong markets such as Point of Sale (POS) and handheld terminals are in a state of transition, just as new market opportunities for CAP-XX like smart credit cards, security cards, energy harvesting and wearables take off. Overall, the Board remains pleased with the number of large volume opportunities that are currently being pursued by the CAP-XX sales team. The majority of these opportunities are in the Internet of Things (IoT) market and may require even thinner ultrathin supercapacitors at 0.4mm compared to our current 0.6mm Thinline products. A 0.4 mm product is under development. The Company is focussed on accelerating the adoption of its products into these key target markets.

Total operational expenditure has increased on a year-on-year basis. The Board has made a conscious decision to invest resources in R&D, product development and manufacturing to lower the Group's manufacturing costs and to develop products with higher gross margins. The majority of the additional expense incurred was eligible research and development expenditure and will be subject to a 45% subsidy from the Australian Federal Government, with the total tax claim for the year to June 2016 increasing to A$1,537K (2015: A$1,127K). The Company also took advantage of an offer for a A$1m line of credit facility to fund any delay in the payment of this tax claim. This facility is expected to be repaid in full in October 2016. In the financial year ended June 2016, CAP-XX also incurred "one-off" expenses associated with the AVX and Murata licensing agreements plus costs associated with the re-negotiation of the Lane Cove lease. Due to the timing of these new arrangements, the full financial benefit was not realised in the year to 30 June 2016 but will be in the current and future financial years.

The operating result for the year to June 2016 was a loss of A$1.13million (2015: loss of A$1.9 million). The result for the year to June 2016 also includes a one-off catch up in employee share options expense due to timing and vesting conditions with additional expense being recognised in the early years after the grant of the options rather than on a straight line basis. However, , if the options are never exercised and eventually expire there is no possibility to write back this expense and associated reserve. Consequently, while the Board acknowledges that it has no alternative but to comply with the accounting standards, it strongly rejects the premise behind this accounting treatment as it severely disadvantages technology start-ups. As a result of this change in accounting treatment, in the year to 30 June 2016, there was an increase in the expense related to these share based payments of A$289K to a total of A$416K (from a total of A$127k in FY15).

The past twelve months have seen increasing market interest in CAP-XX's large cell products. In addition to the truckStart module for heavy vehicles, the Company has also developed the powerModule for passenger vehicles. Several sales of both truckStart and powerModule products and individual cells have been made for heavy vehicle and passenger vehicle applications globally. While these sales are still for evaluation purposes, the results from customers to date have been excellent and discussions are continuing with potential partners on how best to manufacture, market and finance these new business streams. Further design refinement and development of the large cell supercapacitor is continuing to ensure that our customers' expectations are realised, if not bettered. And while the majority of interest for our large supercapacitors is coming from international automotive markets, we have also received interest from the grid and stationary energy storage markets.

We are looking forward to further positive progress in the coming year.

Patrick Elliott
Chairman 4th October 2016

Review of Operations and Activities

The signing of the AVX licence is a further endorsement of our strategy to develop substantial and recurring income from our intellectual property, along with income from sales of small supercapacitors, large supercapacitors and energy storage modules incorporating our supercapacitor cells.

The royalties from Murata have continued to improve with royalties for the 12 months to 30 June 2016 more than doubling to A$236K (2015: A$109K) for the second successive year. The level of royalty increase is pleasing and is consistent with the discussions held with Murata management in regard to sales and marketing efforts and known design wins. CAP-XX's internal sales team are also observing that Murata's presence in the traditional supercapacitor markets is becoming increasingly active and the Board remain confident that the royalties will continue to increase in the foreseeable future especially with the broadening of the Murata license to incorporate the Murata lithium-ion battery which was released to the market in June 2016.

During the year, we continued to invest significant resources in redesigning products and processes to reduce manufacturing costs and to improve product performance as well as to reduce the number of standard products for which we carry inventory. The results to date are very significant and we expect to see the benefits continuing to flow through the 2016 financial year with an expected increase in sales volumes.

Business Environment

CAP-XX technology provides a competitive advantage over other supercapacitor manufacturers, such as Maxwell Technologies, Ioxus, Nippon Chemicon Corporation and other Chinese and Korean compeitors. The Directors believe that other manufacturers are unable to match the CAP-XX technology for thinness, power density, energy density and reliability. 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.

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 become smaller whilst their capabilities increase. During the year the Company was successful in winning new business from a range of markets including smart credit cards; energy harvesting; mobile phones; M2M communication modules; medical products and other products targeting the IoT. However we also face threats in these markets from cheaper cylindrical supercapacitors where our thin form factor, high power and long life are not valued as highly as lower initial cost. In addition our customers markets themselves are constantly evolving as new products and technologies threaten the incumbents. In this environment CAP-XX needs to remain flexible to changing business conditions.

Automotive applications such as Stop-Start systems, flat battery jump-starters, hybrid electric vehicles and electric vehicles also present very attractive opportunities for CAP-XX's products. Numerous automotive OEMs and automotive Tier-1 suppliers have purchased products such as our truckStart and powerModules for evaluation. The feedback to date has been very 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. However automotive markets have historically been slow to adopt new technology and this remains a risk today.

Opportunities

CAP-XX is continuing to refine the products we offer for the IoT, portable electronics and other markets for our traditional small supercapacitors and our Thinline supercapacitors. The *Thinline* range of supercapacitors , which are just 0.6mm thick, were developed to address the space-constrained needs of the Internet of Things (IoT) and during the year we achieved our first design win for a smart credit card. The Company is actively dealing with many other similar applications where the feedback has been very positive. However we have also received feedback that even at 0.6mm the thickness may be too much and that 0.4mm is required. The Company is watching these developments closely and has put in place a product development plan to launch a 0.4mm product within 6 months if its needed. All of these markets are forecast to be very high volume opportunities.

CAP-XX is also concentrating on a number of automotive opportunities including heavy vehicle engine cranking with its truckStart product and micro and mild hybrid passenger vehicles with its powerModule product. The world wide interest in these and other applications for the large cell has markedly increased over the past twelve months with numerous modules being shipped to several customers for evaluation. Results to date have been very positive and whilst discussions continue, it is anticipated that a number of these opportunities will evolve into future licensing deals for CAP-XX or manufacturing joint ventures.

