

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 2020
Previous period:	For the half-year ended 31 December 2019

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	189.64% to	2,433
Loss from ordinary activities after tax attributable to the owners of Micro-X Limited	up	15.29% to	(4,787)
Loss for the half-year attributable to the owners of Micro-X Limited	up	15.29% to	(4,787)

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 \$4.8 million (31 December 2019: \$4.2 million).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	0.014	0.003

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

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

11. Attachments

Details of attachments (if any):

The Half-Year Financial Report of Micro-X Limited for the half-year ended 31 December 2020 is attached.

12. Signed by David Knox (Non-Executive Chair)

Signed David Knox

Date: 25 February 2021

Micro-X Limited

ABN 21 153 273 735

Half-Year Financial Statements- 31 December 2020

Micro-X Limited
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31 December 2020

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Micro-X Limited
Corporate directory
31 December 2020

Directors	Peter Rowland (Managing Director) David Knox (Non-Executive Chair) Patrick O'Brien (Non-Executive Director) Alexander Gosling (Non-Executive Director) Yasmin King (Non-Executive Director) Jim McDowell (Non-Executive Director) – Appointed 1 January 2021
Company secretary	Kingsley Hall
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 Level 3 170 Frome Street Adelaide, SA 5000 Phone: +61 8 8372 6666
Stock exchange listing	Micro-X Limited shares are listed on the Australian Securities Exchange (ASX code: MX1)
Website	www.micro-x.com

Micro-X Limited
Directors' report
31 December 2020

The directors present their report, together with the financial statements, on the Group for the half-year ended 31 December 2020.

Directors

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

Peter Rowland (Managing Director)
David Knox (Non-Executive Chair)
Patrick O'Brien (Non-Executive Director)
Alexander Gosling (Non-Executive Director)
Yasmin King (Non-Executive Director)
Jim McDowell (Non-Executive Director) – Appointed 1 January 2021

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

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 that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Principal activities

The principal activities of Micro-X Limited (**Micro-X** or the **Company**) during the half year to 31 December 2020 (the **2021 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 2021 Half-Year.

Review of Financials

Micro-X is a commercial stage company, with its Mobile DR product range of two mobile digital medical X-ray systems, being sold in a number of global markets during the 2021 Half Year.

Overall, Micro-X reported a net loss, after providing for income tax, of \$4.8 million (31 December 2019: \$4.2 million loss). The increase in loss in comparison to the previous comparative period was due to a focus on expanding Sales and Marketing efforts and commercialising the Mobile DR product range. This loss for the 2021 Half Year comprised:

- \$2.4 million – in revenues from the sale of Mobile DR products and Engineering consulting services.
- \$1.8 million – in other income including \$0.8 million accrual in relation to the 30 June 2021 cash refund receivable under the Research and Development Tax Incentive scheme, accrual of \$0.9 million Covid-19 related relief and \$0.1 million in relation to other grants.
- \$1.8 million - in expenditure on research and development activity. Most of this related to the development and final production of the Rover, the MBI and the Tomo; and
- \$3.7 million was spent on employee and director costs during the year. This represented a \$0.9 million increase on prior period, driven by an increased headcount as the engineering and development team as well as the sales and commercialisation team, were expanded.

During the 2021 Half Year the Company received cash from the following sources:

- \$3.5 million from customer receipts for the sale of the Nano, by the distributor, Carestream Health, Inc. and the sale of the Rover with Micro-X as the product manufacturer.
- \$0.4 million under the Advanced Manufacturing Growth Fund Grant by the Australian Government, Department of Industry, Innovation and Science; and
- \$0.8 million Covid-19 related relief.

Since 31 December 2020, Micro-X has received cash from the following sources:

- \$1.95 million for the Research and Development Tax Incentive scheme for the 2019/2020 financial year; received on 8 January 2021,
- \$30.5 million, before costs, from a placement of shares at 34 cents per share to institutional and sophisticated investors, which was completed on 5 February 2021 (the Placement); and
- \$3.5 million, before costs from a Share Purchase Plan at 34 cents per share to eligible shareholders which was completed on 24 February 2021.

As at 31 December 2020, Micro-X retained the following secured loan facilities:

- \$3.0 million loan from the South Australian Finance Authority. The term of this loan is in the process of being extended to 31 December 2021 and legal documentation to that effect is being prepared; and
- \$5.0 million convertible loan from Thales AVS France SAS (**Thales**). Micro-X is in the process of finalising settlement of this convertible loan by way of payment of \$5.0 million principal and \$0.2 million interest.

