

Micro-X Limited
Appendix 4D
Half-year report

1. Company details

Name of Company: Micro-X Limited
ABN: 21 153 273 735
Reporting period: For the half-year ended 31 December 2018
Previous period: For the half-year ended 31 December 2017

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	19.77% to	957
Loss from ordinary activities after tax attributable to the owners of Micro-X Limited	up	26.45% to	(6,410)
Loss for the half-year attributable to the owners of Micro-X Limited	up	25.69% to	(6,277)

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the group after providing for income tax amounted to \$6.4M (31 December 2017: \$5.1M).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(0.02)</u>	<u>5.81</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

The relevant interest in XinRay Systems Inc. was 30% at 31 December 2018. As of the date of this report, Micro-X has disposed of their holding, and no longer holds an interest in XinRay Systems Inc.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Half-Year Financial Report.

11. Attachments

Details of attachments (if any):

The Half-Year Financial Report of Micro-X Limited for the half-year ended 31 December 2018 is attached.

12. Signed by Patrick O'Brien (Non-Executive Chairman)

Signed  _____

Date: 28 February 2019

Micro-X Limited

ABN 21 153 273 735

Half-Year Financial Statements- 31 December 2018

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Micro-X Limited
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31 December 2018

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Micro-X Limited
Corporate directory
31 December 2018

Directors

Peter Robin Rowland (Managing Director)
Patrick Gerard O'Brien (Non-Executive Chairman)
Richard Nicholas Hannebery (Executive Director)
Alexander Bennett Gosling (Non-Executive Director)
Yasmin Anna King (Non-Executive Director)
David Peter Symons (Non-Executive Director) – Resigned 21 November 2018
James White McDowell (Non-Executive Director) – Resigned 31 August 2018

Company secretary

Georgina Carpendale

Registered office

A14, 6 MAB Eastern Promenade
1284 South Road, Tonsley
Clovelly Park, SA 5068
(08) 7099 3966

Principal place of business

A14, 6 MAB Eastern Promenade
1284 South Road, Tonsley
Clovelly Park, SA 5068
(08) 7099 3966

Share register

Computershare Investors Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford, VIC 3067
Phone: 1300 555 159 (within Australia)
Phone: +61 3 8320 2222 (outside Australia)

Auditor

Grant Thornton Audit Pty Ltd
Grant Thornton House, Level 3
170 Frome Street
Adelaide, SA 5000
Phone: +61 8 8372 6666

Stock exchange listing

Micro-X Limited shares are listed on the Australian Securities Exchange (ASX code: MX1)

Website

www.micro-x.com

Micro-X Limited
Directors' report
31 December 2018

The directors present their report, together with the financial statements, on the group for the half-year ended 31 December 2018.

Directors

The names of the Directors in office at any time during or since the end of the half-year are:

Peter Robin Rowland (Managing Director)

Patrick Gerard O'Brien (Non-Executive Chairman)

Richard Nicholas Hannebery (Executive Director)

Alexander Gosling (Non-Executive Director)

Yasmin King (Non-Executive Director)

David Peter Neil Symons (Non-Executive Director) - Resigned 21st November 2018

Jim McDowell (Non-Executive Director) - Resigned 31st August 2018

Directors have been in office since the start of the period to the date of this report unless otherwise stated.

Principal activities

Micro-X's principal activities are focused on the design, development and manufacturing of ultra-lightweight carbon nanotube based x-ray products for the global healthcare and security (counter improvised explosive device imaging) markets.

No significant changes in the nature of these activities occurred during the half-year.

Review of operations

Financial Overview:

The loss for the group after providing for income tax amounted to \$6.4M (31 December 2017: \$5.1M loss).

The majority of the loss was due to \$3.4M in expenditure on research and development activity. Most of this was for finalisation of design on the group's first product, the Carestream DRX Revolution Nano ('Nano'); the remainder being expenditure on the group's future products being the Mobile Backscatter Imager ('MBI'), Rover and Future Airport Security Solutions ('FASS').

The decrease in loss in comparison to the previous comparative period was due to a ramp-up in unit sales to Carestream Health ('Carestream'), which has in turn led to a reduction in research and development focus and expenditure as the group finalises Nano design. Focus has now been placed on future product development, with expenditure across these projects in their infancy.

