MICRO-X

Micro-X Limited, ABN 21 153 273 735

QUARTERLY ACTIVITIES & CASHFLOW REPORT
QUARTER ENDED 31 DECEMBER 2019

Investor call at 9.00am AEDT, Tuesday 4th February 2020 to discuss Results and Business Outlook

Adelaide, Australia, 31 January 2020: Australian hi-tech company Micro-X Ltd (ASX:MX1) (**Micro-X** or the **Company**), a leader in cold cathode X-ray technology for the health and security markets globally, is pleased to release its Appendix 4C – Quarterly Cashflow report and Update for the quarter ended 31 December 2019 (the **Quarter**). All financial results are in Australian dollars and are unaudited.

Highlights for the Quarter

- **Receipts from customers of $0.784 million (Dec 2018 Quarter: $0.278 million)**
- **First Australian placement of the Nano at The Alfred in Melbourne**
- **Rover for the military well advanced - FDA dossier to be filed in coming months shortly**
- **$16.5 million capital raising completed – including new sophisticated and institutional investors**
- **Debt load reduced - $2.686 million convertible notes redeemed and $3.0 million R&D Facility repaid**
- **Closing cash balance of $12.359 million - expected to fund the Company into 2021**

Commercialisation & Sales

DRX Revolution Nano

This Quarter the Company's highest priority remained the focus on building commercial traction of the *DRX Revolution Nano* currently being sold by exclusive distributor Carestream Health. The cash receipts from Carestream were approximately $0.8 million this Quarter, which included payment for sales achieved during the previous Quarter and $0.4 million of engineering consulting services for design changes to upgrade the Nano imaging software interface. This upgrade will allow Nano to host Carestream's new ImageView software which is to be introduced across the whole Carestream stable of products during 2020. Ensuring a common user interface across all Carestream products is a key marketing strategy which Carestream has used for many years with the current DirectView platform.

In December 2019, the Company's management attended the major industry meeting of the Radiological Society of North America in Chicago to support Carestream's sales and marketing of the Nano. The feedback from visitors to the Carestream stand illustrated a growing market awareness of the product and its benefits. There is a growing group of supportive key opinion leaders along with endorsements from early adopters and an article on the Nano's performance in the Georgia Hospital, published in *Imaging Technology News* on 19 December 2019. These are all being used in Carestream's promotional material.

In November 2019, the first Nano to enter everyday clinical use in Australia was installed at The Alfred Hospital in Melbourne as part of a trial prior to a decision to purchase. The Company believes Australia offers another strong market opportunity particularly given the local awareness of the product and prior work with hospitals and clinicians.

Supporting the sales efforts, the manufacturing team conducted further life testing of the Micro-X in-house manufactured X-ray tubes. From a service and after sales perspective, there were no customer service issues reported or call outs during the Quarter which is a strong endorsement of the Nano's reliability especially compared to other mobile X-rays.

The manufacturing group is now well equipped to meet all needs of customers for the Nano and the Rover for the foreseeable future.

Overall, the number of units sold this Quarter was still significantly below the Company's expectations and this is an area under active discussion with Carestream including several recent high level meetings with their senior management to formulate strategies for accelerating the take-up rate. The Company is also developing and implementing strategies to build product awareness in all regions, including Europe and Australia where Carestream has recently pulled out of direct sales operations.

First generation Rover

The *Rover* mobile X-ray product for deployed military medical facilities is nearing design completion with the Company and its regulatory consultants planning to lodge a U.S. FDA 510(k) application in the coming months, using the Nano as the predicate device.

Further meetings and demonstrations of the Rover were held during the Quarter at Fort Detrick, near Washington DC with representatives of the US Defense Health Agency who assessed the ruggedisation modifications and ergonomic performance in their deployed environment. The Agency has affirmed their intention to place a Low Rate Initial Production order for a small batch of Rover units on receipt of the FDA's 510(k) approval.

The Company met recently with the preferred tenderer for the Australian Defence Force JP2060 procurement contract to update costings and reaffirm contract terms for its subcontract for the radiology segment. The main Department of Defence contract is still expected to be executed in 2020.

Other Operational & Development Activities

Next Generation CNT emitter

The Company's in-house manufactured X-ray tube containing its proprietary carbon nanotube electron emitter passed all final verification and reliability testing during the Quarter. In October 2019 the Company's Patent Application for 'Large Scale Stable Field Emitter for High Current Applications' was published with a priority date of 6 April 2018. The Micro-X tube manufacturing expansion program also completed with tubes now in regular production. Following the process validation and operator training, tube production is currently achieving a yield approaching 100%.

Mobile Backscatter Imager – Thales Collaboration

Progress on the early design of the Mobile Backscatter Imager project during the Quarter included releasing the requirements specification of the multi-emitter x-ray tube. Micro-X has issued a purchase order on Thales for the first phase of contractual development work on the tube.