The Company's cash position was \$12.9 million as at 31 December 2020 (30 June 2020: \$18.3 million). The net assets of the Company have decreased by \$4.2 million from 30 June 2020 to \$10.7 million at 31 December 2020. This does not include the net proceeds from the Placement, Share Purchase Plan or cash refund received under the Research and Development Tax Incentive scheme for the 2019/2020 financial year.

Review of Operations

The key operational highlights for the 2021 Half Year were as follows:

Mobile Digital Radiology products – Mobile DR

For the 2021 Half Year, Micro-X's Mobile DR product range, the Carestream DRX Revolution Nano (**Nano**) and the Micro-X Rover (**Rover**), generated sales of \$2.3 million. The 2021 Half Year was characterised by increasing production capacity to clear the backlog of Nano orders and substantially reducing the time between order and delivery for all Mobile DR products. This also enabled the Company to build up inventory of Mobile DR units and sub-assembly prebuilds to respond quickly to new purchasing activity. Micro-X also passed a milestone with the 200th production unit of its Mobile DR cart during the 2021 Half Year.

Additional development work on an in-house high-voltage generator for the Mobile DR product range also progressed during the 2021 Half Year. Testing of the high-power generator commenced in February 2021. Subject to final regulatory testing in the September 2021 quarter, launch of the second generation of Mobile DR is targeted for September 2021.

Nano

In the previous half-year ended 30 June 2020 there was a significant volume of orders for Nano to assist in the diagnosis of patients with COVID-19. In the 2021 Half Year, orders slowed initially as the global shortage of mobile X-ray capability was alleviated but then picked up again from October 2020 onwards, as a result of the second wave of the COVID-19 pandemic in Europe and North America. In total, \$0.9 million of Nano units were built, shipped and invoiced in the 2021 Half Year. There were no equipment failures or warranty claims reported for the Nano from any of the 14 countries around the world that the product operates in.

On 19 November 2020, Micro-X announced its Worldwide OEM Agreement with Carestream Health Inc. (**Distributor**) (the **OEM Agreement**) had been made non-exclusive. As part of the amendment, Micro-X will maintain agreed levels of service spares inventory and both Micro-X and the Distributor continue to work collaboratively to sell and support the Nano. The amendment to the OEM Agreement allows Micro-X to pursue additional paths to market for its Mobile DR product range by either selling directly or via additional distributors and agents.

Rover

Micro-X achieved its 510(k) clearance for the Rover from the United States Food and Drug Administration in July 2020. The first sales of this second commercial product in Micro-X's Mobile DR product range occurred on 30 September 2020 with a \$1.3 million contract facilitated by the World Health Organisation. Those Rover units were built, shipped and invoiced in the 2021 Half Year, with delivery made to a number of Pacific Island nations. This contract was part of the Micro-X sales strategy to target applications and markets where the rugged and independent operational capabilities of the Rover offer practical customer benefits.

On 2 October 2020, Micro-X applied to the Therapeutic Goods Administration (**TGA**) for listing of the Rover on the Australian Register of Therapeutic Goods. This TGA approval, once received, is expected to open up additional domestic and indirect export sales opportunities for the Rover. Micro-X's application for European Medical Device Regulation ('MDR') certification and concurrent CE marking is underway.

On 17 December 2020, Micro-X entered into its first military contract totalling \$1.3 million to supply Rover units for the Australian Defence Force's Deployable Health Capability Program (JP2060 – Phase 3). Micro-X executed this contract with SAAB Australia as the prime contractor with revenue expected to be realised in 2023 when the Radiology component of the JP2060 Program is scheduled for delivery.

Mobile Backscatter Imager – IED X-ray Camera

Mobile Backscatter Imager

During the 2021 Half Year, a number of improvements were completed for the MBI product's design and architecture which have resulted in a simplified design and de-risked the product's overall development through a reduction in its weight, size, and cost. A patent application for this new imaging architecture is underway.

The first MBI image performance tests were conducted in November 2020 which rectified recent design innovations. The results demonstrated the 'quick-scan' bomb/no bomb assessment mode could easily identify the presence of energetic material with a ten-second scan. A longer, sixty-second scan, resolved features down to 300 microns in size and electronic components were easily identifiable in the images. Imaging tests showed a higher image resolution and a three times faster scan time compared to the original multi-beam design prototype.

The estimated time to market for the MBI product has been shortened from 30 months to 12 months with a significant cost saving for the remaining development work. Micro-X will now insource the X-ray tube development and manufacture for its IED camera.

Airport Self-Service Checkpoint

Future Aviation Security Solutions Programme - UK Government Department for Transport

Micro-X's engineering team completed progress milestones under the contract with the UK Government's Department for Transport under the Future Aviation Security Solutions Programme during the 2021 Half Year.

