

Friday 29th July 2016

ASX Announcement – MICRO-X LIMITED (ASX: MX1)

QUARTERLY CASH FLOW & BUSINESS UPDATE

Micro-X Limited ('**Micro-X**') is pleased to provide an update to accompany the attached Appendix 4C Quarterly Cash Flow report for the period ended 30th June 2016.

The company held cash at end of quarter of \$4.2M. Development expenditures of \$3.8M were incurred during the quarter and \$0.6M in cash revenue was received from Carestream Health Inc for prototype deliveries of its mobile medical x-ray imager (the 'Nano') and from the Australian Department of Defence for milestone progress payments on its CTD contract.

In the current quarter Micro-X expects to record cash receipts in excess of \$10.0m through a combination of its 2016 AusIndustry R&D Tax Incentive, a drawdown on its loan facility with the South Australian Financing Authority, additional prototype sales of the Nano to Carestream Health and project revenue under its current Department of Defence contract.

Development expenditures incurred during the quarter largely consisted of payments made to Hydrix Services (\$2.7M) who provide the company's outsourced engineering development team. The Hydrix expenditure largely related to tooling design for the development and production of the Nano which should help yield materially lower operating production unit costs in commercial volume. \$0.2M was paid to CPI Canada for development tasks associated with the high-voltage power supply for the x-ray tube utilized in the Nano. Other development expenditure consisted of payments to XinRay (\$0.7M) for the design and development of proprietary CNT x-ray tubes exclusively supplied to Micro-X for the Nano.

The company anticipates that development engineering expenditures for the September quarter will be significantly lower than previous quarters in FY2016 following the design freeze on Nano as it moves focus onto the regulatory test program and the building of the portfolio of quality documentation required for regulatory submissions. An increasing proportion of engineering design and development effort will be applied to the Department of Defence CTD contract which is for the military mobile medical and backscatter imaging demonstrators and the development of the ruggedised version of the Nano.

\$10 Million cash inflow anticipated from SAFA loan and FY2016 R&D incentive

As noted above, Micro-X currently anticipates cash receipts of approximately \$10M during the September quarter from drawdowns against the loan facility provided by the South Australian government, from milestone payments under the Department of Defence project funding, from pre-production sales of the Nano to Carestream and from the ATO under its FY2016 R&D Tax Incentive program.

The Company will execute the facility agreement with the South Australian Treasurer for a loan commitment of \$3.0M in coming days. The interest rate agreed on the loan is 5.75% per annum paid monthly in arrears and, of the total facility, the Company currently anticipates that \$2.6M will be available for immediate drawdown with the balance being made available to Micro-X in the December quarter.

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Micro-X recently received a Notice of Registration for its R&D Tax Incentive for FY2016. This Registration confirms that the company's R&D activities submitted for assessment under the program were eligible Research and Development under the AusIndustry Incentive program. Micro-X will lodge its tax assessment with the ATO in the coming week and currently anticipates receiving an incentive payment of approximately \$7.9M which, based on previous years experience, could be received in a matter of a few weeks.

Nano Development

The main development activity of the quarter has been the completion of the full regulatory test program on the first prototype Nano carts. This test program has been very successful with only a small number of design modifications needed and Micro-X has taken an opportunity to future-proof the Nano by incorporating a small electrical redesign to meet the new requirements of the 2018 version 4 of ISO60601. Design for Manufacturing (DFM) reviews have also been conducted and these have yielded design improvements and simplifications which will have production productivity benefits. Many complex fabricated parts have now been changed to become castings or mouldings. The large number of injection moulding tools now required has put some schedule pressure on the toolmakers but this is being successfully managed with Micro-X providing engineering effort to support tool design and fabrication activity. This DFM activity is of course also being flowed down through our supply chain, particularly with XinRay in regard to the x-ray tube, as the final configuration and pricing for all components is being optimised. The success of the prototype testing program has allowed the production design to be frozen and the Nano performance specification to be finalised.

The finalization of the performance specification and product configuration allowed a final Nano design review to be held early in July with Carestream. This was passed successfully and Micro-X's Managing Director met with Carestream Health management in Rochester NY earlier this week to finalise the last details of the Development and Supply agreements. Execution of these documents is expected shortly.

Twenty three reliability test rigs have been designed and built and the accelerated life test to prove the design life and validate the overall product reliability has commenced. August will see the assembly of seven pre-production Nano carts, built to production standard using the production processes which have been developed and validated by the production engineering team at Tonsley during the past quarter. These will all go through the extensive formal test program to be conducted by independent laboratories and test agencies in Australia and overseas. Micro-X is confident in this program because it is a re-run of the successful prototype test program just completed. This validation and verification program will conclude in October and all the test reports and quality documentation should be ready for regulatory filing in November.

Department of Defence Projects

During the quarter Micro-X prepared a working demonstration prototype of the cart configuration proposed for the ruggedised version of the Nano for use in military deployed hospitals and disaster relief. This was to be demonstrated at the deployed medical facility associated with the 8,000 personnel joint AUS/US/NZ Defence Exercise 'Hamel' in July at the Army's Cultana training area in South Australia. However for operational reasons associated with the military exercise, access was denied to the range area on the day scheduled for the demonstration. Army has re-scheduled the demonstration to October 2016 during a medical deployment exercise of the 2nd General Health Battalion, Giant Viper, at Enoggera Barracks in Queensland.

