



**CAP-XX Limited**  
ABN 47 050 845 291

**Annual report 2017**

## Annual report 2017

<b>Contents</b>	<b>Page</b>
Corporate directory	3
Chairman's statement	5
Business review	6
Directors' report	8
Independence declaration	15
Corporate governance statement	16
Financial statements	17
Directors' declaration	51
Independent audit report to the directors	52

## 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:** 6.00pm

**date:** 23<sup>rd</sup> November 2017

### 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)

<b>Nominated adviser and broker to the Company</b>	Allenby Capital 5 St Helen Place London EC3A 6AB
<b>Auditor</b>	BDO East Coast Partnership Level 11 1 Margaret Street Sydney NSW 2000 Australia
<b>Solicitors to the Company as to Australian law</b>	DibbsBarker Level 9, Angel Place 123 Pitt Street Sydney New South Wales 2000 Australia
<b>Solicitors to the Company as to English law</b>	DAB Beachcroft 100 Fetter Lane London EC4A 1BN United Kingdom
<b>Bankers</b>	Commonwealth Bank of Australia 120 Pitt Street Sydney, NSW 2000 Australia
<b>Stock exchange listings</b>	Shares are quoted on AIM, a market operated by London Stock Exchange plc under the code CPX
<b>Website address</b>	<a href="http://www.cap-xx.com">www.cap-xx.com</a>

## Chairman's statement

The twelve months under review has seen good progress towards the delivery of the Company's long-term growth strategy, with large volume design wins and an increased interest in the CAP-XX product range for the Internet of Things (IoT) market segment. Revenues from royalties are continuing to increase with contributions from both AVX and Murata, whilst licensing opportunities, especially in the automotive sector, continue to gather momentum. The Company has several opportunities in different stages of discussion and negotiation. The operational initiatives to streamline and increase CAP-XX's manufacturing capabilities continue to deliver positive results.

The operating result for the year to June 2017 was a loss of A\$1.7 million (2016: loss of A\$1.3 million). Cash reserves as at the end of June 2017, were A\$3.9 million which was up from A\$0.3 million as at 30 June 2016, as a result of the capital raising that was completed in January 2017 (£2.43 million). The Federal Government R&D tax rebate is expected to be approximately A\$1,551,000 (2016: A\$1,537,000) with funds expected to be received during October 2017. The available tax rebate for the year ended 30 June 2017 has decreased from 45% of eligible R&D spending in Australia to 43.5%. Given the anticipated increase in product sales, license and royalty payments and the decrease in the overall cash burn, the Board remains confident that the Company's existing cash reserves will be adequate to satisfy the Company's short to medium cash requirements and to accelerate product and business development opportunities.

Total sales revenue for the year to 30 June 2017 was A\$4.1 million (2016: A\$5.0 million). Product sales were down on the previous year, principally due to the non-operation of our manufacturing plant for a period of seven weeks towards the end of the first half of the year, due to a raw material supply issue. This issue was rapidly resolved and the plant had returned to normal operations by the end of the third quarter of the financial year.

Interest in CAP-XX's small product range is sharply on the increase. The IoT market is the major market which has generated significant interest in the CAP-XX small prismatic products. In August 2017, the Company announced its first high volume design win in this market and the Board is excited by the quality, number and volume of sales opportunities. An additional point to highlight is that these opportunities are not concentrated from one particular customer or market segment, although, the overall level of interest emanating from the wearable, health, automotive, security, metering and energy harvesting segments is on the increase. The newly released cylindrical cells have enabled CAP-XX to provide a full product range offering, and has assisted with cross-selling opportunities. Customers are currently evaluating our cylindrical cans for large volume opportunities.

The Board is very encouraged by the progress of the Company's automotive offering over the last twelve months. During the year the truckStart product was further improved and evaluation units of three new automotive modules were delivered to customers. The pipeline of sales opportunities is at the limit of our capacity to evaluate and the potential volumes that would be required far exceed our current capacity. Our strategy remains to partner with an automotive Tier-1 or Tier-2 manufacturer for customer interface, production and sales, but as announced on 7 June 2017, progress has been slower than initially expected. Worldwide interest still remains strong, with notable opportunities gaining momentum in Europe, the Americas and Asia. These are the markets that are demonstrating the most interest in the CAP-XX large cell technology that serves automotive, truck and military applications. Product development and manufacturing refinement has continued to ensure that the CAP-XX offering meets the customers' expectations. Internal projects have also been implemented as individual end-customer's requirements are quite specific. CAP-XX was successful in being awarded the Society of Automotive Engineers- Australasia's, 2016 platinum award for overall engineering excellence for an automotive project.

AVX commenced quarterly royalty payments on 1 July 2016 as per its license agreement and also paid the first anniversary Licensee fee of £750,000 in June 2017. Regular discussions and negotiations have been on-going with AVX, in order to determine market priorities and how CAP-XX and AVX can collaborate in order to build upon existing market penetration and co-operate to enhance both companies' offerings. AVX has been extremely active in the supercapacitor market and has launched two new product families during the past financial year. Murata continues to go from strength to strength. Since April 2016, when Murata and CAP-XX agreed to extend and broaden the existing license agreement, the royalty payments from Murata have continued to grow, notably in the past six months. The most recent quarterly royalty payment received from Murata in August 2017, which was for the April – June 2017 sales period, was up 51% on the previous quarterly royalty payment and up 81% relative to the same period of the previous year.

It is pleasing to note that overall operational expenditure has decreased from A\$5.8 million in the previous year to A\$5.3 million in the year ended 30 June 2017, given the Board's commitment to continuous improvement in product development and manufacturing excellence. The Company has taken the decision to strengthen its operations team in order to accelerate improvements in manufacturing, including new products; cycle time; capacity; production efficiency and unit cost of manufacturing. Early signs are promising, however, the full benefit will be realised in the year ending 30 June 2018. Expenditure on general corporate overheads has been tightened from the previous year. Expenditure associated with R&D activities has again increased year-on-year with A\$3.6 million being incurred, which is up from A\$3.4 million in the previous year. A new website has been launched, which received good customer reviews and an on-line web store was also opened with good results.