During the period the group undertook two capital raisings. The first was completed in October 2018 by way of a fully subscribed private placement of 30,000 Unsecured Convertible Notes for a value of \$3M. Costs in relation to the issue were recognised in our statement of profit and loss. The second capital raise was completed in December 2018 by way of a private placement of 7.4M Ordinary Shares for a value of \$2M. As at 31 December 2018, \$1.9M had been received in cash. The remaining funds were received by the end of January. Under the terms of the Issue investors also received call options on a 1 for 2 basis – being 3.7M options in total.

A Research and Development Tax Incentive cash refund of \$3.8M was received in September 2018 for the 2017/18 financial year. The group held a Research and Development loan facility at this time for \$1.6M, with the refund being used to pay this facility down in full. The loan facility is now closed.

The group was awarded a \$2.4M grant through the Australian Government Department of Industry, Innovation and Science under the Advanced Manufacturing Growth Fund. This \$47.5M fund was designed to encourage innovation, skills and employment in advanced manufacturing and will support the group's investment in plant and equipment in a new state of the art manufacturing site in the Tonsley Innovation District. This expansion will be a co-located facility adjacent to the group's existing manufacturing capability. Building works commenced on this site prior to the end of the period.

Revenues were received in relation to sales to Carestream of both Nano carts and Nano parts.

Strategic Partnering:

The development of the 'Grand Alliance' which we had hoped to conclude during the period was slowed by a change of scope and simplification of the arrangement which was mutually agreed with our preferred partner. The key tenets of technology and product collaborations backed by a significant investment remain as originally planned and negotiations are on track for an expected closing later in the current quarter

Carestream DRX Revolution Nano:

During the period, the group began commercial sales to Carestream with the first units being on-sold into hospitals in the USA. The Nano was featured strongly on the Carestream exhibition stand at the annual Radiological Society of North America Scientific Meeting in Chicago in November and there was strong procurement interest from visitors from all over the world. Early indications of unit sales volumes in the USA are very promising and in accordance with our expectations.

Following achievement of the CE Mark accreditation first deliveries to Europe were made at the end of the year and first clinical use has now commenced there. The CE Mark has enabled a listing on the Australian Register of Therapeutic Goods for Australian sales activity to commence and other regulatory approval processes have commenced in Korea and Singapore.

Rover – Mobile X-ray for Deployed Military Medical Facilities:

Micro-X has been advised of delays in the Department of Defence's evaluation and source selection process for the tender for Project JP2060, the procurement project for turnkey provision of a new deployable medical facility for the Australian Army. A source selection announcement is expected early in 2019 with contract negotiations to follow. All tenderers are offering Micro-X's product and the in-service date expected is consistent with our schedule for medical device approval for the Rover.

Future Aviation Security Solutions in UK:

Micro-X completed its deliverables for the first phase of its contract with the Defence Science and Technology Laboratory (DSTL) of the UK Ministry of Defence by presenting the imaging performance results of its lightweight x-ray imaging system for detecting explosives hidden in consumer electronic devices.

Micro-X also presented to the Department for Transport (DfT) in London in September a product configuration model of a mobile scanner for carry-on baggage which incorporates this technology and which meets the needs identified by DfT for the Future Aviation Security Solutions (FASS) programme. This product concept created exceptional interest among the user community and Micro-X was invited to discussions with the security team at Heathrow Airport as to how this same technology might be applied to a new automated checkpoint configuration. These discussions have led to identification of a development pathway for the technology to much broader applications in airport security.

Micro-X's proposal to DSTL for funding for the second, developmental phase of the FASS programme was lodged in November.

Corporate Development:

Micro-X conducted a very successful proof-of-concept imaging trial of its Brain Tomographic Imager at the Royal Melbourne Hospital. The trial showed that image quality required to enable stroke diagnosis was possible from a small, lightweight, x-ray unit which could be easily fitted in ambulances. Following this successful trial, Micro-X is collaborating with the Melbourne Brain Centre in an application for funding under the current Frontier Health Program as part of the Australian Government's Medical Research Future Fund.

Micro-X's expansion of its in-house engineering capability has been boosted with a graduate intern program in Biomedical Engineering. Undergraduate engineers in this discipline on 20 week placements have also shown to be a valuable addition to the team as engineering of the company's next generation of products gets under way.

