

**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 2019  
Previous period: For the half-year ended 31 December 2018

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**2. Results for announcement to the market**

			<b>\$'000</b>
Revenues from ordinary activities	down	12.23% to	840
Loss from ordinary activities after tax attributable to the owners of Micro-X Limited	down	35.23% to	(4,152)
Loss for the half-year attributable to the owners of Micro-X Limited	down	33.85% to	(4,152)

*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 \$4.2 million (31 December 2018: \$6.4 million).

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**3. Net tangible assets**

	<b>Reporting period Cents</b>	<b>Previous period Cents</b>
Net tangible assets per ordinary security	<u>0.003</u>	<u>(0.02)</u>

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**4. Control gained over entities**

Not applicable.

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**5. Loss of control over entities**

Not applicable.

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**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.

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**7. Dividend reinvestment plans**

Not applicable.

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**8. Details of associates and joint venture entities**

Not applicable.

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**9. Foreign entities**

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

Not applicable.

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**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.

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**11. Attachments**

*Details of attachments (if any):*

The Half-Year Financial Report of Micro-X Limited for the half-year ended 31 December 2019 is attached.

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

Signed  \_\_\_\_\_

Date: 13 February 2020

**Micro-X Limited**

**ABN 21 153 273 735**

**Half-Year Financial Statements- 31 December 2019**

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**Micro-X Limited**  
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**31 December 2019**

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**Micro-X Limited**  
**Corporate directory**  
**31 December 2019**

Directors

Peter Robin Rowland (Managing Director)  
Patrick Gerard O'Brien (Non-Executive Chairman)  
Alexander Bennett Gosling (Non-Executive Director)  
Yasmin Anna King (Non-Executive Director)

Company secretary

Georgina Carpendale

Registered office

A14, 6 MAB Eastern Promenade  
1284 South Road, Tonsley  
SA 5042  
(08) 7099 3966

Principal place of business

A14, 6 MAB Eastern Promenade  
1284 South Road, Tonsley  
SA 5042  
(08) 7099 3966

Share register

Computershare Investors Services Pty Ltd  
Yarra Falls  
452 Johnston Street  
Abbotsford, VIC 3067  
Phone: 1300 850 505 (within Australia)  
Phone: +61 3 9415 4000 (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](http://www.micro-x.com)

**Micro-X Limited**  
**Directors' report**  
**31 December 2019**

The directors present their report, together with the financial statements, on the Group for the half-year ended 31 December 2019.

**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)  
Alexander Gosling (Non-Executive Director)  
Yasmin King (Non-Executive Director)

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

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## **Principal activities**

The principal activities of Micro-X Limited (**Micro-X** or the **Company**) during the half year to 31 December 2019 (the **Half-Year**) were the design, development and manufacturing of ultra-lightweight carbon nanotube based X-ray products for the global healthcare and security markets.

No significant changes in the nature of these activities occurred during the Half-Year.

## **Review of Financials**

Micro-X is a commercial stage company, with its first product the *Carestream DRX Revolution Nano* (the **Nano**) being sold in a number of global markets during the Half-Year by exclusive distributor, Carestream Health, Inc.

Micro-X cash receipts during the Half-Year included:

- \$0.9 million – Proceeds from sales of the Nano and spare parts and related technical upgrades
- \$3.6 million - Research and Development Tax Incentive cash refund received in November 2019 for the 2018/19 financial year. These proceeds were used to repay in full the \$3.0 million Research and Development loan facility. An additional \$0.4 million was applied to repay cash received under the R&D Tax rebate during the 2016/2017 financial year which the Company is no longer entitled to due to a reduced payable upon settling the Allora dispute.
- \$5.0 million – Thales convertible loan security payment, as approved by shareholders on 19 December 2019. These funds have been applied to working capital and design and development work on Micro-X's counter-terrorism product, the Mobile Backscatter Imager.
- \$16.5 million - Private Placement of shares in the Company at 20 cents per share, completed in two tranches with the second tranche upon shareholder approval on 19 December 2019. Costs incurred in relation to the Private Placement were recognised through equity. Approximately \$2.8 million of funds raised were applied towards redemption of the April 2018 Convertible Notes.

