

QUARTERLY ACTIVITIES & CASHFLOW REPORT QUARTER ENDED 30TH JUNE 2019

Investor call at 8.30am AEST, Wednesday 7th August 2019 to discuss Results and Business Outlook

Adelaide, Australia, 31st July 2019: 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 30th June 2019 (the **Quarter**). All financial results are in Australian dollars and are unaudited.

Highlights for the Quarter

- **Quarterly Cash receipts from customers of \$0.94 million (up 40% on March Quarter)**
- **DRX Revolution Nano – sold in 10 countries – expanding into new territories**
- **Completion of \$10 million investment by global technology giant, Thales Group**
- **Next Gen carbon nanotube insourced – significant quality, yield and margin gains**
- **Next stage expansion of facility in Tonsley - expands production and engineering**
- **Closing cash balance of \$1.60 million plus \$5 million cash received from Thales in early July**

Operations

This Quarter marked a period of significant achievement for the Company with completion of key technical projects that are intended to underpin future growth and capabilities. The culmination of these multiple projects saw the Company expand production and laboratory testing capacity to meet the planned needs of commercialisation and the upcoming engineering and testing programs. Of greater importance was the insourcing of the Company's own proprietary carbon nanotube which provides superior quality and control as well as major cost savings, and provides the Company with ownership and control of the IP underpinning the core component of our technology platform.

Associated with these key developments the Company has reset its corporate agenda with updates to our key milestones aimed at delivering commercial outcomes for all stakeholders. These are summarised in a Corporate Presentation released to the market on 26th July 2019 in co-ordination with a presentation by our Managing Director, Peter Rowland, at the Bioshares Investor Summit, attended by nearly 200 healthcare executives and investors.

Commercialisation – Carestream DRX Revolution Nano

This Quarter saw continued growth in customer receipts for the *Carestream DRX Revolution Nano* product (**Nano**). Customer receipts grew to \$0.94 million which was our best quarter in Financial Year 2019. This continues a pleasing trend in growing adoption as well as an increase in the number of territories in which the Nano is being sold. This result reflects an increase of 40% on the last completed March 2019 quarter.

In the field, the early feedback from end-customers has also been extremely positive and the reliability data to date, indicates the Nano is far exceeding our reliability requirements, with very low numbers of service calls.

Carestream Health, our distribution partner is continuing to expand the geographic reach of the product. At the end of the Quarter, the Nano is now operating in the USA, Canada, UK, Germany, France, Italy, UAE, Singapore, Thailand and South Korea. We expect and plan for additional geographic markets in the near future.

Post the end of the Quarter, the Company is very pleased to report that it has completed design verification and safety testing of its new, in-house produced x-ray tube for Nano. Additionally, Carestream Health has also completed its quality assurance testing in Rochester NY of the first Nano system fitted with the new Micro-X tube. This testing demonstrated improved performance and reliability of the new tube and is expected to remove tube quality and performance concerns that have had some impact on our early sales ramp up.

Strategic Insourcing of Next Gen CNT emitter

During the Quarter the Company completed the major x-ray technology insourcing project. In 2017, the Company identified a strategic need to obtain better control over the manufacturing process of the x-ray tube containing a carbon nanotube (CNT) electron emitter due to issues related to yield, production delays and transfer cost to the Company. To date this x-ray tube has been produced in North Carolina by Xinray under contract to Micro-X. The core objective of this insourcing strategy was to reduce reliance on this third party vendor, whilst achieving higher yield, increased commercial margins and improved customer reliability.

Micro-X's first CNT tubes were produced during the Quarter and underwent an extensive internal testing process, before being provided to Carestream Health for their quality acceptance testing which completed this week. This in-house manufacture provides substantial benefits in reduced costs, reduced cycle time, improved quality, increased scalability and strategic independence in the supply chain.

The Micro-X proprietary CNT emitter, manufactured in Adelaide, will be used in all Micro-X's platform of x-ray products moving forward.

