

QUARTERLY ACTIVITIES & CASHFLOW REPORT QUARTER ENDED 30 JUNE 2023

Investor Conference Call at 9.00am AEDT on Tuesday 1 August 2023

Adelaide, Australia, 27 July 2023: Australian hi-tech company Micro-X Ltd (ASX:MX1) (**Micro-X** or the **Company**), a leader in cold cathode x-ray technology for health and security markets globally, is pleased to release its Appendix 4C – Quarterly Cashflow report and Activities Update for the quarter ended 30 June 2023 (the **Quarter**). All financial results are in Australian dollars and are unaudited.

Highlights

- **Leadership transition – Kingsley Hall appointed Chief Executive Officer**
- **Secured contract extension with U.S. Department of Homeland Security – up to USD\$14m (AUD\$21.0m) – funds airport portal through to commercial product and live airport testing**
- **Successfully passed the Critical Design Review for the detailed design of the self-screening checkpoint with representatives from DHS and TSA.**
- **Mobile DR business streamlined – removed \$1.5m in cost base**
- **Argus pre-launch activities - successful first field testing and first U.S. customer demonstrations**
- **Quarterly Revenues \$2.7m – Product Revenues \$1.3m & Contracting Revenues \$1.4 m**
- **Cash balance of \$5.2m at 30 June 2023– forecast \$13.0m project income in FY24 (Varex, DHS & ASA)**

Leadership Transition & Operational Review

In May 2023, the Company transitioned its leadership team with the retirement of founder and Chief Executive Officer, Peter Rowland, and the appointment of Kingsley Hall as Chief Executive Officer. Kingsley has led a detailed Operational Review across all aspects of the business, including the commercial and development products, customers, partners and finances. The results of the review and a Strategy Refresh will be released soon.

A number of early initiatives have already commenced, including reduction of the cost base of the Mobile DR activities, primarily through headcount reduction to save \$1.5m in annual costs (in addition to \$0.5m in Overhead savings) and improving the balance sheet by implementing more aggressive sales strategies to sell the \$6m of Rover and Rover Plus units currently in inventory.

This transition to Kingsley comes at a time when Micro-X is seeking to increase its commercial focus while maintaining its technical leadership, and transition from being a developer of high tech X-ray products to a profitable business enterprise. To streamline engineering and manufacturing and ensure greater accountability, the leadership team has been reshaped with Brian Gonzales becoming CEO Americas & Chief Scientific Officer and Anthony Skeats, Chief Operating Officer.

Commercial Products

Mobile digital radiology – Rover Plus

A complete review of the sale process and pipeline for the *Rover Plus* product range was completed this Quarter. Moving forward with a streamlined approach, a number of sale staff have departed the business and costs have been cut, with greater focus on better understanding customer requirements and supporting our distributors. Productive meetings were held with key distributors in the United States as part of this approach with new sales targets agreed.

Overall product revenues for the Quarter were \$1.3m. In addition to this, a backlog of nearly \$1m of orders was received in June 2023 for *Rover Plus* and Carestream Nano units, which will be shipped and invoiced in July and August.

In addition to building deeper channels with the existing distributors in hospital and primary healthcare markets, niche market strategies such as targeting elite sports has had promising results. Micro-X sales staff attended a three-day National Athletic Trainers Association Expo in Indianapolis to demonstrate advantages of how *Rover Plus* can better manage elite athletes at their training centres and sport stadiums. A number of *Rover* units are already in regular use with US sporting teams in the Major League Baseball and the National Hockey League and this is intended to drive wider awareness and future sales opportunities.

Moving forward, the sales team is focused on strategies to sell the existing inventory of *Rover* units which currently sits at \$6m. As these existing *Rover* units are sold there will be positive contributions to cashflow, as there is only limited further expenditure for the finishing parts, depending on which country the units are sold into. In the coming quarter as inventory is run down to levels more in line with planned sales, Micro-X also expects to sell all remaining third party generators, which have a higher cost of goods than the Micro-X manufactured high power generators.

Security & Bomb detection - Argus X-ray Camera

This Quarter further strides were taken towards the goal of commercially launching our first security product, the Argus X-ray Camera, by the end of 2023. This remains one of the highest near term priorities and will provide Micro-X the opportunity to enter a market with a strong customer value proposition and limited competition.

As planned, the first field testing of the Argus was successfully completed in late May 2023 in Adelaide. The Argus was able to capture high-definition images of an anti-personnel mine buried underground, and a simulated bomb inside a car door, each of which were clearly able to be viewed on the operator's monitor more than 1,500 metres away. Following this a demonstration was held with local law enforcement at the Tonsley precinct and further similar demonstrations will be held in the coming months, to build awareness and gain invaluable customer feedback.

