

QUARTERLY ACTIVITIES & CASHFLOW REPORT QUARTER ENDED 30 SEPTEMBER 2019

Investor call at 9.00am AEDT, Thursday 24th October 2019 to discuss Results and Business Outlook

Adelaide, Australia, 24th October 2019: Australian hi-tech company Micro-X Ltd (ASX:MX1) (**Micro-X** or the **Company**), a leader in cold cathode x-ray technology for the health and security markets globally, is pleased to release its Appendix 4C – Quarterly Cashflow report and Update for the quarter ended 30 September 2019 (the **Quarter**). All financial results are in Australian dollars and are unaudited.

Highlights for the Quarter

- Nano registered with TGA for sale in Australia – first sales expected shortly
- First generation ‘Rover’ – aiming to deliver sales 6 months earlier – strong U.S. military demand
- Sales negatively impacted by delivery and quality failures from former US tube supplier, now resolved
- Carestream accelerating sales and marketing activities for *Nano* – U.S. reference hospitals appointed
- Quarterly Cash receipts from customers of \$0.11 million - Revenue \$0.26 million
- \$5.00 million cash received from Thales convertible notes
- Closing cash balance of \$2.60 million
- Revised budget for this financial year reduces cash expenditure by \$3.1 million

This Quarter the Company has focused heavily on building its sales pipeline of the *DRX Revolution Nano* (**Nano**) to leverage its recent operational and technical achievements including expansion of manufacturing capacity. While these activities were not reflected in the sales for this Quarter they are expected to deliver results in the coming quarters. The sales this Quarter were also heavily impacted by supply issues during the transition from XinRay sourced x-ray tubes to those manufactured by the Company.

The Company has also implemented an accelerated Rover project for mobile military medical x-ray in response to strong customer interest from the U.S. Defense Health Agency (the **Agency**). The Company now plans to release and sell a first generation of the Rover in mid-2020. This will be six to nine months ahead of the release date the Company originally expected. Development will continue on the second generation Rover further extending the x-ray imaging capability.

The Board and management have assessed the allocation of financial resources to focus on commercial outcomes and reduce overall cash burn for the short and longer term. A revised budget has now been adopted reducing cash expenditure across each area of the business by \$3.1 million for the financial year to 30 June 2020 with further savings in future years.

Commercialisation & Sales

DRX Revolution Nano

This Quarter sales were impacted heavily by lack of supply in the changeover from x-ray tubes from Xinray in North Carolina to the Company’s own in-house manufactured tubes. This changeover, which required reliability testing before commercial release of the *Nano* with Micro-X tubes, completed in early October and now with reliable in-house tube supply available, will not impact sales moving forward. Carestream and the Company also recognise that sales and uptake of *Nano* have not grown as fast as initially expected and have also been adapting to market feedback on the critical buying processes and decisions.

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Carestream have been increasing the nature and extent of sales and marketing activities in the USA, particularly leading into the key December quarter and the world's largest annual radiology meeting (the Radiological Society of North America) in Chicago in early December.

Carestream has engaged four additional, dedicated specialist sales staff to set up and run product demonstrations of the *Nano* to potential hospital customers. This is in addition to the existing sales team who also promote the *Nano*. Typically, customer demonstrations run over several days and include head to head comparison to other mobile x-ray products on the market. In the relatively mature mobile radiology market, these demonstrations provide an opportunity to showcase the competitive advantages of the *Nano* and address questions related to the performance of the CNT technology over conventional units. There have been a growing number of demonstrations to potential customers in recent months, intended to build a strong prospective sales pipeline for the *Nano*. In many cases the length of the sales pipeline is heavily influenced by customer budgeting cycles for purchase of new equipment like the *Nano*.

Another marketing strategy implemented this Quarter was the appointment of reference hospitals and key opinion leaders to provide product use testimonials on the *Nano* in each of the U.S. selling territories. These centres include: San Joaquin General Hospital in California, Virginia Commonwealth University Hospital in Richmond, Piedmont Rockdale Hospital in Georgia and University of Virginia Hospital in Charlottesville. Other existing *Nano* customers are expected to join this reference site programme, as part of a strategy to broaden market awareness and adoption rates for *Nano*.