We expect licensee sales from Murata and AVX to grow significantly in the coming years, as more consumer applications adopt supercapacitor technology.

One of the significant additional benefits of the Murata and AVX licencing agreements is that it validates CAP-XX's technology leadership in the field of supercapacitor and energy storage, and the potential for supercapacitors as a mainstream consumer electronics technology. The Murata and AVX product line and sales activities are also increasing our exposure to markets and customers that were previously beyond our reach. Association with Murata and AVX is also helping CAP-XX gain recognition, win acceptance for our supercapacitors, and reduce misconceptions about price and performance. It is also important that Murata's and AVX's strategy is to offer product ranges targeted at certain end markets. As such Murata and AVX will not meet the product type or size requirements of all markets and all applications leaving room for CAP-XX to supply these markets directly using products made by its contract manufacturers.

Strategies for Growth

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 IoT and automotive markets in particular offer significant opportunities for growth.

The Company continues to engage in discussions aimed at securing business with a number of global OEM's. We are strengthening relationships with these organisations and have regular engineering meetings together and with their design teams and manufacturing groups or contract manufacturers. We are unable to comment on specific clients but are pleased with overall progress and are confident that the available market for supercapacitors is increasing as manufacturers become familiar with the technology

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.

Research and Development

CAP-XX's R&D efforts are focused on a mix of short, medium and long term opportunities covering further cost reductions and improved product performance. CAP-XX has a research facility in Sydney, Australia, where a team of 16 engineers and scientists work to maintain CAP-XX's leading position in electrode, separator and electrolyte materials and their assembly into supercapacitor devices. We also have a close association with several leading, third party research institutions, whilst our Scientific Advisory Board provides the Company with clear direction on commercially relevant technologies for our ongoing R&D programme.

The market in which the Company operates is competitive and is characterised by rapid technological change. CAP-XX has a strong competitive position in all its target markets with its capability to produce supercapacitors with a high energy density and power density in a small conveniently sized flat package. CAP-XX devices are also lightweight, work over a broad temperature range and have an operating lifetime measured in years.

The Company's success depends on its ability to protect and prevent any infringements of its intellectual property. To protect, this important asset the Company has considerable intellectual property embodied in its patents covering the design, manufacture and use of its high performance supercapacitors. The CAP-XX patent portfolio currently consists of 22 patent. The Company's intellectual property 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.

Outlook

The major short term focus for CAP-XX is to drive the adoption of the Company's intellectual property and products, both large and small, into key target markets through future licence deals; joint ventures and direct product sales. The Company expects to see further significant progress over the next twelve months.

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 2016.

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
Bruce Grey	Non-Executive Director
Anthony Kongats	Managing Director

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 2016.

Review of operations
The Group experienced net losses of $1,292,252 during the year ended 30 June 2016 (2015: loss of $1,880,338). Information on the operations and financial position of the Group and its business strategies and prospects is set out on pages 6 to 7 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 2016.

Matters subsequent to the end of the financial year
The necessary paperwork associated with the receipt of the R&D Tax rebate for the 2016 financial year has been lodged with the relevant Government authorities and the quantum expected to be received is similar to past years.

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.

Information on directors

Patrick Elliott *Non-executive director. Age 64.*

Experience and qualifications
Pat is a company director specialising in the resources sector with 40 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, Tamboran Resources Limited and Variscan Mines limited. He is also a director of Global Geoscience 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 the Remuneration Committee

Interests in shares and options
5,480,802 ordinary shares in CAP-XX Limited (including shares held by Panstyn Investments Pty Limited).

2,385,000 options over ordinary shares in CAP-XX Limited (including options held by Panstyn Investments Pty Limited).

Anthony Kongats *Managing Director. Age 58.*

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
9,660,333 ordinary shares in CAP-XX Limited (including shares held by Ducon Management Pty Limited and Management Matters Pty Limited).

7,250,000 options over ordinary shares in CAP-XX Limited.

Bruce Grey *Non-executive director. Age 70.*

Experience and qualifications
Bruce most recently was Managing Director of the Advanced Manufacturing Cooperative Research Centre and previously Managing Director of the Bishop Technology Group Limited. 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 2015 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 the Audit Committee

Interests in shares and options

3,652,620 ordinary shares in CAP-XX Limited (including shares held by Grey Invest Pty Limited)

2,300,000 options over ordinary shares in CAP-XX Limited

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 a 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 2016, 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	7	2	2	2	2
Bruce Grey	7	7	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 2016, 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

2016	Primary			Post-employment		Equity	
Name	Cash salary and accrued fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
Executive directors							
Anthony Kongats	322,103	-	-	30,600	-	58,190	410,893
Non-executive directors							
Patrick Elliott	49,509	-	-	-	-	17,872	67,381
Bruce Grey	49,509					15,858	65,367
Total	421,121	-	-	30,600	-	91,920	543,641

Details of the remuneration of each director of CAP-XX Limited, for the year ended 30 June 2015, 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

2015	Primary			Post-employment		Equity	
Name	**Cash salary and accrued fees $**	**Cash bonus $**	**Non-monetary benefits $**	**Super-annuation $**	**Retirement benefits $**	**Options $**	**Total $**
Executive directors							
Anthony Kongats	322,103	-	-	30,600	-	19,049	371,752
Non-Executive directors							
Patrick Elliott	43,481	-	-	-	-	6,839	50,320
Bruce Grey	43,481	-	-	-	-	2,811	46,292
Total	409,065	-	-	30,600	-	28,699	468,364

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 4 most highly remunerated officers of the Company and Group as part of their remuneration were as follows:

Directors	**Date Granted**	**Options Granted**
Patrick Elliott	4 December 2015	2,000,000
Bruce Grey	4 December 2015	2,000,000
Anthony Kongats	4 December 2015	6,000,000

Other executives of CAP-XX Limited	**Date Granted**	**Options Granted**
Alex Bilyk	4 December 2015	1,500,000
Mark Hulme	4 December 2015	1,500,000
Song Hee Lau	4 December 2015	1,500,000
Pierre Mars	4 December 2015	1,500,000
Michael Taylor	4 December 2015	1,500,000

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 6 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
19 September 2006	19 September 2016	$2.38	480,000
25 February 2008	25 February 2018	$0.71	160,000
9 October 2013	9 October 2017	£0.085	3,310,000
21 April 2015	21 April 2018	£0.057	100,000
4 December 2015	4 December 2020	£0.050	20,900,000
			24,950,000

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 2016 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 15.