Manufacturing Scale Up

The Company completed the next stage of its facility expansion during the Quarter at the Tonsley Innovation District in Adelaide. This expansion added a further 700m² to the facility with new dedicated production and engineering areas for the Rover and future products, expanded production and handling areas for the Nano and a shielded room for customer x-ray demonstrations.

Future Products in development – Rover and MBI

The two key design elements in the development of the Rover for deployed military medical facilities, are changes to the x-ray tube and a new high voltage power supply to accommodate the higher energy required for trauma x-ray images. Prototyping of the new tube design has been completed and tested and the detail design phase is now underway. The architectural design of the new power supply has also been completed and the first detailed design phase has commenced.

The multi-emitter x-ray tube concept design for the mobile backscatter image (MBI) has been completed with a radically new design architecture. The first integration planning has been conducted with Thales who will manufacture this tube as part of the Company's third product for the unmanned assessment of potential improvised explosive devices (IEDs).

Peter Rowland, Managing Director said:

"We have achieved a tremendous amount this Quarter and I am very proud of how the whole team has worked so hard to bring multiple technical and commercial projects together. We now have an expanded world class manufacturing capability and our own carbon nanotube emitter which gives us control of our destiny and a far better product and margin. Our lead product, the Nano is now operating in ten countries and, as the list continues to grow, we are confident the higher quality Micro-X CNT x-ray tube will address the quality issues that meant our sales ramp up was not as fast as earlier projected.

We have reset our course with updated milestones which we believe will deliver us a stronger business for the long term as well as shareholder value. I look forward to speaking with shareholders on these key updates in the coming months."

Financial and Corporate

Financial Results & Cash

For the Quarter, the Company:

- received \$0.94 million from customers related to the sales of the *DRX Revolution Nano* by Carestream Health
- had net cash outflows from Operations of \$2.19 million and cash outflows of \$0.47 million from Investing, primarily in property, plant and equipment. This compares to the Company's forecast outflow of \$4.31 million in the March 2019 Quarterly Report. The lower than forecast spend is a result of timing of payments which will flow into the next quarter including delays to some project development spending
- received \$3.00 million in cash inflows on the drawdown under the R&D loan
- had overall net cash inflows of \$0.12 million
- reported a cash balance of \$1.60 million as at 30th June 2019. A further \$5 million was received from Thales on 5th July 2019.

On 2nd July 2019, the Company completed the Thales transaction and post the end of the Quarter, \$5 million was received under their \$10 million convertible loan. The remaining \$5 million will be drawn down in line with the development of the project. These notes may be converted at Thales' discretion, anytime in the 12 months following 2nd July 2024.

Compliance

During the Quarter, the Company dealt with the issues arising from the failure to file cleansing statements upon the issue of shares in the placement in December 2018 and on the conversion into shares of convertible notes in June and July 2019. These two matters were fully addressed and dealt with by separate orders of the Federal Court of Australia.

The Board is very disappointed in these lapses in compliance and has initiated a complete review of compliance and associated procedures with a view to preventing future issues arising. The Company operates in a highly regulated environment selling an FDA approved Class II medical device and, operating an ISO 13485 certified Quality Management System, has demonstrated a strong culture of compliance operationally.

Investor Engagement

Following the Company's recent review of its capital markets and investor relation activities Micro-X has appointed Hawkesbury Partners as corporate advisers as part of our commitment to build our shareholder engagement process. Hawkesbury Partners are a Sydney-based boutique capital markets and advisory group with a track record in working with ASX-listed healthcare companies.

Future Outlook

Our focus for the next six months will be two-fold. Firstly, we will look to ramp up production of the Nano, particularly leading into the last calendar quarter of the year when many of Carestream's customers typically order their hospital inventory. A key element of this ramp up will be the final step in design verification, the accelerated lifetime demonstration, of our Micro-X produced x-ray tube operating in a Nano cart, which we expect to complete in coming weeks.

In conjunction with the sales growth flowing from increasing market acceptance of the Nano product and technology we will be looking to expand the territories where the Nano is available. One element of this will be a strategy for the Japanese market, one of the largest markets globally.