In Australia, Carestream have appointed Quantum Health Group (ASX:QTM) to sell their radiography product range including *Nano*. The *Nano* has now been entered on the Australian Register of Therapeutic Goods, enabling *Nano* sales to begin in Australia. Based on relationships built with Australian teaching hospitals through the development phase of *Nano*, Micro-X expects the first Australian installation and clinical use of *Nano* in the short term.

The Company and Carestream have also prepared updated sales budgets for *Nano* for 2019 and 2020 but due to the early stage of the sales cycle, it remains difficult for the Company to provide accurate sales guidance. It is noted that there has been positive feedback from first users of the product and also hospitals in trial clinical use and that Carestream is a market leader in mobile x-ray with deep infrastructure and an extensive customer base. Both Carestream and the Company have confidence that the planned sales growth will be achieved in the coming quarters.

The Company also believes that its significant investment in the manufacturing infrastructure and the insourcing of the CNT will enable it to fully support these sales plans. This Quarter saw the successful transition from its original OEM business model of assembling *Nano* units with outsourced parts, to becoming a true technology manufacturer with end to end control of the supply chain. The cost savings this delivers will start to flow shortly and, equally importantly, the new production capacity supports 85 *Nano* and *Rover* sales per month with the ability to add weekend and evening shifts to further increase this capacity.

First generation Rover

The Company has also recently revised the programme for the *Rover* mobile x-ray for deployed military medical facilities following recent discussions with representatives of the US Army Medical Materiel Agency at Fort Detrick, near Washington DC. The Company has received strong encouragement to find a way to bring forward the timing for the FDA 510(k) approval for *Rover* so that the Agency can place a Low Rate Initial Production order. This order process allows the Agency to order a small batch of a medical product or device deemed highly desirable to their needs, for internal testing, without the need for a full public tender process.

The Company has therefore committed to a rapid development and test program to enable a U.S. FDA 510(k) application to be lodged early in the New Year. This first generation version of the *Rover* 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.

This first generation *Rover* is expected to deliver initial revenues from the U.S. market in mid-2020, six months earlier than originally planned. As Micro-X will be selling *Rover* and a number of other items plus detectors directly to the end-user, the revenue per system sold is expected to be more than four times that of *Nano*. This pricing also reflects *Rover's* unique competitive position in this market.

The Company is still committed to developing the *Rover* with enhanced functionality, which will include a new design of x-ray tube and high voltage generator further increasing the x-ray output from the first generation *Rover*. This next generation *Rover* is intended to undergo regulatory compliance testing in late 2020 in time to be sold into the Australian Defence Force JP2060 procurement contract. In addition to superior functionality, manufacturing costs will be significantly reduced due to the use of more in-sourced components.

Other Operational & Development Activities

Next Generation CNT emitter

The Company's in-house manufactured x-ray tube containing its proprietary carbon nanotube electron emitter has now passed all final verification and reliability testing.

In October 2019 the Company's Patent Application for 'Large Scale Stable Field Emitter for High Current Applications' was published with a priority date of 6 April 2018.

Mobile Backscatter Imager – Thales Collaboration

With the completion of the in-sourcing project for the x-ray tube, engineering resources have been switched to the Mobile Backscatter Imager' project for counter-IED security. Progress during the Quarter included architectural design work and finalising the configuration of the highly innovative multi-emitter x-ray tube. This work was all fully funded from the Thales convertible note funding received during the Quarter.

In October 2019, the Company also hosted a management team from Thales to review progress on the MBI project, part of a regular review process of all aspects of the collaboration between the companies. An agreed scope of initial development work for which Thales will contract Micro-X to support their next-generation airport checkpoint product is also close to finalisation.

Peter Rowland, Managing Director said:

"With our core operational platform and manufacturing now in place, we have pivoted our focus to capitalising on our two lead products to deliver commercial sales. We appreciate that early sales of the Nano have not been as fast as we had hoped, including the one off effects of changing tube manufacture this quarter, but this is not unusual when delivering a breakthrough new technology product into a mature market. To address this we have been working closely with Carestream who has pleasingly devoted considerable sales and marketing resources to build awareness and the future sales pipeline. The response has been positive from first customers and we therefore expect sales of Nano to build in coming quarters especially as budgets are recast for the coming year.