Internationally, the first customer demonstrations of the Argus were held in the United States at the International Association of Bomb Technicians and Investigators – In-Service Training & Expo, a major event for bomb disposal experts from the military and law enforcement. At the Expo, "live" customer demonstrations were held to showcase the ability of Argus to produce high-definition images of potential explosive devices. The team also presented at the IMDEX Asia 2023 Expo in Singapore, Asia's leading maritime security show attended by over 11,000 delegates.

In late April 2023, Micro-X was also awarded the highly prestigious iF Design award for the Argus X-ray camera.

Funded Development Programmes

Security Checkpoints & Airport

In June, Micro-X hosted a successful Critical Design Review (CDR) of the self-screening checkpoint design with technical experts from DHS and TSA. The CDR, along with the supporting design documentation, represents the formal end of the US\$2.5m (AUD\$3.8m) funded project; Micro-X invoiced the final US\$250k on 29 June completing the project on time and on budget. This project represents the company's first successful US government contract as a Prime Contractor, leading an international team of partners and bringing together several different technologies to seamlessly merge with Micro-X miniaturized CT scanner to form an integrated self-screening module design.

During the final months of the self-screening checkpoint contract, Micro-X Inc CEO, Brian Gonzales, led a negotiation with representatives from DHS to extend the contract beyond the design. This negotiation has focused on building the design presented in the CDR and then testing and demonstrating the design, first in TSA test laboratories and then in a US airport. This extended contact continues Micro-X's dual roles as the supplier of the miniaturized CT and as Prime Contractor responsible implementing the entire self-screening module.

In July, Micro-X executed the extension of the contract, with an initial commitment from DHS for USD\$4.88m (AUD\$7.25m) and worth up to USD\$14m (AUD\$21.0m).

The Checkpoints team are also close to completing the Miniature CT Baggage Scanner project, with the two prototype baggage scanning units on track to be delivered to the DHS next quarter for testing.

Brain CT for stroke diagnosis

The Brain CT team made good progress this Quarter with the key achievement being part completion of the fourth development milestone under the \$8m ASA Project Agreement. This involved a review of images simulating real life scenarios for stroke patients using a Micro-X proprietary test bench, with the ASA technical team. These images were developed using software developed by the Micro-X team in Seattle and algorithms developed with The Johns Hopkins University in Maryland.

The Brain CT team is now focused on developing the CT scanner hardware and further improving the imaging software. The work remains on track for the first human clinical trials at the Royal Melbourne Hospital in the first quarter of 2024, with the objective to confirm proof-of-concept for imaging of stroke patients.

Quarterly cashflows

During the Quarter, the Company undertook a series of cost reductions to reduce its overheads and better align the business with a closer focus on managing cash outflows and driving returns on all investments. Further details around the plans for the business and new strategies will be released shortly as part of the Strategy Refresh.

As described in more detail in the attached Appendix 4C the key cash inflows and outflows were as follows:

	June 23 Qtr	Notes
Operational cash inflows:		
Product sales - customers	1,715	Sales of Rover units and associated spare parts and components
Project work – ASA, DHS, Varex	1,540	The forecast for FY24 Project payments is \$14m, subject to milestones
Total	3,255	
Operational cash outflows ¹	(6,150)	Unfunded research and development costs will decrease in coming quarters with completion of the high power generator and the Argus work
Net cash used in Operations	(2,895)	Cost reductions and contracted inflows will reduce this for future quarters

Includes payments to Directors of \$0.14m relating to the salary of the Managing Director and fees for Non-Executive Directors

The Company ended 30 June 2023 with \$5.2m of cash on hand, following overall cash outflows for the Quarter of \$3.3m. The Company has taken a number of steps to decrease cash costs in coming quarters, which will be assisted by the expected cash inflows below (which are prior to proceeds from new product sales):

- Customer receipts of \$1m – from Rover Plus and Nano units ordered in June quarter and sold in July and August 2023
- Sales of the \$6m of Rover inventory – limited costs of goods sold will be incurred for these sales
- Contracted and estimated Project payments in FY24 of \$13m - from ASA, DHS and Varex milestones
- R&D Rebate of \$5.5m – likely due in September 2023

Micro-X's Chief Executive Officer, Kingsley Hall commented:

"Since our leadership transition in May, we have completed a deep dive Operational Review and will shortly provide a Strategy Refresh to shareholders, charting our new strategies and renewed commercial focus. We have already implemented a number of these changes including stripping costs out and streamlining our operations.

The level of product revenue at \$1.3m for the June quarter was an improvement but is not where it needs to be to stem our operating losses, which is our first objective. We also made good progress with Argus and its good to finally have units in front of customers and successfully completing field trials. The team is finishing off final modifications to Argus before we lock in commercial units for launch by the end of this year.