The net assets of the Company have increased by \$10 million from 30 June 2019 to \$7 million at 31 December 2019.

The Company's cash position was \$12.4 million as at 31 December 2019, compared to \$1.6 million at 30 June 2019. The main use of cash was \$2.9 million in expenditure on research and development activity. Most of this related to securing the supply of in-house manufactured Micro-X tubes for the Nano; the remainder being expenditure on commercialising the Rover and focussing development of the Mobile Backscatter Imager ('MBI').

Overall, the Company reported a net loss after providing for income tax of \$4.2 million (31 December 2018: \$6.4 million loss). The decrease in loss in comparison to the previous comparative period was due to a focussed effort to reduce overall cash burn.

## **Review of Operations**

The key operational highlights for the Half-Year were as follows:

### *Carestream DRX Revolution Nano*

Micro-X was active in supporting its exclusive distributor, Carestream Health, Inc. in sales of the Nano across multiple global markets. The Nano has now been sold in 11 countries and in November 2019, the first Nano to enter everyday clinical use in Australia was installed at The Alfred Hospital in Melbourne as part of a trial prior to a decision to purchase. The Nano holds CE mark and FDA clearances and was entered on the Australian Register of Therapeutic Goods in the Half-Year, enabling Nano to be sold in Europe, the United States and Australia.

The sales of the Nano were impacted by quality issues in the X-ray tubes from third party supplier, XinRay, Inc. To address this, Micro-X completed the verification and validation testing of its own in-house designed x-ray tube using Micro-X's own proprietary CNT emitter technology. The changeover to in-house manufacture created a short term lack of supply during the Half-Year, which has now been addressed. Micro-X produced X-ray tubes have been fitted to Nano units and delivered to customers for the first time during the Half-Year. The manufacturing team continues to conduct accelerated life testing of its manufactured X-ray tubes for marketing data.

From a service and after sales perspective, there were no customer service calls or equipment failures reported for the Nano during the Half-Year from any of the units operating in 11 countries around the world. This provides early validation of the Nano's reliability and compares favourably to other mobile X-ray units available.

**Micro-X Limited  
Directors' report  
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In December 2019, the Company's management attended the major industry meeting of the Radiological Society of North America in Chicago. The feedback from delegates to the Carestream sales booth illustrated a growing awareness of the Nano and its benefits. The Company and Carestream are focused on building supportive key opinion leaders along with endorsements from early adopters and industry articles.

Overall, the number of units sold during this period was still significantly below the Company's expectations and this is an area under active discussion with Carestream. The Company is also developing and implementing strategies to build product awareness in all regions.

*Rover mobile medical X-ray for deployed military*

Micro-X has now implemented an accelerated project plan for Rover mobile military medical X-ray or *Rover* in response to strong customer interest from the U.S. Defense Health Agency. Micro-X plans to release and sell a first generation of the Rover in mid-2020, a nine month acceleration of the original release date. This first-generation version of the Rover is nearing design completion and will extend the X-ray energy performance compared to the Nano with many of the same hardware components plus additional rugged features for military use. The Company and its regulatory consultants are planning to lodge a U.S. FDA 510(k) application in the coming months, using the Nano as the predicate device.

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

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

*Strategic Partnering - Thales*

In July 2019, Micro-X entered into a Loan Agreement with Thales. Under the Loan Agreement, Thales made available to Micro-X a facility of up to \$10 million, of which Micro-X has drawn down \$5 million. Thales is collaborating with Micro-X in this new concept of a self-contained, x-ray imaging 'camera' which allows unmanned assessment of improvised explosive devices. This product is made possible by Micro-X's proprietary X-ray emitter technology.

*Mobile Backscatter Imager – Thales collaboration*

Progress on the early design of the Mobile Backscatter Imager project during the Half-Year included the requirements specification of the multi-emitter x-ray tube. In October 2019, the Company hosted a management team from Thales to review progress on the MBI project, as part of a regular review process of all aspects of the collaboration between the companies. Under collaboration with Thales on their next generation airport checkpoint product, Micro-X has completed early feasibility studies, development planning and scoping activity.