Self-Service Airport Passenger Security Checkpoint – US Government Department of Homeland Security Award

Following a competitive evaluation process, Micro-X's wholly owned subsidiary Micro-X Inc., based in Seattle Washington, was selected for two contracts totalling up to US\$4 million to develop a new concept for airport Passenger Self Screening and Self-Service Airport Checkpoint on behalf of the US Government's Department of Homeland Security (**DHS**). These projects relate to the Transport Security Authority's (**TSA**) future vision of replacing conventional CT or projection X-ray luggage imaging at checkpoints with a bank of multiple 'self service' security portals similar to current photometric identity portals but with the addition of millimetre-wave body-scans and X-ray screening with automated threat detection. Micro-X is currently engaged in pre-contract procedures with the DHS who anticipate a commencement of the programmes in April 2021.

The Company plans to manage the systems integration for these projects at its Seattle base which will become a centre-of-excellence for image reconstruction solutions, including security-sensitive threat detection software. New premises suitable for the Seattle office have been identified near SeaTac Airport and recruitment of a number of high calibre imaging algorithm and software engineers has commenced.

Brain Tomography for Stroke Diagnosis

During the 2021 Half Year, the Australian Stroke Alliance (**ASA**) led by the Melbourne Brain Centre of the Royal Melbourne Hospital and with Micro-X as the imaging technology partner, presented its Stage Two proposal of the 'Frontier Health Program' to the Federal Government's Medical Research Future Fund's evaluation panel. The project aims to fund the development and testing of lightweight, mobile stroke diagnostic imaging technology targeted at early stroke diagnosis in land or air ambulance. Johns Hopkins University in the USA and Fujifilm in Japan will support Micro-X in the development of the lightweight brain CT scanner small enough and affordable enough to be fitted to every ambulance and allow pre-hospital diagnosis and treatment of stroke.

COVID-19 Impact on Operations

The COVID-19 pandemic which commenced in early 2020 continues and has impacted different target markets and activities for Micro-X in different ways.

For the Mobile DR product range, sales of the Nano product grew significantly in 2020 due to increased orders from customers to diagnose and monitor the large and growing number of severe COVID-19 affected patients. Associated with this sales activity was a requirement for rapid delivery times of six weeks or less from the date of order. Ongoing growth in COVID-19 patients is expected to see strong ongoing sales demand.

There has also been some slowing of sales activities including limited travel, face to face customer engagement and conference attendances. This is being addressed by use of videoconferencing. The planned evaluation of the Rover product by the US military has also been delayed with COVID-19 related base closures. The TGA submission for the Rover is currently being assessed.

Micro-X has also carefully managed staff attendance and access to the manufacturing premises to minimise COVID-19 risk.

Future Developments & Prospects

Micro-X intends on building on its first mover advantage using cold cathode technology in key global markets. A key strategy will be to expand its US footprint to provide better access to customers. The Micro-X Inc. team will be expanded with a new US office to be opened in Seattle in the June 2021 quarter. The expanded US Sales team will drive both US military and civilian sales activities. Micro-X Inc. will also focus and work closely with the TSA in response to the development of airport Passenger Self Screening and Self-Service Airport Checkpoints project due to commence in April 2021.

Micro-X continues to prioritise Mobile DR product sales from both the Nano and Rover with the continued resurgence of COVID-19 cases in recent months. The strategy to position the Mobile DR units for immediate availability has proved successful and is intended to maximise sales opportunities moving forward. The additional funds from the recent Placement will be partially applied to additional sales and marketing resources and activities across all products, including those products in development. Having expanded the Sales and Marketing team, Micro-X will continue to explore opportunities within the point-of-care space and veterinary market to develop new strategies and deliver on revenue targets for the Rover.

The initial Australian military contract is expected to support sales and marketing efforts of the Rover to the US Armed Forces by allowing government-to-government discussions and by providing product and technology testimonials. There are US military product demonstrations planned for March 2021, in operational US Army Deployable Medical unit bases at Irwin Medical Centre KS and Fort Bragg NC and also at the Veteran's Affairs hospital network in Baltimore MD. A contract with the US Defence Materiel Agency is targeted for calendar year 2021.

The company's development activities will focus on completing the high-power generator project and bringing the development and manufacture of the X-ray tubes used in the MBI technology in-house. This is expected to lead to significant commercial benefits and increased product margins.

A decision on the Australian Stroke Alliance's 'Frontier Health' research project for the Brain Tomo, is expected in the coming months.

Significant changes in the state of affairs

Other than those previously stated, 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.