Micro-X intends to simplify its capital structure over the next 6 to 12 months. Our focus will continue to be on maintaining sufficient liquidity to support the development and commercial realisation of the wide range of product categories that the CNT technology is poised to revolutionise.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the group during the financial half-year.

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 the following page.

This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Directors



Mr Patrick O'Brien
Non-Executive Chairman

28 February 2019

Auditor's Independence Declaration

To the Directors of Micro-X Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Micro-X Limited for the half-year ended 31 December 2018. I declare that, to the best of my knowledge and belief, there have been:

- a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b No contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



B K Wundersitz
Partner – Audit & Assurance

Adelaide, 28 February 2019

Micro-X Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2018

	Note	31 December 2018 \$'000	31 December 2017 \$'000
Revenue	5	957	799
Cost of sales		(829)	(315)
Gross Profit		<u>128</u>	<u>484</u>
Expenses			
Employee and director costs		(2,367)	(1,797)
Office and administrative expenses		(432)	(322)
Corporate expenses		(71)	(44)
Quality and regulatory		(31)	(13)
Project development costs		(3,353)	(5,304)
Depreciation and amortisation expense		(141)	(52)
Other expenses		(614)	(454)
Professional fees		(305)	(175)
Total expenses		<u>(7,314)</u>	<u>(8,161)</u>
Operating Loss		(7,186)	(7,677)
Finances costs	6	(868)	(93)
Other income	7	1,886	2,775
Share of loss of associates accounted for using the equity method	8	(231)	(74)
Loss before income tax expense		(6,399)	(5,069)
Income tax expense		<u>(11)</u>	<u>-</u>
Loss after income tax expense for the half-year attributable to the owners of Micro-X Ltd		(6,410)	(5,069)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		<u>133</u>	<u>75</u>
Other comprehensive income for the half-year, net of tax		<u>133</u>	<u>75</u>
Total comprehensive income for the half-year attributable to the owners of Micro-X Limited		<u>(6,277)</u>	<u>(4,994)</u>
		Cents	Cents
Basic earnings per share	19	(4.44)	(3.51)
Diluted earnings per share	19	<u>(4.44)</u>	<u>(3.51)</u>

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Micro-X Limited
Consolidated statement of financial position
As at 31 December 2018

	Note	31 December 2018 \$'000	30 June 2018 \$'000
Assets			
Current assets			
Cash and cash equivalents		4,373	4,068
Trade and other receivables	9	3,442	4,467
Inventories (raw materials)		1,141	1,550
Other assets (prepayments)		36	27
Total current assets		<u>8,992</u>	<u>10,112</u>
Non-current assets			
Investments accounted for using the equity method	10	1,812	1,911
Plant and equipment		535	393
Intangibles assets	11	2,200	2,239
Total non-current assets		<u>4,547</u>	<u>4,543</u>
Total assets		<u>13,539</u>	<u>14,655</u>
Liabilities			
Current liabilities			
Trade and other payables		5,221	5,321
Unearned income	12	1,244	-
Borrowings	13(a)	-	4,600
Provisions		258	263
Total current liabilities		<u>6,723</u>	<u>10,184</u>
Non-Current liabilities			
Borrowings	13(b)	6,750	5,000
Provisions		231	198
Total non-current liabilities		<u>6,981</u>	<u>5,198</u>
Total liabilities		<u>13,704</u>	<u>15,382</u>
Net assets/(liabilities)		<u>(165)</u>	<u>(727)</u>
Equity			
Issued capital	14	48,024	48,024
Foreign currency translation reserve		559	426
Share based payment reserve	15	1,593	1,621
Other contributed equity	17	1,867	-
Convertible notes	13(b)	5,000	-
Accumulated losses		(57,208)	(50,798)
Total equity/(deficiency)		<u>(165)</u>	<u>(727)</u>