In October 2019, the Company hosted a management team from Thales to review progress on the MBI project, as part of a regular review process of all aspects of the collaboration between the companies. Under the Heads of Agreement to collaborate with Thales on their next generation airport checkpoint product, Micro-X has completed early feasibility studies, development planning and scoping activity to support Thales overall project planning.

UK Airport Security Contract

During the Quarter the Company was advised by the UK Government's Department for Transport that it has been awarded a follow-on 'Future Aviation Security Solutions' contract for Enhanced Threat Detection utilising combined three-dimensional X-ray transmission with three-dimensional X-ray backscatter imaging. The full scope of work has now been agreed and the project will commence with a kick-off meeting in February.

Medical Research Future Fund – Frontier Medicine

The Company completed imaging tests on cadavers at the Royal Melbourne Hospital as part of its ambulance stroke imaging collaboration with the Melbourne Brain Centre. This collaboration received a $1M Phase One award from the federal government's Medical Research Future Fund. The imaging tests will form a key part of the collaboration's application for the $50-80M Phase Two MRFF 'Frontier Medicine' funding to commercialise a simple and lightweight stroke imaging x-ray system for use in land or air ambulances.

Financial and Corporate

Capital Raising and Retirement of Debts

In November 2019, the Company secured commitments to raise approximately $16.5 million through the issue of new fully paid ordinary shares at 20 cents per share (the **Placement**). The Placement was completed in two tranches with the second tranche completed following shareholder approval on 19 December 2019. The Placement also included investment by two of the Company's directors for $0.35 million, which was also approved by shareholders.

The funds from the Placement enable the Company to ramp up its commercial efforts for the lead products, the Nano and the Rover as well as supporting ongoing development work on the MBI and working capital. The Company also redeemed $2.812 million of April 2018 convertible notes to reduce its debt load.

On receipt of the R&D tax rebate the Company also repaid in full the $3.0 million loan secured against this rebate.

Financial Results & Cash

For the Quarter, the Company:

- received $0.784 million from customers related to:
    - sales of the *DRX Revolution Nano* by Carestream Health during the Quarter and from the previous Quarter, in accordance with the distributor's payment terms
    - $0.400 million for requested enhancements to the *DRX Revolution Nano* software interface to comply with a major upgrade in the Carestream radiology management software
- had cash outflows from Operations of $2.488 million which was offset by inflows from the R&D Tax rebate of $3.153 million, resulting in net cash inflows of $0.665 million
- had cash outflows of $0.691 million from Investing, primarily related to the purchase of property plant and equipment for the Tonsley manufacturing activities;
- had cash inflows of $16.500 million from Financing, from the Placement, with cash outflows of $6.682 million related to the redemption of convertible notes, the repayment of the R&D Loan and costs of the issue
- had overall net cash inflows of $9.792 million and a cash balance of $12.359 million as at 31 December 2019.

It is noted that the Company's actual outflows from Operations and Investing of $3.179 million was considerably lower than the $4.0 million spent in the September 2019 Quarter and the forecast spend of $4.852 million for this Quarter. This reflects cost cutting and ongoing prudent capital management.

Looking ahead, forecast cash expenditure for the March Quarter is approximately $3.5 million which will be partially offset by customer receipts from sales.

Future Outlook

The focus for the first half of 2020 will be on implementing activities and new initiatives to drive sales of the Nano with Carestream and building independent strategies to maximise growth of the Nano product line. These strategies will be announced when appropriate, subject to their commercial-in-confidence nature.

The second key objective is to complete all the steps to achieve a first sale of the Rover during 2020 including lodging the 510k application with the FDA in the near term and then facilitating a LRIP contract with the Defense Medical Agency in the United States.

The Company is also committed to adding sales and marketing expertise to the Micro-X team with the global search previously announced, still ongoing.

Peter Rowland, Managing Director said:

"*This Quarter was another very busy period as we have sought to build our Nano sales following the incorporation of our own X-ray tube and also accelerate our Rover programme development. I am pleased to report that the US military have again expressed their strong interest in purchasing a number of Rovers just as soon as we can achieve our 510k approval. The $16.5 million secured from investors in the recent placement was also critical in allowing us to maintain our commercial momentum and meet our collaboration goals with Thales. This funding will also allow us to deliver on our targeted milestones into 2021.*

While the Company has made good overall progress in line with our development plans we are highly dissatisfied with our Nano sales. Even with Nano's exceptional in-service reliability and very positive customer feedback, the sales forecasts provided to us by Carestream have not been met. We are not sitting idly by and my team and I have been working closely with the highest levels of Carestream management to better understand the reasons and address why customers have not been buying the Nano from Carestream in the quantities expected and modelled from their previous mobile x-ray product experience. In addition to these efforts with Carestream, we are also implementing additional strategies for the Nano to drive sales uptake and increase revenue into our business."

Investor Conference Call

The Company will hold a conference call at **9.00am AEDT on Tuesday 4th February 2020** to discuss the Company's activities and financial results for the Quarter and the business outlook. Micro-X's Managing Director, Peter Rowland, will host the call and there will be an opportunity for listeners to ask questions.