Non-audit Services

It is the Group's policy to employ BDO East Coast Partnership on assignments additional to their statutory audit duties where BDO East Coast Partnership's expertise and experience with the Group are important. These assignments are principally tax advice where BDO East Coast Partnership 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 (BDO East Coast Partnership) for audit and non-audit services provided, during the year, are set out in Note 22 to the financial statements.

Auditor

BDO East Coast Partnership 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.

Patrick Elliott
Director

Sydney
4th October, 2016

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Sydney NSW 2000
Australia

DECLARATION OF INDEPENDENCE BY GARETH FEW TO THE DIRECTORS OF CAP-XX LIMITED

As lead auditor of CAP-XX Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

Gareth Few
Partner

Sydney, 4 October 2016

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 (September 2012), 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 independent non-executive directors. Although the non-executive directors are shareholders of the Company, given the size of their shareholding and that none of the non-executive directors have any day-to-day involvement in the running of the business, the Company considers the non-executive directors to be independent.

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 2016, eleven 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 2016, two 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 21 patent families with 45 granted national patents (15 USA, 7 US continuations and 18 in Europe, 2 in Japan and 3 in China) with an additional 18 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 2016

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

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 to7 and in the directors' report on pages 8 to 14, all of which are not part of this financial report.

The financial report was authorised for issue by the directors on 31 August 2016. The Directors have 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 Group. All press releases, financial reports and other information are available at our Investors' Centre on our website: www.cap-xx.com.

Statement of profit or loss
For the year ended 30 June 2016

Currency: Australian Dollars	Notes	Consolidated 2016 $	2015 $
Revenue from continuing operations	5	**4,965,448**	4,434,642
Cost of sales	7	**(2,359,612)**	(3,080,361)
Gross Profit		**2,605,836**	1,354,281
Other revenue	5	**25,597**	21,011
Other income	6	**1,867,444**	1,312,336
General and administrative expenses		**(2,589,480)**	(2,046,151)
Process and engineering expenses		**(885,418)**	(564,197)
Selling and marketing expenses		**(664,239)**	(584,821)
Research and development expenses		**(1,548,300)**	(1,306,971)
Other expenses	7	**(103,692)**	(65,826)
Loss before income tax		**(1,292,252)**	(1,880,338)
Income tax benefit	8	-	-
Net loss for the year		**(1,292,252)**	(1,880,338)
Loss attributable to owners of CAP-XX Limited		**(1,292,252)**	(1,880,338)
Earnings per share for loss attributable to the ordinary equity holders of the Company		**Cents**	Cents
Basic loss per share	30	**(0.5)**	(1.3)
Diluted loss per share	30	**(0.5)**	(1.3)

The above statement of profit or loss should be read in conjunction with the accompanying notes.

CAP-XX Limited
Statement of comprehensive income
For the year ended 30 June 2016

Currency: Australian Dollars	Notes	Consolidated 2016 $	2015 $
Loss for the year		**(1,292,252)**	(1,880,338)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	20	**(45,042)**	(139,539)
Other comprehensive income for the year, net of tax		**(45,042)**	(139,539)
Total comprehensive income for the year attributable to owners of CAP-XX Limited		**(1,337,294)**	(2,019,877)

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

CAP-XX Limited
Statement of financial position
As at 30 June 2016

Currency: Australian Dollars	Notes	Consolidated June 30, 2016 $	 June 30, 2015 $
ASSETS			
Current assets			
Cash and cash equivalents	9	**331,631**	2,643,418
Receivables	10	**2,078,941**	685,192
Inventories	11	**1,365,524**	1,409,463
Other	12	**1,700,147**	1,252,158
Total current assets		**5,476,243**	5,990,231
Non-current assets			
Property, plant and equipment	13	**364,695**	301,272
Other	14	**236,507**	236,507
Total non-current assets		**601,202**	537,779
Total assets		**6,077,445**	6,528,010
LIABILITIES			
Current liabilities			
Payables	15	**642,358**	1,074,711
Provisions	16	**663,069**	915,862
Secured Loans	17	**1,000,000**	-
Total current liabilities		**2,305,427**	1,990,573
Non-current liabilities			
Provisions	18	**65,664**	42,487
Total non-current liabilities		**65,664**	42,487
Total liabilities		**2,371,091**	2,033,060
Net assets		**3,706,354**	4,494,950
EQUITY			
Contributed equity	19	**94,558,726**	94,426,347
Reserves	20	**4,035,574**	3,664,297
Accumulated losses	20	**(94,887,946)**	(93,595,694)
TOTAL EQUITY		**3,706,354**	4,494,950

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

Statement of changes in equity
For the year ended 30 June 2016

		Consolidated			
Currency: Australian Dollars	Notes	Contributed Equity $	Reserves $	Accumulated losses $	Total $
Balance as 1 July 2014		90,293,839	3,676,779	(91,715,356)	2,255,262
Loss for the period as reported in the 2015 financial statements		-	-	(1,880,338)	(1,880,338)
Other comprehensive income		-	(139,539)	-	(139,539)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	19	4,132,508	-	-	4,132,508
Employee share options - value of employee services	20	-	127,057	-	127,057
		4,132,508	127,057	-	4,259,565
Balance at 30 June 2015		**94,426,347**	**3,664,297**	**(93,595,694)**	**4,494,950**
Loss for the period as reported in the 2016 financial statements				**(1,292,252)**	**(1,292,252)**
Other comprehensive income		**-**	**(45,042)**	**-**	**(45,042)**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	19	132,379	-	-	132,379
Employee share options - value of employee services	20	-	416,319	-	416,319
		132,379	416,319	-	336,411
Balance at 30 June 2016		**94,558,726**	**4,035,574**	**(94,887,946)**	**3,706,354**

