

Thursday 25th January 2018

ASX Announcement – MICRO-X LIMITED (ASX: MX1)

QUARTERLY CASH FLOW & BUSINESS UPDATE

Micro-X Limited ('**Micro-X**') is pleased to provide an update to accompany the attached Appendix 4C Quarterly Cash Flow report for the period ended 31st December 2017.

The company held cash at the end of quarter of \$4.02M representing a net operating cash burn for the quarter of \$2.87M.

Cash receipts during the quarter were from sales of the DRX Revolution Nano to Carestream and also project revenue under the company's current Australian Department of Defence contract.

During the quarter the South Australian Government agreed to extend the repayment date of its \$3.0M loan by twelve months to December 2018. The interest rate remains unchanged at 5.75% per annum.

In addition, Micro-X currently intends to put in place a forward financing facility of approximately \$4.0M to be secured against Micro-X's projected FY2018 AusIndustry R&D Tax Incentive payment.

The Board believes that these actions can aid the management of existing cash reserves until material sales revenues are received and until the completion in Q2 of a material strategic investment referenced below.

Carestream DRX-Revolution Nano Mobile X-ray System Commercialisation

In October the Company celebrated the formal acceptance of the 'First from Production' Nano units by Mr Charlie Hicks, General Manager of Global X-Ray Solutions at our distribution partner, Carestream Health Inc. at a ceremony witnessed by South Australian Premier The Hon Jay Wetherill. Addressing the audience of staff, local dignitaries, suppliers and investors, Mr Hicks emphasized how proud and excited Carestream was to be introducing this advanced technology through their global sales network, saying how important it is to appreciate this is the first product in the history of x-ray systems not to use a hot filament source in the tube. Noting humourously after his long flight that Carestream had not chosen to work with Micro-X because it was conveniently close to his company's headquarters in Rochester, New York, he said this showed how Carestream was committed to source the very best available technology from anywhere in the world for the benefit of their customers.

Micro-X subsequently delivered further units against a number of purchase orders from Carestream to support the final stages of their preparations for global product launch, currently expected to be in Q2 of calendar 2018. Further purchase orders are anticipated in the current quarter in the lead-up to product launch.

Carestream featured the Nano prominently in their exhibition stand at the Radiological Society of North America in Chicago in November where the product generated an outstanding number of sales leads.

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MICRO-X

Interest in the Nano continues to build and Carestream is planning an extensive schedule of exhibitions and demonstrations in coming months.

Micro-X continued to deliver its comprehensive reliability program, designed to ensure Nano is a high quality product launched with low warranty risk. Having previously completed a tube accelerated life testing program and a separate cart robustness reliability growth program, Nano has now completed the final phase of growth testing, including accelerated workflow cycles with extensive firing of exposures using a fully integrated cart with DirectView software. The final phase of reliability demonstration for launch acceptance by Carestream QA will commence following trade trial with final production software release, with this being the last stage of the product verification program required for the Declaration of Conformity submission for CE Marking.

Micro-X's production management team at our technology partner, XinRay Systems, in North Carolina has successfully validated the new tube production processes and controls which have solved the supply chain production and quality issues which had caused delays in 2017. Production readiness has now been demonstrated in all areas.

Mobile Backscatter Imager

Micro-X completed in October the proof-of-concept imaging demonstration for the Mobile Backscatter Imager under its contract with the Australian Department of Defence in front of representatives of the Defence Science and Technology Group, Defence Capability and Innovation and the Counter-IED Task Force. The demonstration involved imaging of a variety of improvised explosive weapons including one fabricated by explosive experts on the spot. The imaging performance surpassed all expectations in clarity and resolution and the explosive ordnance disposal experts confirmed the imager provides the necessary information to render safe such weapons without the need for technicians to be exposed to the threat.

Follow-up meetings and presentations of the imaging results were conducted at the Explosive Ordnance Disposal (EOD) Squadron in Brisbane and the Defence Intelligence Organisation in Canberra and the resulting discussions of the concept of operations provided the 'voice-of-customer' input for Micro-X to begin to architect the final product design. The goal of this design project is to have a fully integrated prototype system available for assessment by Defence and Police EOD experts by the end of calendar 2018.