The interest from the U.S. military to gain access to the Rover earlier is also pleasing and the ability to deliver an initial Rover product for sale from around mid-2020 means we will then have two commercial products in revenue within nine months from now, or six months earlier than planned.

We remain conscious of our financial resources as we move towards increasing sales within the next 12 months, so the Board has taken the prudent decision to trim some non-core expenditure, saving over \$3.1m this financial year and more in coming years. This change will better align our spending with our available resources."

Financial and Corporate

Financial Results & Cash

For the Quarter, the Company:

- received \$0.11 million from customers related to the sales of the *DRX Revolution Nano* by Carestream Health. This also reflected some timing differences with revenues for the Quarter of \$0.26 million;
- had net cash outflows from Operations of \$3.00 million and cash outflows of \$1.00 million from Investing, primarily in property, plant and equipment for the facility expansion and in-house tube manufacture. This compares to the Company's forecast outflow of \$4.21 million in the June 2019 Quarterly Report. The lower than forecast spend is a result of spending cuts
- received \$5.00 million in cash inflows on the drawdown under the Thales convertible notes
- had overall net cash inflows of \$1.00 million
- reported a cash balance of \$2.60 million as at 30 September 2019.

Our forecast cash expenditure for the December Quarter is approximately \$4.85 million but this will be partially offset by our expected customer receipts from sales, a drawdown from Thales of \$1.0 million for MBI related costs and a further \$0.1 million from R&D tax rebates over and above the \$3.0m R&D facility. The Company is actively managing its balance sheet requirements.

Investor Open Day

On 12 September 2019, we were pleased to host the South Australian Premier, The Hon Stephen Marshall MP to officially open the second stage of our facility expansion at Tonsley. This was combined with an Investor Open Day for existing shareholders and potential investors, giving the team the opportunity to showcase our facilities and achievements. The feedback was overwhelmingly positive with around 60 attendees and the Company plans to make this an annual event.

Future Outlook

Our focus for the next six months will be all around delivering sales and building the sales pipeline for the coming year.

We plan to devote considerable sales efforts with Carestream into targeting U.S. sales of the *Nano* in the important fourth quarter when many U.S. hospitals look to deploy their remaining budget for the year. The Radiological Society of North America meeting in early December is expected to host nearly 50,000 delegates and will be a key focus. We will also commence sales in Australia through Carestream's sub-distributor, Quantum Health. While Australia is a much smaller market than the U.S., it will be important for Micro-X to be close to end-user sales to build market knowledge and explore new applications in remote-area medicine and mobile radiography services.

The Company is also seeking to add more sales and strategic marketing expertise to the leadership team. A global search has been initiated for a senior industry person who will be added and can then build a small team as required. This process is expected to be completed shortly, within the revised FY2019 budget.

With our decision to accelerate the first generation *Rover*, our engineering and regulatory teams will be active completing the development and test work to support a 510(k) filing with the U.S. FDA in early 2020. We are targeting U.S. sales of the first generation *Rover* from mid-2020 and our expectation is for an initial order of three to seven systems.

Investor Conference Call

The Company will hold a conference call at **9.00am AEDT on Friday 25th October 2019** to discuss the Company's activities and financial results for the Quarter and the business outlook. Micro-X's Managing Director, Peter Rowland, will host the call and there will be an opportunity for listeners to ask questions.

To dial into the call directly, please dial in 5 to 10 minutes prior to the call time and enter the **Conference ID: 10002599**. Dial in numbers are as follows:

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

To pre-register for the call, please follow the link below. A unique pin number will be provided for use when dialling into the call, which will bypass the operator and provide immediate access to the event. A recording of the call will be available on the Investor Centre section of the Company's website for 60 days after the call.