*Other Development Activities*

Micro-X was awarded a follow-on contract under the UK Government Department for Transport's Future Aviation Security Solutions programme. This funded programme for Enhanced Threat Detection will seek to extend to three dimensional imaging the capability of Micro-X's unique X-ray airport security imaging solution developed under an earlier contract. The funding from this next phase is expected in quarter one of calendar year 2020.

Royal Melbourne Hospital (RMH) during the Half-Year won a Phase One grant of \$1 million under the Federal Government's Medical Research Future Fund 'Frontier Health Program' to further develop a brain imaging technology proposal using Micro-X's CNT multi-beam x-ray. Cadaver imaging trials at RMH were successful and Micro-X has been approached by other international radiology organisations seeking to collaborate in the program.

**Future Developments & Prospects**

A key objective for Micro-X for the first half of 2020 is implementing activities and strategies to drive further sales of the Nano with Carestream and building independent strategies to maximise growth of the Nano product line. As stated in the Company's announcement on the 13<sup>th</sup> February 2020, orders have been secured from Carestream for the Nano for delivery to the Governments of two Asian countries in response to the growing COVID-19 (Coronavirus) epidemic.



**Micro-X Limited  
Directors' report  
31 December 2019**

The second key objective is to complete the steps to achieve the first sales of the Rover in 2020 with the US Defence Material Agency following lodgement of the 510k application with the US FDA. The Rover presents a large market opportunity with higher sale price and margins than the Nano.

The Company will also dedicate significant resources to the Thales collaboration efforts including the advancement of the MBI technology.

**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



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Mr Patrick O'Brien  
Non-Executive Chairman

13 February 2020

## 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 2019, 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, 13 February 2020

**Micro-X Limited**  
**Consolidated statement of profit or loss and other comprehensive income**  
**For the half-year ended 31 December 2019**

	Note	31 December 2019 \$'000	31 December 2018 \$'000
<b>Revenue</b>	5	840	957
Cost of sales		(304)	(829)
<b>Gross Profit</b>		536	128
<b>Expenses</b>			
Employee and director costs		(2,842)	(2,367)
Office and administrative expenses		(313)	(432)
Corporate expenses		(121)	(71)
Quality and regulatory		(14)	(31)
Project development costs		(1,024)	(3,353)
Depreciation and amortisation expense		(878)	(141)
Other expenses		(382)	(614)
Professional fees		(469)	(305)
Total expenses		(6,043)	(7,314)
<b>Operating Loss</b>		(5,507)	(7,186)
Finances costs	6	(772)	(868)
Other income	7	2,133	1,886
Share of loss of associates accounted for using the equity method	8	-	(231)
<b>Loss before income tax expense</b>		(4,146)	(6,399)
Income tax expense		(6)	(11)
<b>Loss after income tax expense for the half-year attributable to the owners of Micro-X Ltd</b>		(4,152)	(6,410)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		-	133
Other comprehensive income for the half-year, net of tax		-	133
<b>Total comprehensive income for the half-year attributable to the owners of Micro-X Limited</b>		(4,152)	(6,277)
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	19	(2.45)	(4.44)
Diluted earnings per share	19	(2.45)	(4.44)

*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 2019**

	Note	31 December 2019 \$'000	30 June 2019 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		12,372	1,606
Trade and other receivables	9	2,014	3,406
Inventories		1,641	1,272
Other assets		43	11
<b>Total current assets</b>		<u>16,070</u>	<u>6,295</u>
<b>Non-current assets</b>			
Plant and equipment	10(a)	2,588	1,748
Right-of-use assets	10(b)	4,896	-
Intangibles assets	11	1,423	1,828
<b>Total non-current assets</b>		<u>8,907</u>	<u>3,576</u>
<b>Total assets</b>		<u>24,977</u>	<u>9,871</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	12	3,732	4,253
Borrowings	13(a)	3,000	3,000
Provisions		406	339
Lease liabilities		524	-
<b>Total current liabilities</b>		<u>7,662</u>	<u>7,592</u>
<b>Non-Current liabilities</b>			
Borrowings and other financial instruments	13(b)	4,543	3,000
Derivative financial instruments	13(c)	1,031	2,000
Provisions		131	257
Lease liabilities		4,582	-
<b>Total non-current liabilities</b>		<u>10,287</u>	<u>5,257</u>
<b>Total liabilities</b>		<u>17,949</u>	<u>12,849</u>
<b>Net assets/(liabilities)</b>		<u>7,028</u>	<u>(2,978)</u>
<b>Equity</b>			
Issued capital	14	69,518	51,249
Foreign currency translation reserve		-	-
Share based payment reserve	16	407	1,405
Other contributed equity		-	-
Convertible notes	15	1,165	5,000
Accumulated losses		(64,062)	(60,632)
<b>Total equity/(deficiency)</b>		<u>7,028</u>	<u>(2,978)</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 2019**

