

QUARTERLY ACTIVITIES & CASHFLOW REPORT QUARTER ENDED 31 MARCH 2020

Investor call at 9.00am AEST, Thursday 9th April 2020 to discuss Results and Business Outlook

Adelaide, Australia, 8th April 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 March 2020 (the **Quarter**). All financial results are in Australian dollars and are unaudited.

Highlights for the Quarter

- **Carestream DRX Revolution Nano orders grew substantially in response to COVID-19 demand**
- **First major Australian purchase orders of Nano for NSW Govt agencies and The Alfred - \$1.0 million**
- **Total Orders of Nano for the Quarter of \$3.0 million and \$0.6 million post Quarter end**
- **\$1.3 million of revenues invoiced this Quarter for completed Nanos – due for payment next quarter**
- **Major expansion of production to meet increasing Nano sales demand and reduce delivery times**
- **Rover for US military ready to commence safety testing to support FDA 510(k) dossier**
- **Recertification of Micro-X's Quality Management System under ISO 13485**
- **Closing cash balance of \$8.1 million**

Commercialisation & Sales

Carestream DRX Revolution Nano – Surge in COVID-19 demand

This Quarter saw a major shift in the global market for mobile X-ray in response to the rapidly growing COVID-19 (formerly 2019-nCoV or Coronavirus) global pandemic. This has created a massive increase in demand for mobile X-ray in almost every global market with delivery times required to be less than 4 weeks to meet the urgent need for imaging of infected patients. This demand has been driven largely by government health agencies using emergency procurement processes quite different from the normal purchasing or tendering cycles of 8-12 week delivery.

As previously announced, the World Health Organisation has defined a criterion for diagnostic progression of the COVID-19 infection from 'Confirmed Case' to 'Severe Illness' as a chest X-ray with multi-lobar infiltrates or pulmonary infiltration which has progressed more than 50% within 24-48 hours. Micro-X has received feedback that the *Carestream DRX Revolution Nano (Nano)* is well suited to the workflow of a high volume of COVID-19 imaging in temporary or crowded isolation facilities, as a result of its mobility, battery endurance and ease of infection control cleaning. The Nano holds FDA, CE Mark and TGA approvals and is currently in use in 12 countries.

The Company has received purchase orders for Nano units for delivery to most global markets, totalling \$3.0 million this Quarter and a further \$0.6 million up to 7 April 2020. This included the first major orders for Australia, now totalling \$1.0 million, destined for a number of Australian health agencies and an additional unit for The Alfred Hospital, Melbourne.

Overall, the number of Nano purchase orders this Quarter was significantly higher than the Company's expectations issued in the December 2020 quarterly report. These units are being progressively shipped and whilst new demand is difficult to estimate, the \$0.6 million of Nanos already ordered in the June quarter is highly encouraging.

Following this major positive market shift and increased demand for the Nano, Micro-X made a strategic decision to become better positioned for the changed market dynamics by scaling up the capacity and readiness of the Nano production line. Near the end of the Quarter, Micro-X commenced an increase in production inventory and manufacturing infrastructure, staged from May to July 2020, to shorten delivery times to less than four weeks and increase the production line rate to two Nano units per day. To achieve this, considerable work has been undertaken to increase volume in our supply chain with an increased commitment of \$1.1 million to buy and hold further spare parts and inventory. In connection with this, X-ray tube manufacture has now successfully been moved from the temporary facility in which it was developed to a new, purpose-built, clean room facility adjacent to the main assembly facility. This new facility has allowed further expansion with an additional \$0.6 million to be spent in the coming quarter on capital equipment for end-of-line testing. The Company's new Tonsley facilities have the space to support all future growth in production of x-ray tubes and assembly of products.

The Company will also now hold larger inventories of sub-assemblies and partially-completed Nano units to enable short response delivery times whilst still providing the flexibility to finally configure each Nano unit for each region's unique specifications. These stocks of components and sub-assemblies are also planned to support the future Rover program due to the high level of commonality of parts between the Nano and the Rover products.

First generation Rover

The Rover mobile X-ray product for deployed military medical facilities has progressed to the stage where the formal safety testing is scheduled to commence next week under supervision by Micro-X's Notified Body. The ISO 60601 safety test report will form the basis of our U.S. FDA 510(k) application for Rover which is expected to be filed next month. The US Defense Health Agency has continued to express 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. They have also indicated there is a potential for the FDA application to be processed within a faster timeframe due to U.S. military's role in assisting and co-ordinating treatment of U.S. civilian patients diagnosed with COVID-19.