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

CAP-XX Limited
Statement of cash flows
For the year ended 30 June 2016

Currency: Australian Dollars	Notes	Consolidated 2016 $	Consolidated 2015 $
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		4,167,729	4,716,519
Payments to suppliers and employees (inclusive of goods and services tax)		(8,466,934)	(8,067,711)
		(4,299,205)	(3,351,192)
Tax credit received		1,127,272	1,172,447
Grants received		-	-
Interest received		25,597	21,011
Net cash (outflow) from operating activities	276	(3,146,336)	(2,157,734)
Cash flows from investing activities			
Payments for property, plant and equipment		(252,788)	(92,214)
Net cash (outflow) from investing activities		(252,788)	(92,214)
Cash flows from financing activities			
Proceeds from issue of shares (net of costs)	19	132,379	4,132,508
Proceeds from Loan		1,000,000	-
Net cash inflow from financing activities		1,132,379	4,132,508
Net (decrease)/increase in cash and cash equivalents		(2,266,745)	1,882,560
Cash and cash equivalents at the beginning of the financial year		2,643,418	900,397
Effects of exchange rate changes on cash and cash equivalents		(45,042)	(139,539)
Cash and cash equivalents at the end of the financial year	9	331,631	2,643,418

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

Contents of the notes to the financial statements

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, rounded to the nearest Dollar, 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 2016, the Group incurred an operating loss before tax and net cash outflows from operating activities as disclosed in the statement of profit or loss and the statement of cash flows, respectively. As a result, there is material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore 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.

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 Group receiving the proceeds from the R&D Tax concession which has been lodged with the Australian Taxation Office in August 2016. The quantum of the rebate is higher when compared to previous years;

ii. The ability of the Group to raise additional funds from shareholders and new investors. The Group has successfully conducted a number of small equity placements over the last five years;

iii. AVX exercising its renewal option and agreeing to proceed with the License Agreement and pay £750,000 on the Agreements Licence's anniversary date;

iv. Increasing prospects from existing and emerging markets are realised into sales revenue with the Group needing to ensure that product development and manufacturing capacity is available to satisfy the customers product specifications and timing demands;

v. Ongoing technology license discussions with numerous existing and new customers need to be finalised to ensure that ongoing revenue and cash flow is generated in a timely manner. Royalty revenue from existing licensees is also expected to materially increase over the next twelve months;

vi. Continue the close and effective monitoring of the Group's operating expenditure, including the realisation of identified operating cost initiatives. The Board approves an annual budget and regularly receives forecasts from management to monitor performance against budget and to consider longer term prospects.

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,

Note 1 Summary of significant accounting policies (continued)

the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2016. 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

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of CAP-XX Limited ("Company" or "Parent Entity") as at 30 June 2016 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 over which the Group has control. The Group controls an entity when the consolidated is exposed to, or has rights to, variable returns from its involvement with the entity and has the entity to affect those returns through its power to direct the activities of the entity. They are de-consolidated from the date that control ceases.

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

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

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative transaction differences recognised in equity.

The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

(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 statement of profit or loss 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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

Note 1 Summary of significant accounting policies (continued)

- income and expenses for each statement of profit or loss 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 statement of profit or loss 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.

(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.

Sales 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.

Licence Revenue in relation to the contracted use of the Group's patents or technology is recognised when the licence agreement is signed, there is no additional expenditure to incur to finalise the licensed patents and/or technology and the Group has the right to receive payment.

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. Income from government grants, including the R&D tax incentive, is recognised in the statement of profit or loss when the right to receive the payment is established.

(h) Income tax

The income tax expense or benefit 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.

Note 1 Summary of significant accounting policies (continued)

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.

(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 statement of profit or loss 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 statement of profit or loss.

Note 1 Summary of significant accounting policies (continued)

(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 statement of profit or loss 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 due to their short term nature.

(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 statement of profit or loss during the financial period in which they are incurred. Capital work in progress is not depreciated until the asset is installed and 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 reporting 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 statement of profit or loss.

(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.

Note 1 Summary of significant accounting policies (continued)

(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) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

(t) 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.

(ii) Long service leave

The liability for long service leave is recognised as part of the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on 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

Note 1 Summary of significant accounting policies (continued)

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.

(u) 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 Group.

(v) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group, 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.

(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.

(w) 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 statement of financial position.

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

(x) New, revised or amending Accounting Standards and Interpretations adopted

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

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

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

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

Note 1 Summary of significant accounting policies (continued)

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities
The consolidated entity has applied AASB 2012-3 from 1 July 2015. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement.

AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets
The consolidated entity has applied AASB 2013-3 from 1 July 2015. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed.

AASB 2015-1 Amendments to Australian Accounting Standards (Parts A to C)
The consolidated entity has applied Parts A to C of AASB 2015-1 from 1 July 2015. These amendments affect the following standards: AASB 2 'Share-based Payment': clarifies the definition of 'vesting condition' by separately defining a 'performance condition' and a 'service condition' and amends the definition of 'market condition'; AASB 3 'Business Combinations': clarifies that contingent consideration in a business combination is subsequently measured at fair value with changes in fair value recognised in profit or loss irrespective of whether the contingent consideration is within the scope of AASB 9; AASB 8 'Operating Segments': amended to require disclosures of judgements made in applying the aggregation criteria and clarifies that a reconciliation of the total reportable segment assets to the entity's assets is required only if segment assets are reported regularly to the chief operating decision maker; AASB 13 'Fair Value Measurement': clarifies that the portfolio exemption applies to the valuation of contracts within the scope of AASB 9 and AASB 139; AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets': clarifies that on revaluation, restatement of accumulated depreciation will not necessarily be in the same proportion to the change in the gross carrying value of the asset; AASB 124 'Related Party Disclosures': extends the definition of 'related party' to include a management entity that provides KMP services to the entity or its parent and requires disclosure of the fees paid to the management entity; AASB 140 'Investment Property': clarifies that the acquisition of an investment property may constitute a business combination.