Our major R&D focus over the past twelve months has been to concentrate on improving the current product's operating performance and the development of new products. As a result, new intellectual property has been developed with associated patents being filed, which further strengthens the existing CAP-XX patent portfolio. Opportunities for collaborative research grants and joint ventures have been executed and others are currently being considered.

The Board are buoyed by the progress made over the past twelve months and remain confident of the Company's continuing success.



Patrick Elliott  
Chairman

## Business Review

### Review of Operations and Activities

The royalties from Murata are continuing to grow, with the latest quarterly royalty payment received in August 2017 being 51% higher than the previous quarter and up 81% on the same quarter from the previous year. The Board is confident that the Murata royalties will continue to increase over the next twelve months, especially with the broadening of the Murata license which was agreed to in April 2016. In the past twelve months, AVX also commenced quarterly royalty payments and paid their first anniversary licence payment.

This progress with royalties 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. Several other licence agreements are being negotiated.

During the year, CAP-XX continued to invest significant resources in redesigning products and processes to reduce manufacturing costs, to improve product performance and introduce new products. Further, an investment in operational headcount was made to strengthen the current team and to accelerate key projects. We expect that the majority of the benefits from this will be realised in the 2018 financial year.

### Business Environment

The Board believes that CAP-XX's technology provides a competitive advantage over other supercapacitor manufacturers, such as Maxwell Technologies, Ioxus, Nippon Chemicon Corporation and other Chinese and Korean competitors. The Directors further 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, as new products are introduced by CAP-XX, the Company will offer other very significant points of difference with its competition.

As reported last year, Internet of Things (IoT) applications, 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 IoT-enabled devices. This means that power management continues to be an increasingly important consideration. The other important factor is size, as devices have become smaller whilst their electrical power demands have increased. The Company was successful in winning new business from a range of markets, including our first high volume order for a wearable technology product utilising our *Thinline* product.

Historically, CAP-XX has faced competition in various markets from cheaper cylindrical supercapacitors where our thin form factor, high power and long life are not valued as highly as lower initial cost. To counter-act this, the Company released a range of cylindrical cells. To date, several large volume opportunities are being evaluated by existing customers that are currently utilising cheaper cylindrical cells. In addition, our customers' markets are constantly evolving as new products and technologies threaten the incumbents. In this environment CAP-XX needs to always remain flexible to changing business conditions.

Automotive applications such as truckStart, Stop-Start systems, regenerative energy capture or KERS (Kinetic Energy Recovery Systems), distributed power, hybrid electric vehicles and electric vehicles also present very attractive opportunities for supercapacitors. A number of CAP-XX's competitors are active in these markets, but the Board believes that we have significant advantages over the competition in certain applications upon which CAP-XX has focused its efforts. During the year, numerous automotive OEMs and automotive Tier-1/Tier-2 suppliers have purchased CAP-XX's products for evaluation; however because of the significant resources that each project requires, we have taken the decision to focus our resources on just a small number of key automotive projects. Progress during the year with these projects has been very pleasing. Three new automotive products were designed to the customer's specifications, manufactured, tested and evaluation units were delivered to customers including all the necessary electronic circuitry. These products include a 48V system to work with lithium ion batteries in hybrid vehicles; a 12v system for stop-start; vehicle acceleration and regenerative braking; and a 12V system for stop-start and support for the vehicle electronics. However, as previously highlighted, automotive markets have historically been slow to adopt new technology and this still remains a risk today. The Company has also recently commenced two projects involving the development of large supercapacitors for automotive defence applications.

### Opportunities

CAP-XX is continuing to refine the products that it offers 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 IoT and during the year we achieved our first design win for a large volume *Thinline* wearable product. The Company is actively dealing with many other similar applications, where the feedback has been very positive and the potential sales opportunities are very large. All of these markets are forecast to be very high volume opportunities.

As already noted, CAP-XX is concentrating on a small number of automotive opportunities for passenger vehicles and heavy vehicles. To further increase our likelihood of success, CAP-XX is looking to partner with Automotive Tier-1/Tier-2 suppliers through either a new licence agreement or a joint venture to supply the automotive markets. The Board believes that such partnerships will be beneficial for all parties involved.

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

A significant additional benefit of the Murata and AVX licencing agreements is that they validate CAP-XX's technology leadership in the field of supercapacitors 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 the price and performance of supercapacitors. 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 opportunities in several new markets to leverage its strong intellectual property and engineering expertise through new license agreements, joint ventures and collaborative R&D partnerships. Given the increasing levels of market interest in CAP-XX's technology and our 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 OEMs. We are strengthening relationships with these organisations and have regular engineering meetings 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 monitor new 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 19 engineers and scientists work to maintain CAP-XX's leading technology position in electrodes, separators and electrolyte materials and their assembly into supercapacitor devices. During the year significant progress was made in a number of key areas including: increasing the peak voltage of our supercapacitor cells; reducing the resistance of our cells; improving the life of our cells; reducing the cost per cell and developing new electronics to optimise the performance of our modules. We have also signed numerous collaboration agreements with several leading Research and Aerospace institutions, whilst our Scientific Advisory Board provides the Company with clear direction on commercially relevant technologies for our ongoing R&D programme.

The markets in which the Company operates are competitive and are characterised by rapid technological change. CAP-XX has a strong competitive position in prismatic supercapacitors for all of 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's 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 18 patent families with 45 granted national patents with an additional 12 applications pending in various jurisdictions. 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 that 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. Although much has been achieved in the past, the Company expects to see additional progress over the next twelve months and beyond.

## Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of CAP-XX Limited (the Company or CAP-XX) and the entities it controlled at the end of, or during, the year ended 30 June 2017.

### 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 2017.

### Review of operations

The Group experienced net losses of \$1,664,249 during the year ended 30 June 2017 (2016: loss of \$1,292,252). 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 2017.

### Matters subsequent to the end of the financial year

The necessary paperwork associated with the receipt of the R&D Tax rebate for the 2017 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.