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

Micro-X Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2018

	Issued capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Other contributed equity \$'000	Convertible notes \$'000	Accumulated losses \$'000	Total Equity \$'000
Balance at 1 July 2017	48,024	1,317	186	-	-	(34,203)	15,324
Loss after income tax expense for the period	-	-	-	-	-	(5,069)	(5,069)
Other comprehensive income for the period, net of tax	-	-	75	-	-	-	75
Total comprehensive income for the period	-	-	75	-	-	(5,069)	(4,994)
<i>Transactions with owners in their capacity as owners:</i>							
Share-based payments (note 15)	-	197	-	-	-	-	197
Reclassification of convertible notes (note 13(b))	-	-	-	-	-	-	-
Shares not issued, monies received (note 17)	-	-	-	-	-	-	-
Balance at 31 December 2017	<u>48,024</u>	<u>1,514</u>	<u>261</u>	<u>-</u>	<u>-</u>	<u>(39,272)</u>	<u>10,527</u>
	Issued capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Other contributed equity \$'000	Convertible notes \$'000	Accumulated losses \$'000	Total Equity \$'000
Balance at 1 July 2018	48,024	1,621	426	-	-	(50,798)	(727)
Loss after income tax expense for the period	-	-	-	-	-	(6,410)	(6,410)
Other comprehensive income for the period, net of tax	-	-	133	-	-	-	133
Total comprehensive income for the period	-	-	133	-	-	(6,410)	(6,277)
<i>Transactions with owners in their capacity as owners:</i>							
Share-based payments (note 15)	-	(28)	-	-	-	-	(28)
Reclassification of convertible notes (note 13(b))	-	-	-	-	5,000	-	5,000
Shares not issued, monies received (note 17)	-	-	-	1,867	-	-	1,867
Balance at 31 December 2018	<u>48,024</u>	<u>1,593</u>	<u>559</u>	<u>1,867</u>	<u>5,000</u>	<u>(57,208)</u>	<u>(165)</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Micro-X Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2018

	31 December 2018 \$'000	31 December 2017 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	265	569
Receipts from grant funding (inclusive of GST)	1,372	-
Payments to suppliers and employees (inclusive of GST)	(8,140)	(9,362)
Interest received	7	16
GST refunds received	243	584
Research and development incentive tax refunds	3,840	7,032
Interest paid	(113)	(89)
Rent expense	(192)	(144)
Net cash used in operating activities	<u>(2,718)</u>	<u>(1,394)</u>
Cash flows from investing activities		
Payments for plant and equipment	(223)	(70)
Payments for intangibles	(21)	(12)
Net cash used in investing activities	<u>(244)</u>	<u>(82)</u>
Cash flows from financing activities		
Repayments of borrowings	(1,600)	-
Proceeds from convertible notes	3,000	-
Proceeds from issued capital	1,867	-
Net cash from investing activities	<u>3,267</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents	305	(1,476)
Cash and cash equivalents at the beginning of the financial half-year	<u>4,068</u>	<u>5,573</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>4,373</u></u>	<u><u>4,097</u></u>

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

Micro-X Limited
Notes to the financial statements
31 December 2018

Note 1. General information

The financial statements cover Micro-X Limited as a group. The financial statements are presented in Australian dollars, which is Micro-X Limited's functional and presentation currency.

A description of the nature of the group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2019.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the group during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Going concern

The group incurred a net loss after tax for the half-year ended 31 December 2018 of \$6.4M (half-year ended December 2017: \$5.1M loss) and had net cash outflows from operating activities of \$2.7M (half-year ended December 2017: \$1.4M). The group is in a net liability position of \$165K for the half-year ended 31 December 2018 (half-year ended December 2017: net liability position of \$727K). Within the group's net liabilities is \$1.2M of unearned income in relation to grant funding received under the Advanced Manufacturing Growth Fund.

Notwithstanding these results, the directors believe that the group will be able to continue as a going concern, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business and as a result the financial statements have been prepared on a going concern basis. The accounts have been prepared on the assumption that the group is a going concern for the following reasons:

- the operating loss and operating cash flow outcomes for the half-year ended 31 December 2018 reflect the results of the group's major activity during that period, which was product development and early commercialisation revenue for the Nano product but the business is still not yet cash-flow positive;
- the finalisation of research and development activities on the DRX Revolution Nano, which the group is undertaking with the objective that the outcomes of these activities be profitable and generate positive operating cash flows;
- increased sales to customer, Carestream Health, consisting of both DRX-Revolution Nano units and service parts sales;
- convertible notes and shares not issued within non-current liabilities are non-cash in nature and will not effect future cash-flows;
- the positivity of future product pipelines, including the Rover, MBI and MBS Systems;
- the group is planning to consolidate its operating activities at a profitable and cash-flow positive level going forward;
- as the group is an ASX-listed entity, it has the ability to raise additional funds if required;
- the group has received approval of an extension to the repayment of the the South Australian Financing Authority (SAFA) loan;
- the group is actively working to engage strategic partners for future products; and
- The Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recognised in the half-year report as at 31 December 2018.