(y) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

Note 1 Summary of significant accounting policies (continued)

AASB 15 Revenue from Contracts with Customers
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. To the extent that the entity, as lessee, has significant operating leases outstanding at the date of initial application, right-of-use assets will be recognised for the amount of the unamortised portion of the useful life, and lease liabilities will be recognised at the present value of the outstanding lease payments. Thereafter, earnings before interest, depreciation, amortisation and tax ('EBITDA') will increase because operating lease expenses currently included in EBITDA will be recognised instead as amortisation of the right-of-use asset, and interest expense on the lease liability. However, there will be an overall reduction in net profit before tax in the early years of a lease because the amortisation and interest charges will exceed the current straight-line expense incurred under AASB 117 Leases. This trend will reverse in the later years. There will be no change to the accounting treatment for short-term leases less than 12 months and leases of low value items, which will continue to be expensed on a straight-line basis.

(z) 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	
	2016	2015
	$	$
Financial assets		
Cash and cash equivalents	**331,631**	2,643,418
Trade and other receivables	**3,625,116**	1,842,464
	3,956,747	4,485,882
Financial liabilities		
Trade and other payables	**642,358**	1,074,711
Loans	**1,000,000**	-
	1,642,358	1,074,711

(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 $90,691 lower/ $99,760 higher (2015: $126,606 lower/$139,267 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 dollars, was as follows:

		2016			2015	
	USD	**GBP**	**Other**	USD	GBP	Other
	$	**£**	**$**	$	£	$
Cash and cash equivalents	**138,674**	**3,496**	**37**	166,267	19,843	5,800
Trade receivables	**224,141**	**1,000,000**	**-**	504,717	-	-
Trade payables	**153,397**	**9,929**	**-**	440,640	28,669	-

(b) Credit risk

The Group has some concentration 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

Note 2 Financial risk management (continued)

due. The Group has experienced recurring operating losses and operating cash outflows since inception to 30 June 2016 as the Group is transitioning from development stage. Due to the negative cash flow position the Group has not committed to any credit facilities and rather has 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.

(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.

(iv) Lease make good provision

A provision has been made for the present value of anticipated costs for the future restoration of leased premises. The provision includes future cost estimates associated with departing the premise at the termination of the current lease period and requires assumptions regarding the cost estimates and departure dates. The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time.

Note 3 Critical accounting estimates and judgements (continued)

v) Warranty provision

In determining the level of provision required for warranties, the Group has made judgements in respect of he expected performance of the products, the number and frequency of customers who will actually claim under the stated warranty and the costs of fulfilling the conditions of the warranty. The provision is based on estimates generated from historical warranty data associated with similar products and services.

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 generates revenue in 3 main geographical areas being Asia Pacific, North America and Europe. Segment revenues are allocated based on the country in which the user is located

30 June 2016	Geographical Segments			
	Asia Pacific	Europe	North America	Total
	$	$	$	$
Revenue	1,771,189	1,188,365	2,005,894	4,965,448
Cost of sales	(2,359,612)	-	-	(2,359,612)
Gross (Loss)/Profit	(588,423)	1,188,365	2,005,894	2,605,836
Interest revenue	25,597	-	-	25,597
Other income	1,867,444	-	-	1,867,444
General and administrative expenses	(2,589,480)	-	-	(2,589,480)
Process and engineering expenses	(885,418)	-	-	(885,418)
Selling and marketing expenses	(664,239)	-	-	(664,239)
Research and development expenses	(1,548,300)	-	-	(1,548,300)
Other expenses	(103,692)	-	-	(103,692)
(Loss)/Profit before income tax	(4,486,511)	1,188,365	2,005,894	(1,292,252)
Net (loss)/profit for the year	(4,486,511)	1,188,365	2,005,894	(1,292,252)
Other comprehensive income				
Exchange differences arising in translation of foreign operations	(45,042)	-	-	(45,042)
Total comprehensive income, net of tax	(4,531,533)	1,188,365	2,005,894	(1,337,294)
Total assets	6,077,445	-	-	6,077,445
Total liabilities	2,371,091	-	-	2,371,091
(Loss)/Profit before income tax includes the following specific expenses:				
Interest expense	-	-	-	-
Depreciation	189,365	-	-	189,365
Share based payments	416,319	-	-	416,319

Note 4 Segment Information (continued)

30 June 2015	Geographical Segments			
	Asia Pacific $	Europe $	North America $	Total $
Revenue	1,179,863	2,847,396	407,383	4,434,642
Cost of sales	(3,080,361)	-	-	(3,080,361)
Gross (Loss)/(Profit	(1,900,498)	2,847,396	407,383	1,354,281
Interest revenue	21,011	-	-	21,011
Other income	1,312,336	-	-	1,312,336
General and administrative expenses	(2,046,151)	-	-	(2,046,151)
Process and engineering expenses	(564,197)	-	-	(564,197)
Selling and marketing expenses	(584,821)	-	-	(584,821)
Research and development expenses	(1,306,971)	-	-	(1,306,971)
Other expenses	(65,826)	-	-	(65,826)
(Loss)/Profit before income tax	(5,135,117)	2,847,396	407,383	(1,880,338)
Net (loss)/profit for the year	(5,135,117)	2,847,396	407,383	(1,880,338)
Other comprehensive income				
Exchange differences arising in translation of foreign operations	(139,539)	-	-	(139,539)
Total comprehensive income, net of tax	(5,274,656)	2,847,396	407,383	(2,019,877)
Total assets	6,528,010	-	-	6,528,010
Total liabilities	2,033,060	-	-	2,033,060
(Loss)/Profit before income tax includes the following specific expenses:				
Interest expense	-	-	-	-
Depreciation	168,106	-	-	168,106
Share based payments	127,057	-	-	127,057

Note 5 Revenue

	Consolidated	
	2016 $	2015 $
Sales revenue		
Sale of goods	**3,156,448**	4,434,642
Licence Fees	**1,809,000**	-
	4,965,448	4,434,642
Other revenue		
Interest	**25,597**	21,011

Note 6 Other income

	Consolidated	
	2016	2015
	$	$
Foreign Exchange Gains – (net)	17,907	185,064
R&D Tax Incentive	1,537,925	1,127,272
Write back of Make Good Provision	249,856	-
Miscellaneous Income	61,756	-
	1,867,444	1,312,336