## Directors' report (continued)

### Information on directors

**Patrick Elliott** *Non-executive director. Age 65.*

#### ***Experience and qualifications***

Pat is a company director specialising in the resources sector with over 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 Kirrama Resources Limited as well as 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***

5,897,847 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 59.*

#### ***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.

## Directors' report (continued)

**Bruce Grey** *Non-executive director. Age 71.*

### ***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. Since 2013 Bruce has been Chairman of Advanced Braking Technology Limited listed on the ASX. 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.

Bruce is a director of the Murdoch Children's Research Institute and is Chairman of the IP and commercialisation committee and a member of the audit, finance and risk committee. In 2016 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***

4,069,665 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.

## Directors' report (continued)

### 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 2017, 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	10	9	2	2	2	2
Bruce Grey	10	10	2	2	2	2
Anthony Kongats	10	10	-	-	-	-

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 2017, 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

2017 Name	Primary			Post-employment		Equity	Total \$
	Cash salary and accrued fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	
<i>Executive directors</i>							
Anthony Kongats	322,103	-	-	30,600	-	49,203	401,906
<i>Non-executive directors</i>							
Patrick Elliott	44,186	-	-	-	-	16,768	60,954
Bruce Grey	44,186	-	-	-	-	16,768	60,954
<b>Total</b>	<b>410,475</b>	<b>-</b>	<b>-</b>	<b>30,600</b>	<b>-</b>	<b>82,739</b>	<b>523,814</b>

## Directors' report (continued)

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 \$
<i>Executive directors</i>							
Anthony Kongats	322,103	-	-	30,600	-	19,049	371,752
<i>Non-Executive directors</i>							
Patrick Elliott	43,481	-	-	-	-	6,839	50,320
Bruce Grey	43,481	-	-	-	-	2,811	46,292
<b>Total</b>	<b>409,065</b>	<b>-</b>	<b>-</b>	<b>30,600</b>	<b>-</b>	<b>28,699</b>	<b>468,364</b>

### 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:

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

None to report

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

Dan Trujic	11 November, 2016	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
25 February 2008	25 February 2018	\$0.71	160,000
9 October 2013	9 April 2018	£0.085	2,960,000
21 April 2015	21 April 2018	£0.057	100,000
4 December 2015	4 December 2020	£0.050	20,150,000
11 November, 2016	11 November, 2021	£0.035	1,500,000
			<hr/> <b>24,870,000</b> <hr/>

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

### Shares issued on the exercise of options

No ordinary shares of CAP-XX were issued during the year ended 30 June 2017 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.

## Directors' report (continued)

### 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

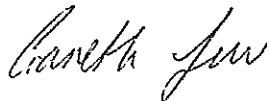
Sydney  
9th October, 2017

**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 2017, 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

**BDO East Coast Partnership**

Sydney, 9 October 2017.

## **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 2017, 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 2017, 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](http://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 20 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 17 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 2017

Contents	Page
Statement of profit or loss	18
Statement of comprehensive income	19
Statement of financial position	20
Statement of changes in equity	21
Statement of cash flows	22
Notes to the financial statements	23

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 to 7 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 2017. 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](http://www.cap-xx.com).

**CAP-XX Limited**  
**Statement of profit or loss**  
**For the year ended 30 June 2017**

		Consolidated	
<i>Currency: Australian Dollars</i>	Notes	2017 \$	2016 \$
<b>Revenue from continuing operations</b>	5	4,142,119	4,965,448
Cost of sales	7	<u>(2,233,555)</u>	<u>(2,359,612)</u>
<b>Gross Profit</b>		1,908,564	2,605,836
Other revenue	5	30,009	25,597
Other income	6	1,682,364	1,867,444
General and administrative expenses		(2,068,557)	(2,589,480)
Process and engineering expenses		(863,307)	(885,418)
Selling and marketing expenses		(713,429)	(664,239)
Research and development expenses		(1,511,271)	(1,548,300)
Other expenses	7	<u>(128,622)</u>	<u>(103,692)</u>
<b>Loss before income tax</b>		<u>(1,664,249)</u>	<u>(1,292,252)</u>
Income tax benefit	8	-	-
<b>Net loss for the year</b>		<u>(1,664,249)</u>	<u>(1,292,252)</u>
<b>Loss attributable to owners of CAP-XX Limited</b>		<u>(1,664,249)</u>	<u>(1,292,252)</u>
<b>Earnings per share for loss attributable to the ordinary equity holders of the Company</b>		Cents	Cents
Basic loss per share	30	(0.6)	(0.5)
Diluted loss per share	30	(0.6)	(0.5)

*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 2017**

		Consolidated	
<i>Currency: Australian Dollars</i>	Notes	2017 \$	2016 \$
Loss for the year		(1,664,249)	(1,292,252)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	20	<u>6,551</u>	<u>(45,042)</u>
Other comprehensive income/(loss) for the year, net of tax		<u>6,551</u>	<u>(45,042)</u>
Total comprehensive loss for the year attributable to owners of CAP-XX Limited		<u>(1,657,698)</u>	<u>(1,337,294)</u>

*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 2017**

		<b>Consolidated</b>	
		June 30, 2017	June 30, 2016
<i>Currency: Australian Dollars</i>		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	3,881,792	331,631
Receivables	10	419,146	2,078,941
Inventories	11	1,321,327	1,365,524
Other	12	1,676,618	1,700,147
<b>Total current assets</b>		<u>7,298,883</u>	<u>5,476,243</u>
<b>Non-current assets</b>			
Property, plant and equipment	13	369,779	364,695
Other	14	236,507	236,507
<b>Total non-current assets</b>		<u>606,286</u>	<u>601,202</u>
<b>Total assets</b>		<u>7,905,169</u>	<u>6,077,445</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	15	1,013,954	642,358
Provisions	16	682,962	663,069
Secured Loans	17	-	1,000,000
<b>Total current liabilities</b>		<u>1,696,916</u>	<u>2,305,427</u>
<b>Non-current liabilities</b>			
Provisions	18	91,756	65,664
<b>Total non-current liabilities</b>		<u>91,756</u>	<u>65,664</u>
<b>Total liabilities</b>		<u>1,788,672</u>	<u>2,371,091</u>
<b>Net assets</b>		<u>6,116,497</u>	<u>3,706,354</u>
<b>EQUITY</b>			
Contributed equity	19	98,343,719	94,558,726
Reserves	20	4,324,973	4,035,574
Accumulated losses	20	(96,552,195)	(94,887,946)
<b>TOTAL EQUITY</b>		<u>6,116,497</u>	<u>3,706,354</u>