	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 18)	-	(28)	-	-	-	-	(28)
Reclassification of convertible notes <sup>1</sup>	-	-	-	-	5,000	-	5,000
Shares not issued, monies received	-	-	-	1,867	-	-	1,867
Balance at 31 December 2018	48,024	1,593	559	1,867	5,000	(57,208)	(165)

	Issued capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Convertible notes \$'000	Accumulated losses \$'000	Total Equity \$'000
Balance at 1 July 2019	51,249	1,405	-	5,000	(60,632)	(2,978)
Loss after income tax expense for the period	-	-	-	-	(4,152)	(4,152)
Other comprehensive income for the period, net of tax	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	(4,152)	(4,152)
<i>Transactions with owners in their capacity as owners:</i>						
Share-based payments (note 18)	-	(998)	-	-	722	(276)
Redemption of convertible notes <sup>2</sup>	-	-	-	(2,812)	-	(2,812)
Conversion of convertible notes <sup>3</sup>	2,523	-	-	(1,023)	-	1,500
Finance costs on conversion of convertible notes	241	-	-	-	-	241
Placement of shares	16,500	-	-	-	-	16,500
Capital raising costs	(995)	-	-	-	-	(995)
Balance at 31 December 2019	69,518	407	-	1,165	(64,062)	7,028

<sup>1</sup> April 2018 convertible notes transferred to equity at 31 December 2018 on satisfying the fixed for fixed test.

<sup>2</sup> Repayment of \$2,812,000 of April 2018 convertible notes reduces total equity

<sup>3</sup> Conversion of \$1,023,000 of April 2018 convertible notes has no net impact on total equity. Conversion of \$1,500,000 of October 2018 convertible notes increases total equity.

*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 2019**

	<b>31 December 2019 \$'000</b>	<b>31 December 2018 \$'000</b>
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of GST)	897	265
Receipts from grant funding (inclusive of GST)	-	1,372
Payments to suppliers and employees (inclusive of GST)	(6,334)	(8,332)
Interest received	4	7
GST refunds received	310	243
Research and development incentive tax refunds	3,153	3,840
Interest paid	(274)	(113)
	<u>(2,244)</u>	<u>(2,718)</u>
<b>Cash flows from investing activities</b>		
Payments for plant and equipment	(1,688)	(223)
Payments for intangibles	(30)	(21)
	<u>(1,718)</u>	<u>(244)</u>
<b>Cash flows from financing activities</b>		
Proceeds from convertible loan	5,000	-
Repayments of borrowings	(3,000)	(1,600)
Proceeds of convertible notes	-	3,000
Repayments of convertible notes	(2,687)	-
Proceeds from issued capital	16,500	1,867
Capital raising costs	(995)	-
Payment of lease liabilities	(90)	-
	<u>14,728</u>	<u>3,267</u>
Net cash from investing activities		
	<u>10,766</u>	<u>305</u>
Net increase/(decrease) in cash and cash equivalents		
Cash and cash equivalents at the beginning of the financial half-year	<u>1,606</u>	<u>4,068</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>12,372</u></u>	<u><u>4,373</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 2019**

**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 13 February 2020.

**Note 2. Significant accounting policies**

These general-purpose financial statements for the interim half-year reporting period ended 31 December 2019 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 2019 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.

**AASB 15 Revenue from Contracts with Customers**

The Group adopted AASB 15 in the prior year. During this six-month period, the Group has generated revenue from the provision of contract services. This is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring the services to a customer. This is recognised over time, as the Group satisfies the performance obligations.