<https://s1.c-conf.com/diamondpass/microxlimited-10002599-invite.html>

– ENDS –

About Micro-X

Micro-X Limited (the **Company**) is an ASX listed hi-tech company developing and commercialising a range of innovative products for the global health and security markets, based on proprietary cold cathode, carbon nanotube emitter technology. The electronic control of emitters with this technology enables X-ray products with significant reduction in size, weight and power requirements, enabling greater mobility and ease of use in existing x-ray markets and a range of new and unique security and defence applications. The Company has its core R&D, engineering and production capability at its facility in Adelaide, Australia.

The Company's first product, the *Carestream DRX Revolution Nano*, is an ultra-lightweight digital medical x-ray system for the rapidly expanding mobile x-ray market in hospitals and healthcare. The *Carestream DRX Revolution Nano* holds 510(k) and CE Mark certifications and is sold commercially in a number of global markets by the Company's exclusive distributor, Carestream Health, Inc. The Company has a portfolio of innovative products in development, aimed at customer solutions where there is little or no competition. This includes the Mobile Backscatter Imager or MBI which will image Improvised Explosive Devices for airport security, defence and counter-terrorism applications. The MBI is being jointly developed in partnership with Thales, a global supplier of defence and security technology systems, who are providing technical support and \$10 million of funding.

CONTACTS

Micro-X Limited	Investor Enquiries
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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

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

Name of entity

Micro-X Ltd

ABN

21 153 273 735

Quarter ended ("current quarter")

30 September 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	114	114
1.2 Payments for		
(a) research and development	(593)	(593)
(b) product manufacturing and operating costs	(252)	(252)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(1,369)	(1,369)
(f) administration and corporate costs	(996)	(996)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	3
1.5 Interest and other costs of finance paid	(165)	(165)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (GST Refunds)	251	251
1.9 Net cash from / (used in) operating activities	(3,007)	(3,007)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(1,003)	(1,003)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(d) intellectual property	(23)	(23)
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	5	5
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(1,021)	(1,021)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	5,000*	5,000*
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	5,000	5,000

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	1,603	1,603
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(3,007)	(3,007)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(1,021)	(1,021)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	5,000	5,000

Consolidated statement of cash flows		Current quarter	Year to date (3 months)
		\$A'000	\$A'000
4.5	Effect of movement in exchange rates on cash held	(7)	(7)
4.6	Cash and cash equivalents at end of quarter	2,568	2,568

5. Reconciliation of cash and cash equivalents	Current quarter	Previous quarter	
at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	\$A'000	\$A'000	
5.1	Bank balances	2,345	1,554
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Term Deposit)	223	49
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,568	1,603

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

6. Payments to directors of the entity and their associates	Current quarter	
	\$A'000	
6.1	Aggregate amount of payments to these parties included in item 1.2	(82)
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

7. Payments to related entities of the entity and their associates	Current quarter	
	\$A'000	
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	6,000	6,000
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	10,000	5,000
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

There is a South Australian Government Financing Authority loan facility agreement with the South Australian Treasurer for a loan commitment of \$3.0M with an agreed interest rate of 6.75% for the period 1 January 2019 to 31 December 2019, and 7.75% for the period 1 January 2020 to 31 December 2020. There will be ongoing employee target conditions to be met regarding this facility.

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

The Company has a 6-year \$10.0M investment via a secured convertible note by Thales SA. The loan will be convertible at Thales' sole discretion, at any time in the 12 months following 2 July 2024, at 20% discount to the 30-day VWAP at the time of conversion. The loan will pay an annual interest rate of 185 bps above the 6-month BBSW, equating to a rate of approximately 2.8% at present. The Company has drawn \$5.0M of the convertible loan to date.

9. Estimated cash outflows for next quarter *	\$A'000
9.1 Research and development	1,702
9.2 Product manufacturing and operating costs	868
9.3 Advertising and marketing	49
9.4 Leased assets	112
9.5 Staff costs	1,590
9.6 Administration and corporate costs	531
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	4,852

*** The estimated cashflows above do not include receipts from customers for sale of the Nano or approximately \$1.0m of MBI development costs which will be funded by a draw down of that same amount under the Thales convertible loan agreement.**

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

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Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: .....
(Company secretary)

Date: 24 October 2019

Print name: Georgina Carpendale

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

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