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

**CAP-XX Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2017**

		Consolidated			
<i>Currency: Australian Dollars</i>	Notes	Contributed Equity \$	Reserves \$	Accumulated losses \$	Total \$
		94,426,347	3,664,297	(93,595,694)	4,494,950
Loss for the year 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	19	132,379	-	-	132,379
Employee share options - value of employee services	20	-	416,319	-	416,319
		132,379	416,319	-	548,698
Balance at 30 June 2016		94,558,726	4,035,574	(94,887,946)	3,706,354
Loss for the year as reported in the 2017 financial statements				(1,664,249)	(1,664,249)
Other comprehensive income		-	6,551	-	6,551
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	19	3,784,993	-	-	3,784,993
Employee share options - value of employee services	20	-	282,848	-	282,848
		3,784,993	282,848	-	4,067,841
Balance at 30 June 2017		98,343,719	4,324,973	(96,552,195)	6,116,497

*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 2017**

		<b>Consolidated</b>	
<i>Currency: Australian Dollars</i>	Notes	2017 \$	2016 \$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax)		6,574,124	4,167,729
Payments to suppliers and employees (inclusive of goods and services tax)		<u>(7,221,745)</u>	<u>(8,466,934)</u>
		(647,621)	(4,299,205)
Tax credit received		1,546,175	1,127,272
Grants received		-	-
Interest received		<u>30,009</u>	<u>25,597</u>
<b>Net cash inflow/(outflow) from operating activities</b>	27	<u>928,563</u>	<u>(3,146,336)</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		<u>(169,946)</u>	<u>(252,788)</u>
<b>Net cash (outflow) from investing activities</b>		<u>(169,946)</u>	<u>(252,788)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares (net of costs)	19	3,784,993	132,379
Proceeds from Loan		<u>(1,000,000)</u>	1,000,000
<b>Net cash inflow from financing activities</b>		<u>2,784,993</u>	<u>1,132,379</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
		3,543,610	(2,266,745)
Cash and cash equivalents at the beginning of the financial year		331,631	2,643,418
Effects of exchange rate changes on cash and cash equivalents		<u>6,551</u>	<u>(45,042)</u>
<b>Cash and cash equivalents at the end of the financial year</b>	9	<u>3,881,792</u>	<u>331,631</u>

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

**Contents of the notes to the financial statements**

		<b>Page</b>
1	Summary of significant accounting policies	24
2	Financial risk management	32
3	Critical accounting estimates and judgements	33
4	Segment information	34
5	Revenue	35
6	Other income	36
7	Expenses	36
8	Income tax benefit	37
9	Current assets – Cash and cash equivalents	38
10	Current assets – Receivables	38
11	Current assets – Inventories	39
12	Current assets – Other	39
13	Non-current assets – Property, plant and equipment	39
14	Non-current assets – Other	40
15	Current liabilities – Payables	40
16	Current liabilities – Provisions	40
17	Secured Loans	42
18	Non-current liabilities – Provisions and Other liabilities	42
19	Contributed equity	42
20	Reserves and accumulated losses	43
21	Key management personnel disclosures	44
22	Remuneration of auditors	45
23	Commitments	45
24	Related party transactions	46
25	Subsidiaries	46
26	Events occurring after the balance sheet date	46
27	Reconciliation of profit after income tax to net cash inflow/(outflow) from operating activities	46
28	Share-based payments	47
29	Economic dependency	49
30	Earnings per share	49
31	Parent entity	50

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**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**

The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. During the year ended 30 June 2017, the Group incurred a net loss of \$1,664,249 (2016: \$1,292,252). In the same period, the Group had positive operating cash inflows of \$928,563 (2016: \$(3,146,336)). As at 30 June 2017, the Group holds cash and cash equivalents of \$3,875,199 (2016: \$331,631).

**(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 2017 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.



**Note 1 Summary of significant accounting policies (continued)**

**(c) Principles of Consolidation (continued)**

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;
- 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.

**Note 1 Summary of significant accounting policies (continued)**

**(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.

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.

**Note 1 Summary of significant accounting policies (continued)**

**(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.

**(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:

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 1 Summary of significant accounting policies (continued)**

**(o) Property, plant and equipment (continued)**

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.

**(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.

**Note 1 Summary of significant accounting policies (continued)**

**(iii) Retirement benefit obligations**

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

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

**(iv) Share-based payments**

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

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

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

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

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

**(v) Bonus plans**

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

**(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.

**Note 1 Summary of significant accounting policies (continued)**

**(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:

**AASB 2016-1 Amendments to Australian Accounting Standards (Parts A to C)**

The consolidated entity has applied Parts A to C of AASB 2016-1 from 1 July 2016. 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 2017. 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.

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**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.

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**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	
	2017	2016
	\$	\$
<b>Financial assets</b>		
Cash and cash equivalents	3,881,792	331,631
Trade and other receivables	1,863,489	3,625,116
	<u>5,745,281</u>	<u>3,956,747</u>
<b>Financial liabilities</b>		
Trade and other payables	1,013,954	642,358
Loans	-	1,000,000
	<u>1,013,954</u>	<u>1,642,358</u>

**(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 \$116,066 lower/ \$127,673 higher (2016: \$90,691 lower/\$99,760 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:

	2017			2016		
	USD	GBP	Other	USD	GBP	Other
	\$	£	\$	\$	£	\$
Cash and cash equivalents	241,900	10,090	320	138,674	3,496	37
Trade receivables	263,187	-	-	224,141	1,000,000	-
Trade payables	287,580	3,111	-	153,397	9,929	-

**(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)**

**(c) Liquidity risk (continued)**

due. The Group has experienced recurring operating losses and operating cash outflows since inception to 30 June 2017 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

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 3 Critical accounting estimates and judgements (continued)**

*(iv) Lease make good provision (continued)*

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.