Other Operational & Development Activities

Manufacturing and Quality

In February 2020, the Company received re-certification of its ISO 13485 Quality Management System from external auditors BSI. During the Quarter the Company's in-house manufactured X-ray tubes also continued regular production cycles with yields close to 100%.

Micro-X has also initiated risk management and updated operational procedures in response to the COVID-19 pandemic, with work from home, social distancing and increased hygiene procedures. Manufacturing and supply chain staff in the Company's facility are carefully adhering to new procedures and protocols to mitigate the risk of infection and consequent disruption to production with all other staff working at home or remotely. Visitors are no longer allowed onto the Company's premises to reduce the potential of the disease spreading.

Mobile Backscatter Imager – Thales Collaboration

The Mobile Backscatter Imager project has continued to be progressed in collaboration with Thales. This work has recently focused on testing of a new imaging concept and architecture which has the potential to greatly simplify the development and reduce cost and complexity of the final product.

UK Airport Security Contract

The follow-on 'Future Aviation Security Solutions' contract received in the last quarter for Enhanced Threat Detection is proceeding on schedule. The first phase has been completed and the experimental test fixture is under development.

Financial and Corporate

Financial Results & Cash

During the month of February and March 2020, the Company received a number of purchase orders for Nano units from its distributor totalling \$3.0 million. While many Nano units have already been completed and shipped, other units are still being manufactured with a current backlog of orders less than 6 weeks. Nano sales are invoiced and recognised on an FOB basis once the Nano unit is dispatched from Micro-X's Tonsley facility. This leads to a timing difference between the date of order and the date that revenue is recognised and then cash is received.

On this basis, during the Quarter the Company:

- received \$3.0 million in purchase orders for the Carestream *DRX Revolution Nano* from mid February 2020. Of these \$1.3 million of Nano orders have already been completed, invoiced and recognised as revenues for the Quarter. Due to the surge nature of these shipments and revenues occurring late into the Quarter, cash receipts for this Quarter were nominal but the balance of these invoices is expected to be received in the near term in accordance with agreed payment terms for all sales;
- had cash outflows from Operations of \$4.2 million which was offset by inflows of \$0.2 million, resulting in net operating cash outflows of \$4.0 million. This includes payments to related parties of \$0.13 million related to the salary of the Managing Director and fees for Non-Executive directors
- had cash outflows of \$0.13 million from Investing, primarily related to the purchase of property plant and equipment for the Tonsley manufacturing activities.
- had overall net cash outflows of \$4.2 million and a cash balance of \$8.1 million as at 31 March 2020. As noted above, \$1.3 million of revenues were invoiced this Quarter for completed Nanos and will be received in the next quarter.

It is noted that the Company's actual outflows from Operations and Investing of \$4.0 million was higher than the forecast spend of \$3.5 million for this Quarter. This primarily related to the increased production costs and inventory to support rapidly growing sales of the Nano for which customer receipts will occur next quarter.

Looking ahead, forecast cash outflows for the June 2020 Quarter will increase as a result of the Company's recently announced capex and inventory programme for the Nano ramp and there will be cash inflows from Nano sales. The Company is taking active measures to ramp up Nano production whilst carefully balancing its cash runway.

Other Corporate Matters + New Appointments

As a result of the major increase of Nano orders related to the COVID-19 epidemic, Micro-X received broad news coverage during the Quarter including articles in the Australian Financial Review and several TV news channels. On 19 February 2020 the South Australian Health Minister, Stephen Wade visited the Tonsley facility.

On 24th February 2020, the Company appointed Mr Kingsley Hall as Chief Financial Officer and Co-Company Secretary. Kingsley is a highly experienced financial and operational leader with a strong commercial leadership and strategic background.

David Knox also became a Non-Executive director from 7 April 2020 as part of a Board rejuvenation process. As a former MD & CEO of Santos, a Top 50 Australian company and a senior executive with other multi-national companies, David brings strong commercial expertise as well as extensive board experience.