**Going concern**

The Group incurred a net loss after tax for the half-year ended 31 December 2019 of \$4.2 million (half-year ended December 2018: \$6.4 million loss) and had net cash outflows from operating and investing activities of \$4.0 million (half-year ended December 2018: \$2.7 million).

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 2019 reflect the results of the Group's major activity during that period, which was securing the in-house supply of Micro-X CNT tubes for the Nano and accelerating the development of the Rover;
- the Group recently completed a \$16.5 million capital raise which it intends to use to continue funding the aforementioned major activities;
- the Group has seen significant customer interest for the Rover product, which is expected to generate sales in mid-2020, up to nine months earlier than originally planned;
- the completion of the strategic partnership with Thales secures \$10 million funding, of which \$5 million is yet to be drawn down;
- the recent partnership with Quantum provides ability to sell the Nano within Australia. The first trial has been installed in the Alfred Hospital with another similar agreement currently being finalised;
- as the Group is an ASX-listed entity, it has the ability to raise additional funds if required; 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 2019.

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.

**Micro-X Limited**  
**Notes to the financial statements**  
**31 December 2019**

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 2019, 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 2019 are the relevant policies for the purposes of comparatives.

**AASB 16 Leases**

**Transition to AASB 16**

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying AASB 17 and AASB Interpretation 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adopting AASB 16 as at 1 July 2019 (increase/(decrease)) is, as follows:

	<b>\$'000</b>
<b>Assets</b>	
Right-of-use assets	1,205
<b>Liabilities</b>	
Lease liabilities	(1,335)
Deferred Rent	130
<b>Total adjustment on current year earnings</b>	<u>-</u>

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with a lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease



**Micro-X Limited**  
**Notes to the financial statements**  
**31 December 2019**

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

	<b>\$'000</b>
<b>Operating lease commitments as at 30 June 2019</b>	<b>3,117</b>
Weighted average incremental borrowing rate as at 1 July 2019	5.0%
Discounted operating lease commitments as at 1 July 2019	2,768
Commitments not ready for use at 30 June 2019	(1,433)
	<hr/>
<b>Lease liabilities as at 1 July 2019</b>	<b>1,335</b>

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below \$5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	<b>Right of use assets</b>	<b>Lease</b>
	<b>Leases</b>	<b>liabilities</b>
	<b>\$'000</b>	<b>\$'000</b>
As at 1 July 2019	1,205	1,335
Additions	3,866	3,917
Depreciation expense	(175)	-
Interest expense	-	62
Payments	-	(208)
<b>As at 31 December 2019</b>	<hr/> <b>4,896</b>	<hr/> <b>5,106</b>

**Micro-X Limited**  
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**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**

	<b>31 December 2019 \$'000</b>	<b>31 December 2018 \$'000</b>
Sale of goods	427	957
Contract revenue	413	-
	<u>840</u>	<u>957</u>

All revenue from the sale of goods during the current period is recognised at a point in time. Contract revenue is recognised when control of the services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

**Note 6. Finance costs**

	<b>31 December 2019 \$'000</b>	<b>31 December 2018 \$'000</b>
Implied interest on convertible instruments	(117)	(750)
Implied interest on leases	(62)	-
Implied conversion costs on convertible notes	(241)	-
Other finance costs	(352)	(118)
	<u>(772)</u>	<u>(868)</u>

**Note 7. Other income**

	<b>31 December 2019 \$'000</b>	<b>31 December 2018 \$'000</b>
Interest received	4	7
Research and Development tax incentive refund	1,366	1,944
Net foreign exchange (loss)/gain	(44)	(193)
Gain/(loss) on disposal of assets	(3)	(1)
Grant funding recognised	695	129
Fair value through profit and loss – Financial instruments	115	-
	<u>2,133</u>	<u>1,886</u>

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

	<b>31 December 2019 \$'000</b>	<b>31 December 2018 \$'000</b>
Share of loss - XinRay Investment	-	(231)

**Note 9. Current assets - Trade & other receivables**

	<b>31 December 2019 \$'000</b>	<b>30 June 2019 \$'000</b>
Trade receivables	122	268
Research and Development tax incentive refund	1,288	3,076
Other receivables	480	-
	<u>1,890</u>	<u>3,344</u>
GST Receivable	124	62
	<u>2,014</u>	<u>3,406</u>