*v) Warranty provision*

In determining the level of provision required for warranties, the Group has made judgements in respect of the 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. Cost of sales are allocated based on the country in which the production of supercapacitors occur.

	Geographical Segments			
	Asia Pacific	Europe	North America	Total
	\$	\$	\$	\$
30 June 2017				
Revenue	983,463	1,225,090	1,933,566	4,142,119
Cost of sales	(2,233,555)	-	-	(2,233,555)
<b>Gross (Loss)/Profit</b>	<b>(1,250,092)</b>	<b>1,225,090</b>	<b>1,933,566</b>	<b>1,908,564</b>
Interest revenue	30,009	-	-	30,009
Other income	1,682,364	-	-	1,682,364
General and administrative expenses	(2,068,557)	-	-	(2,068,557)
Process and engineering expenses	(863,307)	-	-	(863,307)
Selling and marketing expenses	(713,429)	-	-	(713,429)
Research and development expenses	(1,511,271)	-	-	(1,511,271)
Other expenses	(128,622)	-	-	(128,622)
<b>(Loss)/Profit before income tax</b>	<b>(4,822,905)</b>	<b>1,225,090</b>	<b>1,933,566</b>	<b>(1,664,249)</b>
<b>Net (loss)/profit for the year</b>	<b>(4,822,905)</b>	<b>1,225,090</b>	<b>1,933,566</b>	<b>(1,664,249)</b>
<b>Other comprehensive income</b>				
Exchange differences arising in translation of foreign operations	6,551	-	-	6,551
<b>Total comprehensive income, net of tax</b>	<b>(4,816,354)</b>	<b>1,225,090</b>	<b>1,933,566</b>	<b>(1,657,698)</b>
<b>Total assets</b>	<b>7,905,169</b>	<b>-</b>	<b>-</b>	<b>7,905,169</b>
<b>Total liabilities</b>	<b>1,788,672</b>	<b>-</b>	<b>-</b>	<b>1,788,672</b>

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 4 Segment Information (continued)**

(Loss)/Profit before income tax includes the following specific expenses:

Interest expense  
 Depreciation  
 Share based payments

	-	-	-	-
	164,862	-	-	164,862
	282,848	-	-	282,848

30 June 2016

Revenue  
 Cost of sales  
 Gross (Loss)/(Profit)

Interest revenue  
 Other income

General and administrative expenses  
 Process and engineering expenses  
 Selling and marketing expenses  
 Research and development expenses  
 Other expenses

(Loss)/Profit before income tax

Net (loss)/profit for the year

Other comprehensive income  
 Exchange differences arising in translation of foreign operations  
 Total comprehensive income, net of tax

Total assets  
 Total liabilities

	Geographical Segments			Total \$
	Asia Pacific \$	Europe \$	North America \$	
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	(1,292,511)
Net (loss)/profit for the year	(5,135,117)	1,188,365	2,005,894	(1,292,511)
Other comprehensive income				
Exchange differences arising in translation of foreign operations	(45,042)	-	-	(45,042)
Total comprehensive income, net of tax	(4,486,511)	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  
 Share based payments

	-	-	-	-
	189,365	-	-	189,365
	416,319	-	-	416,319

**Note 5 Revenue**

**Consolidated**

Sales revenue  
 Sale of goods  
 Licence Fees

Other revenue  
 Interest

	2017 \$	2016 \$
Sales revenue		
Sale of goods	2,917,829	3,156,448
Licence Fees	1,224,290	1,809,000
	<u>4,142,119</u>	<u>4,965,448</u>
Other revenue		
Interest	30,009	25,597

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 6 Other income**

	Consolidated	
	2017	2016
	\$	\$
Foreign Exchange Gains – (net)	130,482	17,907
R&D Tax Incentive	1,551,483	1,537,925
Write back of Make Good Provision	-	249,856
Miscellaneous Income	399	61,756
	<u>1,682,364</u>	<u>1,867,444</u>

**Note 7 Expenses**

	Consolidated	
	2017	2016
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Cost of sale of goods</i>		
Direct materials and labour	1,732,747	1,913,692
Indirect manufacturing expenses	500,808	445,920
Total cost of sale of goods	<u>2,233,555</u>	<u>2,359,612</u>
<i>Depreciation</i>		
Plant and equipment	162,155	186,115
Furniture and fittings	438	1,968
Leasehold improvements	1,789	1,282
Total depreciation	<u>164,382</u>	<u>189,365</u>
<i>Other expenses - movement in provisions</i>		
Provision for credit notes / doubtful debts	(16,762)	(18,054)
Provision for make good on premises	5,527	-
Provision for Withholding Tax Diminution	91,277	108,159
Provision for returns and rework	-	(9,119)
Interest Expense - Loan facility	<u>48,580</u>	<u>22,706</u>
	<u>128,622</u>	<u>103,692</u>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	354,642	446,578
<i>Employee benefits expense</i>	3,161,848	2,800,954
<i>Share based payments</i>	282,848	416,319

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 8 Income tax benefit**

	Consolidated	
	2017	2016
	\$	\$
<b>(a) Numerical reconciliation of income tax benefit to prima facie tax benefit</b>		
(Loss) before tax	<u>(1,664,248)</u>	<u>(1,292,252)</u>
Tax at the Australian tax rate of 27.5%	(457,668)	(387,676)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	84,734	124,896
R&D additional claims	<u>(481,495)</u>	<u>(511,345)</u>
	(854,429)	(774,125)
Deferred income tax (revenue)/expense not recognised	-	-
Benefit arising from tax losses not recognised	<u>854,429</u>	<u>774,125</u>
Income tax benefit	<u>-</u>	<u>-</u>
<b>(b) Tax losses</b>		
Unused tax losses for which no deferred tax asset has been recognised	<u>92,707,184</u>	<u>106,156,338</u>
Potential tax benefit @ 27.5%	25,494,476	31,846,901
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.	
<b>(c) Deferred Tax Assets - not recognised</b>		
The balance comprised temporary differences attributable to employee benefits & other provisions	447,564	535,820
Set- off of deferred tax liabilities	(73,134)	(18,978)
Net deferred tax assets	<u>374,430</u>	<u>516,842</u>
<b>(d) Unrecognised temporary differences</b>		
Temporary differences for which no deferred tax asset has been recognised	<u>1,491,881</u>	<u>1,786,067</u>
Potential tax benefit @ 30%	410,267	535,820