Note 7 Expenses

	Consolidated	
	2016	2015
	$	$
Loss before income tax includes the following specific expenses:		
Cost of sale of goods		
Direct materials and labour	1,913,692	2,613,609
Indirect manufacturing expenses	445,920	466,752
Total cost of sale of goods	2,359,612	3,080,361
Depreciation		
Plant and equipment	186,115	162,681
Furniture and fittings	1,968	3,500
Leasehold improvements	1,282	1,924
Total depreciation	189,365	168,105
Other expenses - movement in provisions		
Provision for credit notes / doubtful debts	(18,054)	6,194
Provision for make good on premises	-	71,839
Provision for Withholding Tax Diminution	108,159	777
Provision for returns and rework	(9,119)	(12,984)
Interest Expense - Loan facility	22,706	-
	103,692	65,826
Rental expense relating to operating leases		
Minimum lease payments	446,578	393,970
Employee benefits expense	3,035,406	2,738,168
Share based payments	416,319	127,057

Note 8 Income tax benefit

	Consolidated	
	2016	2015
	$	$
(a) Numerical reconciliation of income tax benefit to prima facie tax benefit		
(Loss) before tax	**(1,292,252)**	(1,880,338)
Tax at the Australian tax rate of 30%	**(387,676)**	(564,101)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	**124,896**	38,117
R&D additional claims	**(511,345)**	(375,758)
	(774,125)	(901,742)
Deferred income tax (revenue)/expense not recognised	**-**	-
Benefit arising from tax losses not recognised	**774,125**	901,742
Income tax benefit	**-**	-

(b) Tax losses

Unused tax losses for which no deferred tax asset has been recognised	**106,156,338**	92,672,089
Potential tax benefit @ 30%	**31,846,901**	27,801,627

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 - not recognised

The balance comprised temporary differences attributable to employee benefits & other provisions	**535,820**	628,908
Set- off of deferred tax liabilities	**(18,978)**	(122,171)
Net deferred tax assets	**516,842**	506,737

(d) Unrecognised temporary differences

Temporary differences for which no deferred tax asset has been recognised	**1,786,067**	1,995,905
Potential tax benefit @ 30%	**535,820**	598,772

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

Note 9 Current assets – Cash and cash equivalents

	Consolidated	
	2016	2015
	$	$
Cash at bank and on hand	323,638	312,764
Cash on deposit	7,993	2,330,654
	331,631	2,643,418

Note 10 Current assets – Receivables

	Consolidated	
	2016	2015
	$	$
Trade receivables	2,040,702	668,007
Provision for doubtful receivables	(16,761)	(34,815)
	2,023,941	633,192
Other receivables	55,000	52,000
	2,078,941	685,192

Movements in the provision for impairment of receivables are as follows:

	Consolidated	
	2016	2015
	$	$
Opening balance	34,815	28,621
Additional provisions recognised	16,761	34,815
Unused amounts reversed	(34,815)	(28,621)
Closing balance	16,761	34,815

(b) Past due but not impaired

There were no trade receivables at 30 June 2016 that were past due but not impaired (2015: Nil).

(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 10 customers with the top 4 making up 96% of the total balance.

(d) Foreign exchange and interest rate risk

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

Note 11 Current assets – Inventories

	Consolidated 2016 $	2015 $
Raw materials and stores - net realisable value	812,603	737,355
Finished goods - net realisable value	552,921	672,108
	1,365,524	1,409,463

Note 12 Current assets – Other

	Consolidated 2016 $	2015 $
Research & Development - Tax Credit	1,546,175	1,127,272
Prepayments	143,421	72,821
Other	10,551	52,065
	1,700,147	1,252,158

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

	Consolidated 2016 $	2015 $
Plant and equipment at cost	16,542,715	16,288,966
Accumulated depreciation	(16,193,474)	(16,007,358)
Capital Works in Progress	9,271	15,595
Net book amount	358,512	297,203
Furniture and fittings at cost	66,779	66,779
Accumulated depreciation	(65,960)	(63,992)
Net book amount	819	2,787
Leasehold improvements at cost	448,010	442,647
Accumulated depreciation	(442,646)	(441,365)
Net book amount	5,364	1,282
Total property, plant and equipment	17,066,775	16,813,987
Total accumulated depreciation	(16,702,080)	(16,512,715)
Total net book amount	364,695	301,272

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

Movement in classes of assets: Consolidated	Plant and equipment $	Leasehold improvements $	Furniture and fittings $	Total $
Year ended 2016				
Opening net book amount	297,203	1,282	2,787	301,272
Additions	247,424	5,364	-	252,788
Depreciation	(186,115)	(1,282)	(1,968)	(189,365)
Closing net book amount	358,512	5,364	819	364,695

Movement in classes of assets: Consolidated	Plant and equipment $	Leasehold improvements $	Furniture and fittings $	Total $
Year ended 2015				
Opening net book amount	367,670	3,206	6,287	377,163
Additions	92,214	-	-	92,214
Depreciation	(162,681)	(1,924)	(3,500)	(168,105)
Closing net book amount	297,203	1,282	2,787	301,272

Note 14 Non-current assets – Other

	Consolidated 2016 $	2015 $
Rental bond	**236,507**	236,507

A term of the current lease agreement for the Lane Cove premises is a requirement for the Group 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 2016 $	2015 $
Trade payables	**496,023**	874,345
Other payables and accrued expenses	**146,335**	200,366
	642,358	1,074,711

The carrying amount of trade and other payables are assumed to approximate their fair values due to their short term nature.

Note 16 Current liabilities – Provisions

	Consolidated 2016 $	2015 $
Employee benefits – annual leave and long service leave	**432,774**	426,592
Product returns and warranties	**9,218**	18,337
Make good provision	**221,077**	470,933
	663,069	915,862

Note 16 Current liabilities – Provisions (continued)

(a) Make good provision

The Group 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	
	2016	2015
	$	$
Annual leave obligation not expected to be settled after 12 months	**96,133**	83,554

(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.

(e) Movements in provisions

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

	Consolidated	
	2016	2015
	$	$
Carrying amount at start of year	**18,337**	31,321
Charged to profit or loss		
- provision adjustment	**(9,119)**	(12,984)
Carrying amount at end of year	**9,218**	18,337

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

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

	Consolidated	
	2016	2015
	$	$
Carrying amount at start of year	**470,933**	399,094
Charged to profit or loss		
- additional provisions recognised	**-**	71,839
- over provision	**(249,856)**	-
Carrying amount at end of year	**221,077**	470,933

Note 17 Secured Loans

The Loan is secured by a general security deed over all assets and undertakings (plant and equipment, intellectual property and proceeds of the Tax Rebate) of the parent entity and subsidiary companies. Loan will be repaid no later than 30 November , 2016.