Future Outlook

For the immediate future, Micro-X is focused on scaling up its production capabilities and inventory levels to offer competitive product delivery times and increased production throughput for the Nano during the global surge in mobile X-ray procurement for the COVID-19 pandemic. Micro-X is confident this demand will continue for the foreseeable future and that by offering shorter delivery timeframes after receipt of order, Nano sales should remain strong. Micro-X remains dedicated to ensuring its supply chains are not compromised and orders can meet a 4-week timeframe to assist in this health crisis. The Manufacturing team's past experience in the automobile industry is invaluable in these efforts.

In parallel, with the design and integration work on Rover now completed, the priority for the engineering team is to commence the formal ISO 60601 electrical and mechanical safety testing program needed for medical devices. The test report by our independent Notified Body will comprise the core of our 510(k) application with the FDA. This FDA approval, once granted, will enable Rover sales to begin later in this year. Sales and marketing activities for Rover, already in progress with the medical health agencies within the United States and United Kingdom armed forces, will be increased. This will position the Company for upcoming procurement activity in both countries.

Another future strategic project is the development of Micro-X's own in-house high voltage generator needed to power the Rover. This will deliver the significantly higher X-ray performance required by trauma imaging in the military context. The project is planned to reduce size and weight of the generator for the Rover which also has future product benefits. Micro-X is well progressed with early design activities for this project which will be progressed during the remainder of 2020.

Peter Rowland, Managing Director said:

"This Quarter has seen a tremendous surge of Nano orders with \$3.6 million received in the last 8 weeks and with the first Australian orders already reaching \$1.0 million, this is strong recognition of our technology. This rapid growth in orders has brought new challenges and opportunities for the Micro-X team with a rapidly evolving environment and market. We are excited that our Australian innovative technology is being used to assist medical teams with their response in affected countries from the COVID-19 pandemic. Our whole team is working extremely hard to ship more Nanos as quickly as we can to meet the global demand for our product."

Investor Conference Call

The Company will hold a conference call at **9.00am AEST on Thursday 9 April 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. We have been advised by our conference facility provider that due to heavy call volumes at this time, participants are encouraged to use the link below to pre-register and obtain a unique PIN to access the call.

To pre-register for the call, please follow the link below. A unique PIN 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/10005682-invite.html>

If participants choose to dial into the call directly, please allow additional time and dial in 10 to 15 minutes prior to the call time and enter the **Conference ID: 10005682**. Dial in numbers are as follows:

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

– 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

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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

21 153 273 735

Quarter ended ("current quarter")

31 March 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	20	918
1.2 Payments for		
(a) research and development	(712)	(2,015)
(b) product manufacturing and operating costs	(1,168)	(1,584)
(c) advertising and marketing	-	-
(d) leased assets	(27)	(140)
(e) staff costs	(1,519)	(4,437)
(f) administration and corporate costs	(734)	(2,419)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	7
1.5 Interest and other costs of finance paid	(58)	(330)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	30	3,183
1.8 Other (GST)	179	489
1.9 Net cash from / (used in) operating activities	(3,986)	(6,328)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(95)	(1,782)
(d) investments	-	-
(e) intellectual property	(33)	(63)
(f) other non-current assets	-	-

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 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	(128)	(1,840)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	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)
3.5	Proceeds from borrowings	-	5,000
3.6	Repayment of borrowings	-	(3,000)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(125)*	(2,811)
3.10	Net cash from / (used in) financing activities	(125)	14,693

*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	12,359	1,603
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,986)	(6,328)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(128)	(1,840)

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(125)	14,693
4.5	Effect of movement in exchange rates on cash held	-	(8)
4.6	Cash and cash equivalents at end of period	8,120	8,120

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	7,897	12,136
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)	8,120	12,359

6. Payments to related parties of the entity and their associates

6.1 Aggregate amount of payments to related parties and their associates included in item 1

6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

(129)

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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

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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 share. 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)	(3,986)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	8,120
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	8,120
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	2

Notes:

- In its December Quarter Appendix 4C, MX1 reported Estimated quarters of funding available as 19 quarters. MX1 acknowledges that in following the ASX guidance, the Net Cash from Operating Activities figure included its one off Research & Development Fund receipt and a footnote should have been included.
- The above calculation of the Estimated quarters of funding available, does not include expected cash inflows related to recent sales of the Nano product.

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

- 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:

N/A

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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:

N/A

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:

N/A

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: 8 April 2020

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Authorised by: By the board

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(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.

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