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

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 9 Current assets – Cash and cash equivalents**

	Consolidated	
	2017	2016
	\$	\$
Cash at bank and on hand	232,983	323,638
Cash on deposit	3,648,809	7,993
	<u>3,881,792</u>	<u>331,631</u>

**Note 10 Current assets – Receivables**

	Consolidated	
	2017	2016
	\$	\$
Trade receivables	357,146	2,040,702
Provision for doubtful receivables	-	(16,761)
	<u>357,146</u>	<u>2,023,941</u>
Other receivables	62,000	55,000
	<u>419,146</u>	<u>2,078,941</u>

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

	Consolidated	
	2017	2016
	\$	\$
Opening balance	16,761	34,815
Additional provisions recognised	-	16,761
Unused amounts reversed	(16,761)	(34,815)
Closing balance	<u>-</u>	<u>16,761</u>

**(b) Past due but not impaired**

There were no trade receivables at 30 June 2017 that were past due but not impaired (2016: 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 9 customers with the top 4 making up 90% 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.

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 11 Current assets – Inventories**

	Consolidated	
	2017	2016
	\$	\$
Raw materials and stores - net realisable value	723,190	812,603
Finished goods - net realisable value	598,137	552,921
	<u>1,321,327</u>	<u>1,365,524</u>

**Note 12 Current assets – Other**

	Consolidated	
	2017	2016
	\$	\$
Research & Development - Tax Credit	1,551,483	1,546,175
Prepayments	105,681	143,421
Interest Income	5,622	-
Other	13,832	10,551
	<u>1,676,618</u>	<u>1,700,147</u>

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

	Consolidated	
	2017	2016
	\$	\$
Plant and equipment at cost	16,637,557	16,542,715
Accumulated depreciation	(16,351,252)	(16,193,474)
Capital Works in Progress	79,518	9,271
Net book amount	<u>365,823</u>	<u>358,512</u>
Furniture and fittings at cost	66,779	66,779
Accumulated depreciation	(66,398)	(65,960)
Net book amount	<u>381</u>	<u>819</u>
Leasehold improvements at cost	448,010	448,010
Accumulated depreciation	(444,435)	(442,646)
Net book amount	<u>3,575</u>	<u>5,364</u>
Total property, plant and equipment	17,231,863	17,066,775
Total accumulated depreciation	(16,862,084)	(16,702,080)
Total net book amount	<u>369,779</u>	<u>364,695</u>

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

<b>Movement in classes of assets: Consolidated</b>	<b>Plant and equipment \$</b>	<b>Leasehold improvements \$</b>	<b>Furniture and fittings \$</b>	<b>Total \$</b>
<b>Year ended 2017</b>				
Opening net book amount	358,512	5,364	819	364,695
Additions	169,946	-	-	169,946
Retirements	(480)	-	-	(480)
Depreciation	(162,155)	(1,789)	(438)	(164,382)
Closing net book amount	<u>365,823</u>	<u>3,575</u>	<u>381</u>	<u>369,779</u>
<b>Year ended 2016</b>				
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	<u>358,512</u>	<u>5,364</u>	<u>819</u>	<u>364,695</u>

**Note 14 Non-current assets – Other**

	<b>Consolidated</b>	
	<b>2017 \$</b>	<b>2016 \$</b>
Rental bond	<u>236,507</u>	<u>236,507</u>

A term of the current lease agreement for the Lane Cove premises is a requirement for 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**

	<b>Consolidated</b>	
	<b>2017 \$</b>	<b>2016 \$</b>
Trade payables	744,975	496,023
Other payables and accrued expenses	268,979	146,335
	<u>1,013,954</u>	<u>642,358</u>

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**

	<b>Consolidated</b>	
	<b>2017 \$</b>	<b>2016 \$</b>
Employee benefits – annual leave and long service leave	447,140	432,774
Product returns and warranties	9,218	9,218
Make good provision	226,604	221,077
	<u>682,962</u>	<u>663,069</u>



**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:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	\$	\$
Annual leave obligation not expected to be settled after 12 months	<b>104,023</b>	<b>96,133</b>

**(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:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	\$	\$
Carrying amount at start of year	9,218	18,337
Charged to profit or loss		
- provision adjustment	-	(9,119)
Carrying amount at end of year	<b>9,218</b>	<b>9,218</b>

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:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	\$	\$
Carrying amount at start of year	221,077	470,933
Charged to profit or loss		
- additional provisions recognised	5,527	-
- over provision	-	(249,856)
Carrying amount at end of year	<b>226,604</b>	<b>221,077</b>

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**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. The Loan was repaid in October 2016.

	Consolidated	
	2017	2016
	\$	\$
Secured Loans	-	1,000,000
	<u>-</u>	<u>1,000,000</u>

**Note 18 Non-current liabilities – Provisions and Other liabilities**

	2017	2016
	\$	\$
Employee benefits – long service leave	91,756	65,664
	<u>91,756</u>	<u>65,664</u>

**Note 19 Contributed equity**

Consolidated

	2017	2016
	Shares	Shares
(a) Share capital		
Fully paid ordinary shares (no par value)	<u>298,006,055</u>	<u>270,171,965</u>

(b) Movement in ordinary share capital:

Date	Details	Number of shares	Issue price	\$
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	81,354
30 June 2016	Balance	<u>270,171,965</u>		<u>94,558,726</u>
1 July 2016	Balance	270,171,965		94,558,726
05 December 2016	Issue of Shares	532,868	\$0.08	44,534
19 January 2017	Issue of Shares	27,000,000	\$0.14	3,696,621
29 June 2017	Issue of Shares	301,222	\$0.15	43,838
30 June 2017	Balance	<u>298,006,035</u>		<u>98,343,719</u>

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 19 Contributed equity (continued)**

**(c) Ordinary shares**

At 30 June 2017, there were 298,006,055 (2016: 270,171,965) 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 28.