	Consolidated	
	2016	2015
	$	$
Secured Loans	**1,000,000**	-
	1,000,000	-

Note 18 Non-current liabilities – Provisions and Other liabilities

	2016	2015
	$	$
Employee benefits – long service leave	**65,664**	42,487
	65,664	42,487

Note 19 Contributed equity

	Consolidated	
	2016 Shares	2015 Shares
(a) Share capital		
Fully paid ordinary shares (no par value)	**270,171,965**	268,653,677

(b) Movement in ordinary share capital:

Date	Details	Number of shares	Issue price	$
1 July 2104	Balance	114,459,249		90,293,839
5 November 2014	Issue of shares	1,768,116	$0.06	111,742
12 April 2015	Issue of Shares	120,000,000	$0.02	2,327,503
12 April 2015	Share Issuance Costs			(206,956)
14 May 2015	Issue of Shares	30,769,231	$0.06	1,949,318
14 May 2015	Share Issuance Costs			(157,099)
9 June 2015	Issue of Shares	1,657,081	$0.07	107,999
30 June 2015	Balance	268,653,677		94,426,346
1 July 2015	Balance	268,653,677		94,426,346
07 December 2015	Issue of Shares	385,356	$0.13	51,026
05 May 2016	Issue of Shares	1,132,932	$0.07	81,353
30 June 2016	Balance	270,171,965		94,558,726

Note 19 Contributed equity (continued)

(c) Ordinary shares

At 30 June 2016, there were 270,171,965 (2015: 268,653,677) 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 Group 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 27.

(e) Capital management plan

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

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was value adding value relative to the current company's share price at the time of the investment. The consolidated entity would actively pursuing additional investments in the short term as it continues to integrate and grow its existing business in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given pricing capital market decisions. There have been no events of default on the financing arrangements in the financial year.

The capital risk management policy remains unchanged from the 2015 Annual report.

Note 20 Reserves and accumulated losses

	Consolidated 2016 $	2015 $
(a) Reserves		
Foreign currency translation reserve note 19(c)(i)	**(228,956)**	(183,914)
Share-based payments reserve note 19(c) (ii)	**4,052,243**	3,848,211
	3,823,287	3,664,297
Movements:		
Foreign currency translation reserve		
Balance 1 July	**(183,914)**	(44,375)
Currency translation differences arising during the year	**(45,042)**	(139,539)
Balance 30 June	**(228,956)**	(183,914)
Share-based payments reserve		
Balance 1 July	**3,848,211**	3,721,154
Option expense	**204,032**	127,057
Balance 30 June	**4,052,243**	3,848,211

Note 20 Reserves and accumulated losses (continued)

(b) Accumulated losses

Movements in accumulated losses were as follows:	Consolidated 2016 $	2015 $
Balance 1 July	**(93,595,694)**	(91,715,356)
Net (loss) for the year	**(1,292,252)**	(1,880,338)
Balance 30 June	**(94,887,946)**	(93,595,694)

(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

Patrick Elliott (Non-Executive Chairman)
Bruce Grey (Non-Executive Director)

(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. The following were key management personnel upo to the date of teh report unless otherwise stated :-:

Alex Bilyk, VP Research
Peter Buckle, VP Sales & Marketing (Resigned 31st July 2015)
Bernd Failenschmid VP Sales & Marketing Europe and America (Appointed 24th June, 2015, Resigned 18/12/2015)
Mark Hulme, VP Operations (Appointed 1st October, 2015)
Song Au Lau, VP Sales & Marketing Asia
Jean Pierre Mars, VP Applications Engineering
Michael Taylor, Chief Financial Officer/Chief Operating Officer
Dan Trujic, VP Sales & Marketing Europe and America (Appointed 28th February, 2016)

	Consolidated 2016 $	2015 $
Short-term benefits	**1,390,133**	1,178,192
Post-employment benefits	**132,063**	114,647
Share-based payments	**274,526**	162,348
Total	**1,796,722**	1,455,187

Note 21 Key management personnel disclosures (continued)

(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	
	2016	2015
	$	$
BDO East Coast Partnership		
Audit services		
Audit of financial statements	**61,500**	61,500
Total remuneration for audit services	**61,500**	61,500
Taxation services		
Tax compliance services, including review of company income tax returns , employee share scheme and R&D Tax concession	**36,600**	36,000
Total remuneration of BDO East Coast Partnership	**98,100**	97,500

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

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 2015 and was due to expire on 30th June 2016. The lease has been extended by a further 48 months to 30th June, 2020.

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	
	2016	2015
	$	$
Commitments for minimum lease payments in relation to operating leases are payable as follows:		
Within one year	**181,781**	372,165
Later than one year but not later than 5 years	**936,975**	35,568
	1,118,756	407,733

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 2016 %	30 June 2015 %
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.

Note 26 Events occurring after the balance sheet date

The necessary paperwork associated with the receipt of the R&D Tax rebate for the 2016 financial year has been lodged with the relevant Government authorities and the quantum expected to be received is similar to past years.

Note 27 Reconciliation of loss after tax to net cash outflow from operating activities

	Consolidated	
	2016 $	2015 $
Net loss	**(1,292,252)**	(1,880,338)
Depreciation and amortisation	**189,365**	168,105
Non-cash employee benefit expense – share based payments	**416,319**	127,057
Foreign exchange differences	**-**	(185,041)
Changes in assets and liabilities:		
(Increase) in receivables	**(1,393,749)**	(126,387)
Decrease) / (increase) in inventories	**43,940**	(453,796)
(Increase) in other assets	**(447,989)**	(8,113)
(Decrease) / increase in payables	**(432,354)**	245,523
(Decrease) in provisions	**(229,616)**	(44,744)
Net cash outflow from operating activities	**(3,146,336)**	(2,157,734)

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 Group's Board of Directors with effect from 5 April 2006. The 2006 Share Option Exchange provides for the issuance of stock options for the purchase of ordinary shares of the Group'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 Group's ordinary shares by officers, employees, independent contractors, consultants, advisers and directors of the Group 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	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
		A$	Number	Number	Number	Number	Number	Number
Consolidated – 2016								
			-	-	-	-	-	-
Weighted Average Exercise Price			-	-	-	-	-	-

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
		A$	Number	Number	Number	Number	Number	Number
Consolidated – 2015								
1 July 2005	31 May 2016	$0.47	518,576	-	-	(518,576)		
1 July 2005	31 May 2016	$15.64	8,004	-	-	(8,004)		
			526,580	-	-	(526,580)	-	-
Weighted Average Exercise Price			$0.70	-	-	$0.70	$0.00	$0.00

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

No share options were forfeited during the year ended 30 June 2016 (2015: 526,580).