In addition to entering this exciting phase with Argus, we were delighted to have secured a contract extension with the DHS after the quarter ended. This contract extension fully funds us to build and test the design of a self-screening checkpoint in real airports. We cannot understate the size of the opportunity ahead of us in Airport Security and we are excited to be continuing our partnership with the DHS and TSA."

Quarterly Investor Call

The Company's Chief Executive, Kingsley Hall will host a Quarterly Investor Call at 9.00am AEDT on Tuesday, 1 August 2023, to discuss the Company's activities and results and the business outlook. A recording of the call will be available on the Investor Centre section of the Company's website for 60 days after the call.

Details to Pre-Register:

<https://s1.c-conf.com/diamondpass/10032604-7dqt4d.html>

Participants are encouraged to use the link above to pre-register and obtain a unique PIN to access the call. A unique PIN will be provided for dialling into the call, which will provide immediate access to the event.

Direct Dial Details:

Conference ID: 10032604

Australian Toll Free: 1800 267 430

New Zealand callers: 0800 122 137

Other callers: +61 2 9008 9006

This ASX Announcement is authorised by the Board of Micro-X.

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About Micro-X

Micro-X Limited (the **Company**) is an ASX listed hi-tech company developing and commercialising a range of innovative products for global health and security markets, based on proprietary cold cathode, carbon nanotube (CNT) 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. Micro-X has a fully vertically integrated design and production facility in Adelaide, Australia. A growing technical and commercial team based in Seattle is rapidly expanding Micro-X's US business.

Micro-X's product portfolio is built in four, high margin, product lines in health and security. The first commercial mobile digital radiology products are currently sold for diagnostic imaging in global healthcare, military and veterinary applications. An X-ray Camera for security imaging of Improvised Explosive Devices is in advanced development. The US Department of Homeland Security has selected Micro-X to design a next-generation Airport Checkpoint Portal with self-service x-ray. A miniature brain CT imager for pre-hospital stroke diagnosis in ambulances, is being developed with funding from the Australian Government's Medical Research Future Fund.

For more information visit: www.micro-x.com

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CONTACTS

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Micro-X Ltd

ABN

21 153 273 735

Quarter ended ("current quarter")

30 June 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,715	3,894
1.2 Payments for		
(a) research and development	(1,143)	(5,476)
(b) product manufacturing and operating costs	(1,026)	(5,891)
(c) advertising and marketing	(128)	(480)
(d) leased assets	(34)	(137)
(e) staff costs	(3,043)	(14,709)
(f) administration and corporate costs	(717)	(3,244)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Engineering Consulting, Government grants and tax incentives		
(a) ASA CT Brain Scanner	1,013	3,268
(b) DHS Checkpoints Contracts	527	3,227
(c) Varex Technology Transfer	-	4,421
(d) Research & Development Tax Incentive	-	3,885
(e) Other	-	494
1.8 Other		
(a) AASB 16 Lease interest payments	(59)	(251)
(b) GST		
1.9 Net cash from / (used in) operating activities	(2,895)	(10,999)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(277)	(779)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) 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	(277)	(779)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	7,455
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	(99)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other		
(a) AASB 16 lease principal repayments	(173)	(658)
3.10 Net cash from / (used in) financing activities	(173)	6,698

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
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4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	8,568	10,303
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,895)	(10,999)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(277)	(779)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(173)	6,698
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	5,223	5,223

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	4,995	8,340
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	228	228
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	5,223	8,568

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(138)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(2,895)
8.2 Cash and cash equivalents at quarter end (item 4.6)	5,223
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	5,223
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.80
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
<p>Answer: NO</p> <p>The Company completed a Cost Reduction Program in the June quarter reducing Personnel and Overhead costs by approximately \$2.0m on an annual basis, with these savings now effective.</p> <p>In addition, the Company received \$1m of orders in June which will be shipped and invoiced in July and August with customer receipts to follow on normal trading terms.</p> <p>Further, the Company expects to receive approximately \$5.5M from its R&D Rebate in the September quarter and approximately \$6.0M in Project payments income over the coming two quarters from the DHS, ASA and Varex contracts.</p>	

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: **YES**

The Board, in consultation with its external financial advisers, has a standing agenda item each month to consider and review various methods to continue to fund the business. This includes consideration of additional contracts for funded development; collaboration and partnering arrangements; and traditional and non traditional equity transactions.

These capital markets activities are incomplete and it is not possible to comment on the likelihood of success, however they are being actively managed.

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: **YES**

The Company remains funded into calendar year 2024 without reducing any planned commercial or development activities. This is based on current cash reserves, conservative sales forecasts and contracted income sourced from previously announced development programmes and agreements and including the Company's 2023 R&D Tax Rebate.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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.

Date: By the Board

Authorised by: 27 July 2023
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

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