**(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 2016 Annual report.

**Note 20 Reserves and accumulated losses**

	Consolidated	
	2017	2016
	\$	\$
<b>(a) Reserves</b>		
Foreign currency translation reserve	(222,405)	(228,956)
Share-based payments reserve	4,547,378	4,264,530
	<u>4,324,973</u>	<u>4,035,574</u>
<b>Movements:</b>		
<i>Foreign currency translation reserve</i>		
Balance 1 July	(228,956)	(183,914)
Currency translation differences arising during the year	6,551	(45,042)
Balance 30 June	<u>(222,405)</u>	<u>(228,956)</u>
<i>Share-based payments reserve</i>		
Balance 1 July	4,264,530	3,848,211
Option expense	282,848	416,319
Balance 30 June	<u>4,547,378</u>	<u>4,264,530</u>

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 20 Reserves and accumulated losses (continued)**

**(b) Accumulated losses**

Movements in accumulated losses were as follows:	Consolidated	
	2017	2016
	\$	\$
Balance 1 July	(94,887,946)	(93,595,694)
Net (loss) for the year	<u>(1,664,249)</u>	<u>(1,292,252)</u>
Balance 30 June	<u>(96,552,195)</u>	<u>(94,887,946)</u>

**(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 up to the date of the report unless otherwise stated :-:

Alex Bilyk, VP Research  
 Mark Hulme, VP Operations Song Au Lau, VP Sales & Marketing Asia  
 Song Hee Lau, General Manager Sales & Marketing Asia Pacific  
 Jean Pierre Mars, VP Applications Engineering  
 Michael Taylor, Chief Financial Officer/Chief Operating Officer  
 Dan Trujic, General Manager Sales & Marketing Europe and America

	Consolidated	
	2017	2016
	\$	\$
Short-term benefits	1,497,329	1,390,133
Post-employment benefits	142,246	132,063
Share-based payments	<u>244,401</u>	<u>274,526</u>
Total	<u>1,895,976</u>	<u>1,796,722</u>

**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	
	2017	2016
	\$	\$
<b>BDO East Coast Partnership</b>		
<i>Audit services</i>		
Audit of financial statements	61,500	61,500
<b>Total remuneration for audit services</b>	61,500	61,500
 <i>Taxation services</i>		
Tax compliance services, including review of company income tax returns , employee share scheme and R&D Tax concession	36,600	36,600
<b>Total remuneration of BDO East Coast Partnership</b>	98,100	98,100

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 1<sup>st</sup> July 2016 and was due to expire on 30<sup>th</sup> June 2017. The lease has been extended by a further 48 months to 30<sup>th</sup> 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	
	2017	2016
	\$	\$
Commitments for minimum lease payments in relation to operating leases are payable as follows:		
Within one year	191,384	181,781
Later than one year but not later than 5 years	745,591	936,975
	936,975	1,118,756

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**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 2017 %	30 June 2016 %
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 2017 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 inflow/(outflow) from operating activities**

	Consolidated	
	2017 \$	2016 \$
Net loss	(1,664,249)	(1,292,252)
Depreciation and amortisation	164,862	189,365
Non-cash employee benefit expense – share based payments	282,848	416,319
Foreign exchange differences	-	-
<b>Changes in assets and liabilities:</b>		
Decrease / (Increase) in receivables	1,659,794	(1,393,749)
Decrease in inventories	44,197	43,940
Decrease/(Increase) in other assets	23,529	(447,989)
Increase / (Decrease) in payables	371,596	(432,354)
Increase / (Decrease) in provisions	45,985	(229,616)
Net cash inflow/(outflow) from operating activities	<u>928,563</u>	<u>(3,146,336)</u>

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 28 Share-based payments**

**(a) 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:

Grant Date	Expiry date	Exercise price \$	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited & expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
<b>Consolidated – 2017</b>								
19 September 2006	19 September 2016	\$2.38	480,000	-	-	(480,000)	-	-
25 February 2008	25 February 2018	\$0.71	160,000	-	-	-	160,000	160,000
09 October 2013	09 April 2018	£0.085	3,310,000	-	-	(350,000)	2,960,000	2,759,288
21 April 2014	21 April 2018	£0.057	100,000	-	-	-	100,000	79,932
04 December 2015	04 December 2020	£0.050	20,900,000	-	-	(750,000)	20,150,000	7,935,788
11 November 2016	11 November 2021	£0.035	-	1,500,000	-	-	1,500,000	-
			<b>24,950,000</b>	<b>1,500,000</b>	<b>-</b>	<b>(1,580,000)</b>	<b>24,870,000</b>	<b>10,935,007</b>
<b>Weighted Average Exercise Price</b>			<b>\$0.16</b>	<b>\$0.08</b>	<b>-</b>	<b>\$0.80</b>	<b>\$0.11</b>	<b>\$0.12</b>

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 1,500,000 share options issued for the year ended 30 June 2017 (2016: 20,900,000)

The assessed fair value at grant date of options granted, during the year ended 30 June 2017, 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:
  - o 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;
  - o specific vesting criteria in some minor instances.
- (b) exercise price: refer tables above
- (c) grant date: refer tables above
- (d) expiry date: refer tables above
- (e) share price at grant date

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 28 Share-based payments (continued)**

- (f) expected price volatility of the Group's shares: 84%
- (g) no expected dividend yield
- (h) risk-free interest rate: 1.62%