To dial into the call directly, please dial in 5 to 10 minutes prior to the call time and enter the **Conference ID: 10003975**. Dial in numbers are as follows:

Australian Toll Free:	**1800 908 299**
New Zealand callers:	0800 452 795
Other callers:	+61 2 9007 8048

To pre-register for the call, please follow the link below. A unique pin number will be provided for use when dialling into the call, which will bypass the operator and provide immediate access to the event. A recording of the call will be available on the Investor Centre section of the Company's website for 60 days after the call.

https://s1.c-conf.com/diamondpass/10003975-invite.html

– ENDS –

About Micro-X

Micro-X Limited (the **Company**) is an ASX listed hi-tech company developing and commercialising a range of innovative products for the global health and security markets, based on proprietary cold cathode, carbon nanotube emitter technology. The electronic control of emitters with this technology enables X-ray products with significant reduction in size, weight and power requirements, enabling greater mobility and ease of use in existing x-ray markets and a range of new and unique security and defence applications. The Company has its core R&D, engineering and production capability at its facility in Adelaide, Australia.

The Company's first product, the *Carestream DRX Revolution Nano*, is an ultra-lightweight digital medical x-ray system for the rapidly expanding mobile x-ray market in hospitals and healthcare. The *Carestream DRX Revolution Nano* holds 510(k) and CE Mark certifications and is sold commercially in a number of global markets by the Company's exclusive distributor, Carestream Health, Inc. The Company has a portfolio of innovative products in development, aimed at customer solutions where there is little or no competition. This includes the Mobile Backscatter Imager or MBI which will image Improvised Explosive Devices for airport security, defence and counter-terrorism applications. The MBI is being jointly developed in partnership with Thales, a global supplier of defence and security technology systems, who are providing technical support and $10 million of funding.

CONTACTS

Micro-X Limited	Investor Enquiries
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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity	
Micro-X Ltd	
ABN	**Quarter ended ("current quarter")**
21 153 273 735	31 December 2019

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (6 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	784	898
1.2	Payments for		
	(a) research and development	(710)	(1,303)
	(b) product manufacturing and operating costs	(164)	(416)
	(c) advertising and marketing	-	-
	(d) leased assets	(10)	(113)
	(e) staff costs	(1,549)	(2,918)
	(f) administration and corporate costs	(792)	(1,685)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	1	4
1.5	Interest and other costs of finance paid	(107)	(272)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	3,153	3,153
1.8	Other (GST)	59	310
1.9	**Net cash from / (used in) operating activities**	**665**	**(2,342)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(684)	(1,687)
	(d) investments	-	-
	(e) intellectual property	(7)	(30)
	(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	5
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**(691)**	**(1,712)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	16,500	16,500
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(996)	(996)
3.5	Proceeds from borrowings	-	5,000
3.6	Repayment of borrowings	(3,000)	(3,000)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(2,686)*	(2,686)
3.10	**Net cash from / (used in) financing activities**	**9,818**	**14,818**

*Redemption of Tranche 1 convertible notes.

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	2,568	1,603
4.2	Net cash from / (used in) operating activities (item 1.9 above)	665	(2,342)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(691)	(1,712)

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	9,818	14,818
4.5	Effect of movement in exchange rates on cash held	(1)	(8)
4.6	**Cash and cash equivalents at end of period**	**12,359**	**12,359**

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter $A'000	Previous quarter $A'000
5.1	Bank balances	12,136	2,345
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Term Deposit)	223	223
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**12,359**	**2,568**

6.	Payments to related parties of the entity and their associates	Current quarter $A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(263)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	3,000	3,000
7.2	Credit standby arrangements		
7.3	Other (please specify)	10,000	5,000
7.4	**Total financing facilities**	13,000	8,000

7.5	**Unused financing facilities available at quarter end**	-

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

There is a South Australian Government Financing Authority secured loan facility agreement with the South Australian Treasurer for a loan commitment of $3.0M with an agreed interest rate of 6.75% for the period 1 January 2019 to 31 December 2019, and 7.75% for the period 1 January 2020 to 31 December 2020. There are ongoing employee target conditions to be met regarding this facility. The maturity date of the loan is 31 December 2020.

The Company has a 6-year $10.0M secured, convertible loan facility with Thales AVS France SAS (**Thales**), with a maturity date of 2 July 2025. The loan may, after 2 July 2024, be converted into Micro-X shares following a request by Thales to do so at which time the Company has the choice to either (i) to repay the Thales loan in cash within 7 days; or (ii) issue Micro-X shares which would be issued at a 20% discount to the 30 day VWAP at time of conversion with a floor price of 25 cents per). The loan will pay an annual interest rate of 185 bps above the 6-month BBSW, equating to a rate of approximately 2.8% at present. The Company has drawn down $5.0M of the convertible loan to date.

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (Item 1.9)	665
8.2	Cash and cash equivalents at quarter end (Item 4.6)	12,359
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	12,359
8.5	**Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	19

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: 31 January 2020
.....

Authorised by: By the board
.....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.