Micro-X Limited
Notes to the financial statements
31 December 2018

Accordingly, this financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities as might be necessary should the group not continue as a going concern.

Notwithstanding the above, there is a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Rounding of amounts

The group is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with the Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 3. Change in significant accounting policies

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2018, except as described below. Note that the changes in accounting policies specified below only apply to the current period. The accounting policies included in the Group's last financial statements for the year ended 30 June 2018 are the relevant policies for the purposes of comparatives.

AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments (2014) became effective for periods beginning on or after 1 January 2018. Accordingly, the Group applied AASB 15 and AASB 9 for the first time to the interim period ended 30 June 2018. Changes to the Group's accounting policies arising from these standards are summarised below.

Both AASB 9 and AASB 15 were adopted without being applied to comparatives, given no impact.

AASB 9 Financial Instruments

Recognition and recognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Financial assets are classified according to their business model and the characteristics of their contractual cash flows. Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Subsequent measurement of financial assets

For the purpose of subsequent measurement, the group's financial assets are classified as financial assets at amortised cost.

Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of 'hold to collect' are accounted for at amortised cost using the effective interest method. The Group's trade and other receivables falls into this category.

Micro-X Limited
Notes to the financial statements
31 December 2018

Impairment of financial assets

AASB 9's new forward looking impairment model applies to the Group's investments held at amortised cost. The application of the new impairment model depends on whether there has been a significant increase in credit risk.

Trade and other receivables

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group has made an assessment in regard to expected credit losses for this reporting period and has determined that no expected credit losses can be foreseen, and hence have not impaired trade and other receivables at this point in time.

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely unchanged from AASB 139, the Group's financial liabilities were not impacted by the adoption of AASB 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

The Group has designated its convertible note liabilities at FVPL in order to provide the most relevant information to users, and furthermore to keep consistency with initial recognition on inception of these instruments. An assessment will be made at each reporting period in regard to underlying valuation of this liability in regard to share price upon conversion of the convertible notes.

Impact of AASB 9 vs AASB 139

The only impact from change in accounting standards during the current period is the change in classification for trade and receivables from 'loans and receivables' per AASB 139 to 'amortised cost' per AASB 9. As noted above however, the group has determined that no expected credit loss is to be recognised against these receivables and hence no change in the carrying amount of this asset in the current period.

AASB 15 Revenue from Contracts with Customers

Revenue arises mainly from the sale of goods.

As per the new revenue standard AASB 15, to determine whether to recognise revenue the Group follows a 5-step process:

- 1) Identifying the contract with a customer
- 2) Identifying the performance obligations
- 3) Determining the transaction price
- 4) Allocating the transaction price to the performance obligations
- 5) Recognising revenue when/as performance obligation(s) are satisfied.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations.

Micro-X Limited
Notes to the financial statements
31 December 2018

Sale of Goods

Revenue from sale of goods is currently recognised when the Group transfers control of assets to the customer and is recognised at a point in time only.

Control is determined to have transferred to the customer by reference to individual commercial contract terms with each customer.

Transaction price is then allocated on a per-unit basis, with a delivery of product on a unit-by-unit basis being considered as the performance obligation.

An assessment has been made during the period by the group of whether the adoption of AASB 15, from AASB 118, will have a material impact on the entity. Revenue for sale of goods was previously recognised in the same manner under AASB 118 and hence it has been determined there will be no impact to the current period or comparative figures for the Group with the change in standard.

Note 4. Operating segments

The group is organised into one operating segment being the design, development and manufacturing of ultra-lightweight carbon nanotube based x-ray products for the global healthcare and counter improvised explosive device imaging security markets. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

Note 5. Revenue

	31 December 2018 \$'000	31 December 2017 \$'000
Sale of goods	957	363
Contract revenue	-	436
	<u>957</u>	<u>799</u>

All revenue from the sale of goods during the current period is recognised at a point in time. The company did not amend comparatives for AASB 15 being adopted this period.