Grant Date	Expiry date	Exercise price \$	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited & expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
<b>Consolidated – 2016</b>								
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
19 December 2008	19 December 2016	£0.25	1,225,000	-	-	(1,255,000)	-	-
08 December 2011	8 December 2016	£0.21	1,430,000	-	-	(1,430,000)	-	-
09 October 2013	09 October 2017	£0.08	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	21 April 2020	£0.057	-	20,900,000	-	-	20,900,000	-
			<u>7,275,000</u>	<u>20,900,000</u>	<u>-</u>	<u>(3,225,000)</u>	<u>24,950,000</u>	<u>2,952,987</u>
<b>Weighted Average Exercise Price</b>			\$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:
- o 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;
  - o specific vesting criteria in some minor instances.
- (b) exercise price: refer tables above
- (c) grant date: refer tables above
- (d) expiry date: refer tables above
- (e) share price at grant date
- (f) expected price volatility of the Group's shares: 83%
- (g) no expected dividend yield
- (h) risk-free interest rate: 1.64%



**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 28 Share-based payments (continued)**

**(b) Expenses arising from share-based payment transactions**

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

	Consolidated	
	2017	2016
	\$	\$
Options issued under CAP-XX Limited Employee Share Option Plan	282,848	416,319
	282,848	416,319

**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	
	2017	2016
	Cents	Cents
<b>(a) Basic earnings per share</b>		
(Loss) attributable to the ordinary equity holders of the Company	(0.6)	(0.5)
<b>(b) Diluted earnings per share</b>		
(Loss) attributable to the ordinary equity holders of the Company	(0.6)	(0.5)
	Consolidated	
	2017	2016
	Number	Number
<b>(c) Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	282,084,311	269,048,064
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	282,084,311	269,048,064

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

**CAP-XX Limited**  
**Notes to the financial statements**  
**30 June 2017**

**Note 31 Parent Entity**

**(a) Summary financial information**

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

	2017	2016
	\$	\$
<b>Statement of financial position</b>		
Current assets	5,122,233	1,762,101
<b>Total assets</b>	<b>5,122,233</b>	<b>1,762,101</b>
Current liabilities	124,216	1,121,873
<b>Total liabilities</b>	<b>124,216</b>	<b>1,121,873</b>
<b>Net Assets</b>	<b>4,998,017</b>	<b>640,228</b>
<i>Shareholders' equity</i>		
Issued capital	98,386,955	94,558,726
Reserves		
Share-based payments	4,737,257	4,264,530
Retained earnings (i)	(98,126,195)	(98,183,028)
<b>Loss for the year</b>	<b>(56,833)</b>	<b>(2,122,169)</b>
<b>Total comprehensive income</b>	<b>(56,833)</b>	<b>(2,122,169)</b>
<i>(i) Reconciliation to prior year retained earnings</i>		
Balance at beginning of period 1/07/2017	(98,183,028)	
Net loss for the year	56,833	
Balance at end of period 30/06/2017	(98,126,195)	

**Contingent Liabilities**

The parent had no contingent liabilities as at 30 June 2017 and 30 June 2016.

**Capital commitments - Property, plant and equipment**

The parent had no capital commitments for property, plant and equipment as at 30 June 2017 and 30 June 2016.

**Significant accounting policies**

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

**CAP-XX Limited**  
**Directors' declaration**  
**30 June 2017**

**Directors' declaration**

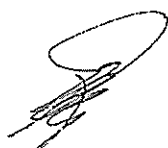
In the directors' opinion:

- (a) the financial statements and notes set out on pages 17 to 50 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian 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 2017 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  
9 October 2017

## INDEPENDENT AUDITOR'S REPORT

To the members of CAP-XX Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Cap-XX Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### Key audit matters

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

## Going concern

### *Key audit matter*

At 30 June 2017 the Group generated a cash inflow from operating activities of \$928,563 and recognised a net loss for the year of \$1,664,249.

As disclosed per note 1b) of the consolidated financial statements, the Directors consider the Group to be a going concern. Management have assessed whether there are any 'material uncertainties that would cast significant doubt' on the Group's ability to continue as a going concern. In making this assessment, management need to consider the period of at least 12 months from the date of signing the consolidated financial statements.

Going concern is considered a key audit matter due to the judgements involved with assumptions made over the timing of cash flows, future operating results, capital raising activities and timing of R&D tax incentives.

### *How the matter was addressed in our audit*

In evaluating Management's assessment of the going concern assumption, we undertook, amongst others, the following audit procedures:

- Reviewed management's assumptions in the cash flow forecasts to assess whether current cash levels along with expected cash inflows and expenditure can sustain the operations of the Group for a period of at least 12 months from the date of signing of the financial statements;
- Assessed the accuracy of the forecasts by comparing previous forecasts with the Group's actual results;
- Performed a sensitivity analysis over cash flow forecasts as prepared by management based on a number of worst case scenarios; and
- Assessed the adequacy of the Group's disclosures within the consolidated financial statements.

## Share-based payments

### *Key audit matter*

The Group issued share based payments, in the form of share options in the current year to directors, management and employees as detailed in note 28.

The valuation of these share based payments are considered a key audit matter due to the size of the balances and the judgement over the assumptions required to be made by the Group, specifically concerning employee retention rates.

### *How the matter was addressed in our audit*

To determine whether share-based payment arrangements had been appropriately accounted for and disclosed, we undertook, amongst others, the following audit procedures:

- Considered whether the Group used an appropriate model in valuing the options;
- Reconciled to underlying share based payment valuation reports and calculations;
- Assessed the reasonableness of employee retention rates by reviewing historical employee terminations by employee class;
- Evaluated management's assumptions used in the calculation being interest rate, volatility, the expected vesting period, the probability of achievement and the number of options expected to vest;



### **Key audit matter**

### **How the matter was addressed in our audit**

- Reviewed market announcements and board minutes to ensure all the new options granted during the year have been accounted for; and
- Evaluated the adequacy and accuracy of the disclosure of the share-based payment arrangements within the financial report including disclosures comprising key management personnel remuneration.

### **Other information**

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

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

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

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

### **Responsibilities of the directors for the Financial Report**

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

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

### **Auditor's responsibilities for the audit of the Financial Report**

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



A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf)

This description forms part of our auditor's report.

**BDO East Coast Partnership**

A small, stylized version of the BDO logo, consisting of the letters 'BDO' in a cursive, handwritten style.

A handwritten signature in cursive script that reads 'Gareth Few'.

Gareth Few  
Partner

Sydney, 9 October 2017