The weighted average remaining contractual life of share options outstanding at the end of the period was 0.0 years (2015: 0.8 years).

(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 Group by officers, employees, consultants, advisors and directors of the Group 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:

Note 28 Share-based payments (continued)

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 – 2016								
19 September 2006	19 September 2016	$2.38	490,000	-	-	(10,000)	480,000	480,000
25 February 2008	25 February 2018	$0.71	160,000				160,000	160,000
06 April 2010	06 April 2016	£0.56	1,225,000	-	-	(1,225,000)	-	-
08 December 2011	8 December 2015	£0.21	1,430,000	-	-	(1,430,000)	-	-
09 October 2013	09 October 2017	£0.085	3,870,000	-	-	(560,000)	3,310,000	2,258,055
21 April 2014	21 April 2018	£0.057	100,000	-	-	-	100,000	54,932
04 December 2015	04 December 2019	£0.050		20,900,000	-	-	20,900,000	
			7,275,000	20,900,000	-	(3,225,000)	24,950,000	2,952,987
Weighted Average Exercise Price			$0.47	$0.10	-	$0.53	$0.16	$0.53

Options granted prior to April 2008 used Australian dollars as the measurement basis, whilst options granted after April 2008 used British pounds. This date corresponds with the listing of CAP-XX Limited on the Alternative Investment Market (AIM) in 2008.

Fair value of options granted

There were 20,900,000 share options issued for the year ended 30 June 2016 (2015: Nil)

The assessed fair value at grant date of options granted, during the year ended 30 June 2016, under the CAP-XX Limited Plan was A$0.04 on 9 October 2013. 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:
  - 4 -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;
  - 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

(f) expected price volatility of the Group's shares: 83%

(g) no expected dividend yield

(h) risk-free interest rate: 1.64%

Note 28 Share-based payments (continued)

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 – 2015								
19 September 2006	19 September 2016	$2.38	625,000	-	-	(135,000)	490,000	490,000
25 February 2008	25 February 2018	$0.71	160,000	-	-	-	160,000	160,000
19 December 2008	19 December 2015	£0.25	855,000	-	-	(855,000)	-	-
01 March 2009	01 March 2016	£0.20	50,000	-	-	(50,000)	-	-
06 April 2010	06 April 2016	£0.56	1,535,000	-	-	(310,000)	1,225,000	1,225,000
08 December 2011	8 December 2015	£0.21	1,760,000	-	-	(330,000)	1,430,000	1,274,267
09 October 2013	09 October 2017	£0.08	4,400,000	-	-	(530,000)	3,870,000	1,66,932
21 April 2014	21 April 2008	£0.057	-	100,000	-	-	100,000	29,863
			9,385,000	100,,000	-	(2,210,000)	7,275,000	4,849,062
Weighted Average Exercise Price			$0.49	$0.07	-	$0.53	$0.47	$0.64

The Stock Options are governed by their original terms and conditions and will continue to vest pursuant to the same vesting schedule. 3,225,000 share options were forfeited or expired during the year ended 30 June 2016 (2015: 2,210,000). The weighted average remaining contractual life of share options outstanding at the end of the period was 0.6 years (2015: 1.4 years).

Fair value of options granted

There were 20,900,000 share options issued for the year ended 30 June 2016 (2015: 100,000)

(c) 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	
	2016	2015
	$	$
Options issued under CAP-XX Limited Employee Share Option Plan	**416,319**	127,057
	416,319	127,057

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 dependent upon Malaysian contract manufacturers to fulfil a large proportion of sales orders and external shareholders due to the capital raising activities during the year.

Note 30 Earnings per share

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

	Consolidated	
	2016	2015
	Cents	Cents
(a) Basic earnings per share		
(Loss) attributable to the ordinary equity holders of the Company	**(0.5)**	(1.3)
(b) Diluted earnings per share		
(Loss) attributable to the ordinary equity holders of the Company	**(0.5)**	(1.3)

	Consolidated	
	2016	2015
	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	**269,048,064**	146,059,771
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**269,048,064**	146,059,771

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:

	2016	2015
	$	$
Statement of financial position		
Current assets	**1,762,101**	2,384,829
Total assets	**1,762,101**	2,384,829
Current liabilities	**1,121,873**	172,273
Total liabilities	**1,121,873**	172,273
Net Assets	**640,228**	2,212,556
Shareholders' equity		
Issued capital	**94,558,726**	94,426,347
Reserves		
Share-based payments	**4,264,530**	3,848,210
Retained earnings *(i)*	**(98,183,028)**	(96,060,959)
Loss for the year	**(2,122,069)**	(3,382,666)
Total comprehensive income	**(2,122,069)**	(3,382,666)

(i) Reconciliation to prior year retained earnings	
Balance at beginning of period 1/07/2016	(96,060,959)
Net loss for the year	(2,122,069)
Balance at end of period 30/06/2016	**(98,183,028)**

Note 31 Parent Entity (continued)

Contingent Liabilities
The parent had no contingent liabilities as at 30 June 2016 and 30 June 2015.

Capital commitments - Property, plant and equipment
The parent had no capital commitments for property, plant and equipment as at 30 June 2016 and 30 June 2015.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 17 to 52 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 2016 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.

Patrick Elliott
Director

Sydney
4 October 2016

BDO

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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, which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 company's preparation of the financial report that gives a true and fair view 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 company'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 opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of CAP-XX Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO East Coast Partnership

BDO

Gareth Few

Gareth Few
Partner

Sydney, 4 October 2016