Note 6. Finance costs

	31 December 2018 \$'000	31 December 2017 \$'000
Implied interest on convertible notes	(750)	-
Other finance costs	(118)	(93)
	<u>(868)</u>	<u>(93)</u>

Micro-X Limited
Notes to the financial statements
31 December 2018

Note 7. Other income

	31 December 2018 \$'000	31 December 2017 \$'000
Interest received	7	16
Research and Development tax incentive refund	1,944	2,788
Net foreign exchange (loss)/gain	(193)	(29)
Gain/(loss) on disposal of assets	(1)	-
Grant funding received	129	-
	<u>1,886</u>	<u>2,775</u>

Note 8. Share of loss of associates accounted for using the equity method

	31 December 2018 \$'000	31 December 2017 \$'000
Share of loss - associates	<u>(231)</u>	<u>(74)</u>

Note 9. Current assets - Trade & other receivables

	31 December 2018 \$'000	30 June 2018 \$'000
Trade receivables	1,442	533
Research and Development tax incentive refund	1,944	3,840
Deposits	4	4
GST Receivable	52	65
	<u>3,442</u>	<u>4,467</u>

Note 10. Non-current assets - Investments in associates

	31 December 2018 \$'000	30 June 2018 \$'000
XinRay Inc. investment	<u>1,812</u>	<u>1,911</u>

At 31 December 2018, the group had a 30% (30 June 2018: 30%) equity holding in XinRay Systems Inc. ('XinRay'), a Company incorporated in Delaware, United States.

Note 11. Non-current assets - Intangibles

	31 December 2018 \$'000	30 June 2018 \$'000
Capitalised development costs	1,920	1,980
Patents and trademarks – at cost	280	259
	<u>2,200</u>	<u>2,239</u>

Note 12. Current liabilities – Unearned income

	31 December 2018 \$'000	30 June 2018 \$'000
Advanced manufacturing growth fund	1,244	-
	<u>1,244</u>	<u>-</u>

Note 13(a). Current liabilities – Borrowings

	31 December 2018 \$'000	30 June 2018 \$'000
Short term loan – South Australian Government Financing Authority/R&D Capital Loans	-	4,600
	<u>-</u>	<u>4,600</u>

The South Australian Government Financing Authority loan facility agreement with the South Australian Treasurer is for a loan commitment of \$3.0M with an agreed interest rate of 5.75% per annum paid monthly in arrears. This loan facility was approved to be extended for a further 24 months during the period, bringing the repayment date to 31 December 2020. Interest rate for the renewal period will be charged at 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. As at 31 December 2018, balance is now recognised as a non-current liability as repayment date is now 24 months from balance date – Refer Note 13(b) below.

The loan facility held with R&D Capital as at 30 June 2018 was paid down in full during the period, upon receipt of the group's Research and Development Tax Incentive refund in relation to the 2017/2018 financial year. Amounts drawn-down on this facility as of repayment date was \$1.6M.

Note 13(b). Non-Current liabilities – Borrowings

	31 December 2018 \$'000	30 June 2018 \$'000
Convertible Notes – Tranche A*	-	5,000
Convertible Notes – Tranche B*	3,750	-
Long Term Loan – South Australian Government Financing Authority***	3,000	-
	<u>6,750</u>	<u>5,000</u>

Micro-X Limited
Notes to the financial statements
31 December 2018

* Tranche A held by the group as at 30 June 2018. As of 31 December 2018, this balance has been transferred to equity in full. As a qualifying capital raising did not occur per terms of the convertible note deed, there is now only an obligation to deliver a fixed, and not variable, number of shares to investors on conversion and hence the balance has been transferred to equity.

** Tranche B is in relation to a capital raising which was finalised during October 2018. As a secondary qualifying capital raising may still occur per terms of the convertible note deed, there currently lies an obligation to deliver a variable, and not fixed, number of shares to investors on conversion and hence the balance is recognised as a liability as at 31 December 2018.

During the period, a \$750K finance cost has been recognised against this Tranche. Per the convertible note deed, there is an implied cost of finance being a 20% discount on the share price on conversion of the notes to ordinary shares. On assumption that the ceiling price is not met for the life of the notes, the company will convert \$3.75M worth of shares and hence have increased the liability to this value.