Our second focus will be the advancement of our Rover mobile x-ray product from the current detailed product concept into the first stages of a commercial product. This year, the intention is to complete the build of the first pre-production Rover x-ray tube and verify the imaging capability. The Rover x-ray tube has the same form and fit as Nano but with internal changes to give the higher energy x-ray output needed for exams more commonly associated with trauma cases in a military medical facility.

Investor Conference Call

The Company will hold a conference call at **8.30am AEST on Wednesday 7th August 2019** 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: 10001532**. Dial in numbers are as follows:

Australian Toll Free:	1800 739 591
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.

<https://s1.c-conf.com/diamondpass/microxlimited-10001532-invite.html>

A recording of the call will be available on the Investor Centre section of the Company's website for 60 days after the call.

– 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 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")

30 June 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	941	2,320
1.2 Payments for		
(a) research and development	(539)	(4,893)
(b) product manufacturing and operating costs	(671)	(2,945)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(1,492)	(4,966)
(f) administration and corporate costs	(634)	(2,628)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	11
1.5 Interest and other costs of finance paid	(96)	(295)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	5,240
1.8 Other (GST Refunds)	299	582
1.9 Net cash from / (used in) operating activities	(2,191)	(7,574)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(479)	(1,002)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
(d) intellectual property	-	(61)
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	12	12
(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	(467)	(1,051)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	2,000
3.2 Proceeds from issue of convertible notes	-	3,025
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	3,000	3,000
3.6 Repayment of borrowings	-	(1,600)
3.7 Transaction costs related to loans and borrowings	(220)	(259)
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	(2,780)	6,166

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	1,481	4,062
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,191)	(7,574)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(467)	(1,051)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	2,780	6,166

Consolidated statement of cash flows		Current quarter	Year to date (12 months)
		\$A'000	\$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	1,603	1,603

5. Reconciliation of cash and cash equivalents	Current quarter	Previous quarter	
at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	\$A'000	\$A'000	
5.1	Bank balances	1,554	1,432
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)	1,603	1,481

AS PREVIOUSLY ANNOUNCED, ON 3 JULY 2019, THE COMPANY RECEIVED \$5 MILLION FROM THALES GROUP UNDER THEIR \$10 MILLION CONVERTIBLE NOTE FACILITY.

6. Payments to directors of the entity and their associates	Current quarter	
	\$A'000	
6.1	Aggregate amount of payments to these parties included in item 1.2	(339)
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	
6.1 – Includes \$220k payment to Richard Hannebery for work performed in an Executive Director capacity.		

7. Payments to related entities of the entity and their associates	Current quarter	
	\$A'000	
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	

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	6,000	6,000
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.		

There is a South Australian Government Financing Authority 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 will be ongoing employee target conditions to be met regarding this facility.

The Company has a further \$3.0M loan facility with R&D Capital Pty Ltd in relation to a prepayment loan on the financial year 30 June 2019 R&D tax refund from the ATO. No principal repayment is due until the R&D tax refund is received or 31 December 2019, whichever is earlier. Interest is paid at 1.25% per month.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	1,242
9.2 Product manufacturing and operating costs	210
9.3 Advertising and marketing	40
9.4 Leased assets	110
9.5 Staff costs	1,808
9.6 Administration and corporate costs	804
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	4,214

Included in research and development is approximately \$860k of additional labour costs, including new hires and consultancy for projects costs. **Receipts from customers are not included in the above.**

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	Xinray Systems Inc
10.2 Place of incorporation or registration	-	United States
10.3 Consideration for acquisition or disposal	-	\$2.1M – Non-cash transaction, applied against outstanding payables invoices.
10.4 Total net assets	-	\$1.8M – Book value at date of disposal. Net gain non-cash recognised in books on finalisation of this transaction.
10.5 Nature of business	-	Supplier

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: 
(Company secretary)

Date: 31 July 2019

Print name: Georgina Carpenale

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.