**Note 10(a). Non-current assets - property, plant and equipment**

	<b>31 December 2019 \$'000</b>	<b>30 June 2019 \$'000</b>
Leasehold improvements - at cost	1,642	244
Less: Accumulated depreciation	(117)	(70)
	<u>1,525</u>	<u>174</u>
Plant and equipment - at cost	1,267	1,110
Less: Accumulated depreciation	(376)	(187)
	<u>891</u>	<u>923</u>
Fixtures and fittings - at cost	87	83
Less: Accumulated depreciation	(69)	(61)
	<u>18</u>	<u>22</u>
Motor vehicles - at cost	-	10
Less: Accumulated depreciation	(-)	(3)
	<u>-</u>	<u>7</u>
Computer equipment - at cost	358	218
Less: Accumulated depreciation	(209)	(166)
	<u>149</u>	<u>52</u>
Work in progress - at cost	5	570
	<u>2,588</u>	<u>1,748</u>

**Micro-X Limited**  
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**Note 10(b). Right-of-use assets**

	<b>31 December 2019 \$'000</b>	<b>30 June 2019 \$'000</b>
Right-of-use assets - at cost	5,071	-
Less: Accumulated depreciation	(175)	(-)
	<u>4,896</u>	<u>-</u>

**Note 11. Non-current assets - Intangibles**

	<b>31 December 2019 \$'000</b>	<b>30 June 2019 \$'000</b>
Development – at amortised value	1,200	1,560
Patents and trademarks – at amortised value	223	268
	<u>1,423</u>	<u>1,828</u>

**Note 12. Current liabilities – Trade and other payables**

	<b>31 December 2019 \$'000</b>	<b>30 June 2019 \$'000</b>
Trade payables	1,159	2,060
Accrued Payroll	97	103
PAYG	154	126
Government Grants	893	1,108
Other payables	1,429	856
	<u>3,732</u>	<u>4,253</u>

**Note 13(a). Current liabilities – Borrowings**

	<b>31 December 2019 \$'000</b>	<b>30 June 2019 \$'000</b>
Short term loan – South Australian Government Financing Authority*	3,000	-
R&D Capital Loan	-	3,000
	<u>3,000</u>	<u>3,000</u>

\*South Australian Government Financing Authority (SAFA) Loan is considered a current liability at 31 December 2019 as the repayment date is 31 December 2020.

**Micro-X Limited**  
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**Note 13(b). Non-Current liabilities – Borrowing and other financial liabilities**

	<b>31 December 2019 \$'000</b>	<b>30 June 2019 \$'000</b>
Long Term Loan – South Australian Government Financing Authority <sup>1</sup>	-	3,000
Thales Convertible Loan – Host Debt <sup>2</sup>	4,543	-
	<u>4,543</u>	<u>3,000</u>

1. South Australian Government Financing Authority loan was considered a non-current liability at 30 June 2019 as the repayment date was greater than 12 months.

2. The Group drew down a \$5 million loan with Thales in July 2019. The loan will pay an annual interest rate of 185 bps above the 6-month BBSW.

Under the terms of the convertible loan 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 2019.

Due to the uncertain nature of the conversion at the expiration of the convertible loan, the instrument has been split into two components, being the host debt disclosed above and the conversion factor which is disclosed in note 13(c).

Upon initial recognition, the value of the host debt was \$4.35 million. \$0.1 million implied interest was accrued on the host debt instrument to 31 December 2019.

The closing balance of the host debt at 31 December 2019 also includes accrued interest payable of \$0.07 million owing to Thales.

**Note 13(c). Non-Current liabilities – derivative financial instruments**

	<b>31 December 2019 \$'000</b>	<b>30 June 2019 \$'000</b>
Convertible Notes – Tranche 2 <sup>1</sup>	500	2,000
Thales Convertible Loan – Conversion feature <sup>2</sup>	531	-
	<u>1,031</u>	<u>2,000</u>

1. Conversion of \$1.5 million of October 2018 convertible notes equating to 6,369,150 new ordinary shares during the period.