Micro-X is in the process of applying for funding to support this development from the \$600M Defence Innovation Hub Fund. This fund was set up as a result of the 'First Principles' review of Defence two years ago specifically to take projects of interest from the 'Proof of Concept' phase to pre-production readiness.

Corporate Development and Strategic Partnering

Following approaches from a number of leading companies in the global security and healthcare industries Micro-X has commenced a process to identify and conclude a long-term strategic partnership based on collaboration in technology and new product development. The objective of the partnership is the acceleration of new product development and commercialisation by both technical and sales collaboration as well as a significant strategic investment. Mr Jeff Trost, an investment banker with experience in many successful strategic investment transactions with healthcare companies, has been engaged to assist Micro-X in this process. After some initial contacts in November and a number of recent follow-up meetings the process is advanced enough for Micro-X to be confident of finalising arrangements in the June quarter.

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Following the strong interest expressed during a visit to Micro-X at Tonsley last year by officials from US security agencies, Micro-X has established a US- based subsidiary company, Micro-X Inc. This entity has signed an agreement with Lawrence Livermore National Laboratory (LLNL) relating to collaboration on the research and development of Micro-X's new Phased Array X-Ray imaging technology. Micro-X and LLNL are jointly preparing proposals to the Department of Homeland Security for material funding to assist with the development of this exciting new x-ray imaging modality.

Also during the quarter Micro-X conducted proof-of-concept imaging trials of a cone-beam CT bedside imager product concept. The prospect of a bedside CT imaging cart has generated significant interest and Micro-X is continuing to seek clinical input to the product definition.

Micro-X continues to build up its in-house engineering design capability and has recruited outstanding candidates for the leading senior Software and Electronics engineering positions. Headcount now stands at 24.

For further information please contact:

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About Micro-X: Micro-X Limited ("MX1") is an Australian Securities Exchange listed company developing and commercialising a range of highly innovative products based on proprietary carbon nanotube emitter technologies exclusively licensed and sourced from XinRay Systems Inc., a US based technology developer. These technologies enable the miniaturisation of a number of X-ray applications relevant to large global markets.

The Company has three initial products in its development pipeline – a mobile medical x-ray imager for hospitals, a version for deployed military use and a mobile security back-scatter imager. It is establishing manufacturing for these products in an ISO13485 certified facility in Tonsley, South Australia.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Micro-X Ltd

ABN

21 153 273 735

Quarter ended ("current quarter")

31 December 2017

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	566	602
1.2 Payments for		
(a) research and development	(1,570)	(5,878)
(b) product manufacturing and operating costs	(537)	(978)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(621)	(1,105)
(f) administration and corporate costs	(660)	(1,296)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	10	16
1.5 Interest and other costs of finance paid	(58)	(101)
1.6 Income taxes paid	(137)	(137)
1.7 Government grants and tax incentives (Research & Development Tax Incentive Refund)	-	7,032
1.8 Other (GST Refunds)	163	444
1.9 Net cash from / (used in) operating activities	(2,844)	(1,401)

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2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(14)	(59)
(b) businesses (see item 10)	-	-

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Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(c) investments	-	-
(d) intellectual property	(13)	(16)
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) 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	(27)	(75)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	-	-

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	6,968	5,573
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,844)	(1,401)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(27)	(75)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	4,097	4,097

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	4,048	6,919
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Term Deposit)	49	49
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,097	6,968

6. Payments to directors of the entity and their associates

6.1 Aggregate amount of payments to these parties included in item 1.2

6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

(114)

-

Payments to Directors in relation to directors' fees and salaries for the quarter.

7. Payments to related entities of the entity and their associates

7.1 Aggregate amount of payments to these parties included in item 1.2

7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

-

-

N/A

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8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	3,000	3,000
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

During Q2 2018 the South Australian Government agreed to extend the repayment date of its \$3M loan by twelve months to December 2018. The interest rate remains unchanged at 5.75% per annum.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	1,272
9.2 Product manufacturing and operating costs	846
9.3 Advertising and marketing	-
9.4 Leased assets	54
9.5 Staff costs	915
9.6 Administration and corporate costs	392
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	3,479

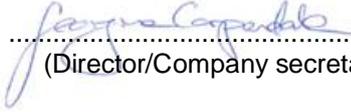
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10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

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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.

Sign here:  Date: 25 January 2018
(Director/Company secretary)

Print name: Georgina Carpendale

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.

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