***Refer above Note 13(a) for details of facility. Extension approved for a further 24 months, with repayment date now being 31 December 2020, thereby classified as a non-current liability as at 31 December 2018.

Note 14. Equity - Issued capital

	31 December 2018 Shares	30 June 2018 Shares	31 December 2018 \$'000	30 June 2018 \$'000
Ordinary shares - fully paid	<u>144,350,698</u>	<u>144,350,698</u>	<u>48,024</u>	<u>48,024</u>

Note 15. Equity – Share-based payment reserve

	31 December 2018 \$'000	30 June 2018 \$'000
Share-based payments reserve	<u>1,593</u>	<u>1,621</u>

Note 16. Contingent liabilities

The consolidated group had no contingent liabilities at 31 December 2018 and 30 June 2018.

Note 17. Events after the reporting period

A capital raising was completed in December 2018 by way of a private placement of 7.4M Ordinary Shares for a value of \$2M. Under the terms of the Issue investors also received call options on a 1 for 2 basis – being 3.7M options in total. Shares were issued to investors as from the commencement of trading on 3 January 2019, and hence cash amounts received to 31 December 2018 of \$1.87M were recognised as an other contributed equity within the Statement of Financial Position.

An agreement has been reached with XinRay as of 27 February 2019 for the full transfer of Micro-X's 30% shareholding back to XinRay, in exchange for the proceeds of the disposal to be used as a credit against XinRay invoices accrued to 31 December 2018. This transfer was completed on 27 February 2019. Any gains or losses on this transaction will be recognised within the statement of profit or loss and other comprehensive income.

Note 18. Share-based payments

Share-based payments relate to share Option Awards as outlined in the group's Prospectus dated 25 November 2015. Set out below are the options outstanding at the end of the financial half-year:

Grant date	Expiry date	Exercise price	Balance at the start of the half-year	Granted	Exercised	Forefeited	Expired	Balance at the end of the half-year
01/09/2014	31/12/2019	\$0.575	1,393,112	-	-	-	-	1,393,112
01/09/2014	31/12/2019	\$0.625	2,786,228	-	-	-	-	2,786,228
21/12/2015	31/12/2019	\$0.575	1,800,000	-	-	(800,000)	-	1,000,000
21/12/2015	31/12/2019	\$0.625	3,600,000	-	-	-	-	3,600,000
05/12/2016	01/12/2020	\$0.625	320,000	-	-	-	-	320,000
01/04/2017	01/04/2021	\$0.625	2,500,000	-	-	-	-	2,500,000
11/09/2017	01/09/2021	\$0.625	320,000	-	-	(320,000)	-	-
			<u>12,719,340</u>	<u>-</u>	<u>-</u>	<u>(1,120,00)</u>	<u>-</u>	<u>11,599,340</u>

Note 19. Earnings per share

	31 December 2018	31 December 2017
	\$'000	\$'000
Loss after income tax attributable to the owners of Micro-X Limited	<u>(6,410)</u>	<u>(5,069)</u>
	Cents	Cents
Basic earnings per share	(4.44)	(3.51)
Diluted earnings per share	(4.44)	(3.51)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>144,350,698</u>	<u>144,350,698</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>144,350,698</u>	<u>144,350,698</u>

Micro-X Limited
Directors' declaration
31 December 2018

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the group's financial position as at 31 December 2018 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that Micro-X Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Mr Patrick O'Brien
Non-Executive Chairman

28 February 2019

Independent Auditor's Review Report

To the Members of Micro-X Limited

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Micro-X Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Micro-X Limited does not give a true and fair view of the financial position of the Group as at 31 December 2018, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Material uncertainty related to going concern

We draw attention to Note 2 in the financial report, which indicates that the Group incurred a net loss of \$6,410,000 during the half year ended 31 December 2018 and, as of that date, the Group had net cash outflows from operating activities of \$2,718,000. At 31 December 2018, the Group holds a net liability position of \$165,000. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half year financial report

The Directors of the Company are responsible for the preparation of the half year 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 half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Micro-X Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Grant Thornton.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



B K Wundersitz
Partner – Audit & Assurance

Adelaide, 28 February 2019