MICRO-X

Preliminary design work has commenced for the medical imaging component of this contract on a new upgraded design of the CNT x-ray tube within the current package envelope size which is capable of delivering the much higher radiation doses associated with trauma imaging exams. This capability is the potential core competitive advantage for Nano as the only x-ray systems lightweight enough for deployed military use at present are veterinary units.

The company plans to launch a ruggedised version of the Nano for military customers on a commercial basis in the second half of CY2017, based on voice-of-customer and the technical outcomes of this demonstration. This new tube design once proven has the potential to become the core of a new variant of the standard Nano for hospital use world-wide.

The development of the Mobile Backscatter Imager has also progressed well, passing its preliminary design review held with Defence staff from the project office and Counter-IED Task Force in May. A new imaging concept developed by Micro-X will be proposed, at the project office's suggestion, as a potential contract extension to the Department of Defence to greatly extend the capability and performance of the Backscatter Imager product and the incorporation of this may extend development into CY2018. Details of this will not be made public until patent protection for this new imaging concept has been secured.

Staff and Facilities

Micro-X continues to increase its staffing at Tonsley as the tempo of activity in pre-production unit assembly, and the setting up of financial, quality, procurement and production systems increases in preparation for our pre-production builds and ISO13485 audit. The focus of recruitment has been to properly resource the validation of production processes, the setup of supply chain arrangements, the operation of the reliability growth program and the expansion of the company's quality management systems. At end of July Micro-X had 12 full-time employees, all based at Tonsley, including the most recent addition of Georgina Carpendale in the role of Chief Financial Officer.

Micro-X's permanent new facility at Tonsley, adjacent to the temporary facility, is nearing completion with move-in scheduled during August.

For further information please contact:

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About Micro-X: Micro-X Limited ("MX1") is an Australian Securities Exchange listed company developing and commercialising a range of highly innovative products based on proprietary carbon nanotube emitter technologies exclusively licensed and sourced from XinRay Systems Inc., a US based technology developer. These technologies enable the miniaturisation of a number of X-ray applications relevant to large global markets.

The Company has three initial products in its development pipeline – a mobile medical x-ray imager for hospitals, a version for deployed military use and a mobile security back-scatter imager. It is establishing manufacturing for these products in an ISO13485 certified facility in Tonsley, South Australia.

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Name of entity

MICRO-X LIMITED

ABN

21 153 273 735

Quarter ended ("current quarter")

30 June 2016

Consolidated statement of cash flows

		Current quarter	Year to date (12 months)
		\$A'000	\$A'000
Cash flows related to operating activities			
1.1	Receipts from customers	660	959
1.2	Payments for (a) staff costs	(476)	(888)
	(b) advertising and marketing	-	-
	(c) research and development	(3,800)	(14,971)
	(d) leased assets	-	-
	(e) other working capital	(138)	(851)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	15	68
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes – R&D Tax Incentive Received	-	3,104
1.7	Other: GST from ATO	-	750
Net operating cash flows		(3,739)	(11,829)

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A'000	Year to date (12 months) \$A'000
1.8 Net operating cash flows (carried forward)	(3,739)	(11,829)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	(7,124)
(c) intellectual property	-	(31)
(d) physical non-current assets	(10)	(66)
(e) other non-current assets	-	
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	-	-
Net investing cash flows	(10)	(7,221)
1.14 Total operating and investing cash flows	(3,749)	(19,050)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	-	22,849
1.16 Payments for capital raising costs	-	(2,222)
1.17 Proceeds from borrowings (convertible notes)	-	-
Proceeds from borrowings (other)	-	-
1.18 Repayment of borrowings – bank loan	-	-
Repayment of borrowings – shareholder loans	-	-
1.19 Dividends paid	-	-
1.20 Other (provide details if material)	-	-
Net financing cash flows	-	20,627
Net increase (decrease) in cash held	(3,749)	1,577
1.21 Cash at beginning of quarter/year to date	7,918	2,592
1.21.a Cash acquired on acquisitions	-	
1.22 Exchange rate adjustments to item 1.21.a	-	
1.23 Cash at end of quarter	4,169	4,169

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	101
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

Director's fees and salaries paid to directors during the quarter.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

-

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

-

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

Reconciliation of cash

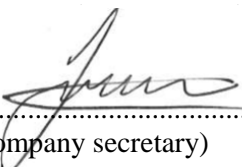
Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
4.1	Cash on hand and at bank	4,169	7,918
4.2	Deposits at call		
4.3	Bank overdraft		
4.4	Other (provide details)		
Total: cash at end of quarter (item 1.23)		4,169	7,918

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1	Name of entity	-
5.2	Place of incorporation or registration	-
5.3	Consideration for acquisition or disposal	-
5.4	Total net assets	-
5.5	Nature of business	-

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:  Date: ...29 July 2016.....
(Company secretary)

Print name: Justin Mouchacca

+ See chapter 19 for defined terms.

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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report except for any additional disclosure requirements requested by AASB 107 that are not already itemised in this report.
3. **Accounting Standards.** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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