2. The fair value of the conversion feature of the Thales convertible loan was split from the underlying host debt disclosed at 13(b) above. On recognition, the fair value of the conversion feature was \$0.6 million. The fair value was calculated under the Black-Scholes valuation principle using a Monte-Carlo simulation model.

Per the convertible loan deed, there is an implied cost of finance being a 20% discount on the share price on conversion of the notes to ordinary shares. The closing balance of \$0.5 million includes a \$0.1 million finance gain which has been recognised against the convertible loan.

**Micro-X Limited**  
**Notes to the financial statements**  
**31 December 2019**

**Note 14. Equity - Issued capital**

	31 December 2019 Shares	30 June 2019 Shares	31 December 2019 \$'000	30 June 2019 \$'000
Ordinary shares - fully paid	<u>247,520,457</u>	<u>156,093,707</u>	<u>69,518</u>	<u>51,249</u>

In total, 91,426,750 new shares were issued during the period.

Form of issue	No. of Shares	Unit Price	Value of issue \$'000
Conversion of October 2018 convertible notes	2,173,913	0.23	500
Conversion of April 2018 convertible notes	2,500,000	0.40	1,000
Conversion of October 2018 convertible notes	1,956,521	0.23	450
Conversion of October 2018 convertible notes	1,463,823	0.2391	350
Conversion of April 2018 convertible notes	57,500	0.4	23
Conversion of October 2018 convertible notes	774,893	0.2581	200
December 2019 Capital Raise	12,473,406	0.20	2,495
December 2019 Capital Raise	70,026,694	0.20	14,005
Implied finance cost on conversion of October 2018 convertible notes	-	-	241
Capital raising costs	-	-	(995)
<b>Total shares issued during the period, net of costs</b>	<u>91,426,750</u>	-	<u>18,269</u>

**Note 15. Equity – Convertible Notes**

	31 December 2019 \$'000	30 June 2019 \$'000
Convertible Notes – Tranche 1	<u>1,165</u>	<u>5,000</u>

Redemption of \$2,812,000 of April 2018 convertible notes, and  
Conversion of \$1,023,000 of April 2018 convertible notes during the period equating to 2,557,500 new ordinary shares during the period.

**Note 16. Equity – Share-based payment reserve**

	31 December 2019 \$'000	30 June 2019 \$'000
Share-based payments reserve	<u>407</u>	<u>1,405</u>

**Micro-X Limited**  
**Notes to the financial statements**  
**31 December 2019**

**Note 17. Events after the reporting period**

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**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	Forfeited <sup>1</sup>	Expired <sup>2</sup>	Balance at the end of the half-year
01/09/2014	31/12/2019	\$0.575	1,393,112	-	-	(696,556)	(696,556)	0
01/09/2014	31/12/2019	\$0.625	2,786,228	-	-	(1,393,114)	(1,393,114)	0
21/12/2015	31/12/2019	\$0.575	1,000,001	-	-	-	(1,000,001)	0
21/12/2015	31/12/2019	\$0.625	1,999,999	-	-	-	(1,999,999)	0
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
			<u>9,999,340</u>	<u>-</u>	<u>-</u>	<u>(2,089,670)</u>	<u>(5,089,670)</u>	<u>2,820,000</u>

1. Cancellation of unquoted options held by a previous Director, upon the 6 month anniversary of his cessation of employment with the company.
2. Expiry of unlisted options issued in connection with MX1's initial public offering on the ASX.

**Note 19. Earnings per share**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss after income tax attributable to the owners of Micro-X Limited	<u>(4,152)</u>	<u>(6,410)</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(2.45)	(4.44)
Diluted earnings per share	(2.45)	(4.44)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>169,313,801</u>	<u>144,350,698</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>169,313,801</u>	<u>144,350,698</u>

**Micro-X Limited**  
**Directors' declaration**  
**31 December 2019**

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 2019 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



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Mr Patrick O'Brien  
Non-Executive Chairman

13 February 2020



# Independent Auditor's Review Report

To the Members of Micro-X Limited

Report on 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 2019, 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 2019, 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 \$4,152,000 during the half year ended 31 December 2019 and, as of that date, the Group had net cash outflows from operating and investing activities of \$3,962,000. 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 2019 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, 13 February 2020