Micro-X Limited
Directors' report
31 December 2020

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

On behalf of the Directors

A handwritten signature in black ink that reads "David Knox". The signature is written in a cursive, slightly informal style.

Mr David Knox
Non-Executive Chair

25 February 2020

Auditor's Independence Declaration

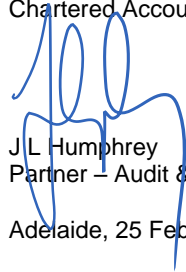
To the Directors of Micro-X Limited

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 2020, 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 AUDIT PTY LTD
Chartered Accountants



J.L. Humphrey
Partner – Audit & Assurance

Adelaide, 25 February 2021

Micro-X Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2020

		31 December 2020	31 December 2019
	Note	\$'000	\$'000
Revenue	5	2,433	840
Cost of sales		(2,556)	(304)
Gross Profit		<u>(123)</u>	<u>536</u>
Expenses			
Employee and director costs		(3,693)	(2,842)
Office and administrative expenses		12	(313)
Corporate expenses		(48)	(121)
Quality and regulatory		(60)	(14)
Project development costs		(419)	(1,024)
Depreciation and amortisation expense		(1,092)	(878)
Other expenses		(49)	(382)
Professional fees		(274)	(469)
Total expenses		<u>(5,623)</u>	<u>(6,043)</u>
Operating Loss		<u>(5,746)</u>	<u>(5,507)</u>
Finances costs	6	(862)	(772)
Other income	7	1,821	2,133
Loss before income tax expense		<u>(4,787)</u>	<u>(4,146)</u>
Income tax expense		-	(6)
Loss after income tax expense for the half-year attributable to the owners of Micro-X Ltd		<u>(4,787)</u>	<u>(4,152)</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations			
Other comprehensive income for the half-year, net of tax			
Total comprehensive income for the half-year attributable to the owners of Micro-X Limited		<u>(4,787)</u>	<u>(4,152)</u>
		Cents	Cents
Basic earnings per share	18	(1.34)	(2.45)
Diluted earnings per share	18	(1.34)	(2.45)

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 2020

		31 December 2020 \$'000	30 June 2020 \$'000
Note			
Assets			
Current assets			
		12,874	18,318
Cash and cash equivalents			
Trade and other receivables	8	3,801	5,198
Inventories		3,065	1,815
Other assets		81	73
Total current assets		19,821	25,404
Non-current assets			
Plant and equipment	9(a)	2,556	2,678
Right-of-use assets	9(b)	5,144	4,582
Intangibles assets	10	662	1,037
Total non-current assets		8,362	8,297
Total assets		28,183	33,701
Liabilities			
Current liabilities			
Trade and other payables	11	2,833	4,704
Borrowings	12	3,000	3,000
Lease liabilities		466	581
Provisions		491	460
Total current liabilities		6,790	8,745
Non-Current liabilities			
Borrowings and other financial instruments	13(a)	4,885	4,715
Derivative financial instruments	13(b)	524	811
Lease Liabilities		4,950	4,273
Provisions		339	255
Total non-current liabilities		10,698	10,054
Total liabilities		17,488	18,799
Net assets		10,695	14,902
Equity			
Issued capital	14	84,837	84,297
Convertible notes	15	165	165
Reserves	16	416	417
Accumulated losses		(74,723)	(69,977)
Total equity		10,695	14,902

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 2020

	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	-	(998)	-	-	722	(276)
Redemption of convertible notes ¹	-	-	-	(2,812)	-	(2,812)
Conversion of convertible notes ²	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

	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 2020	84,297	417	-	165	(69,977)	14,902
Loss after income tax expense for the period	-	-	-	-	(4,787)	(4,787)
Other comprehensive income for the period, net of tax	-	-	5	-	(5)	-
Total comprehensive income for the period	-	-	5	-	(4,792)	(4,787)
<i>Transactions with owners in their capacity as owners:</i>						
Share-based payments (note 16)	-	(46)	-	-	46	-
Conversion of convertible notes ³	500	-	-	-	-	500
Issue of Employee Share Scheme (note 16)	40 ⁴	40	-	-	-	80
Balance at 31 December 2020	84,837	411	5	165	(74,723)	10,695

¹ Repayment of \$2,812,000 of April 2018 convertible notes reduces total equity

² 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.

³ Conversion of \$500,000 of October 2018 convertible notes increases total equity.

⁴ Issue of 110,003 shares to Micro-X Ltd employees on 23 December 2020

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 2020

	31 December 2020 \$'000	31 December 2019 \$'000
Cash flows from operating activities		
Receipts from customers	3,511	897
Receipts from grant funding	1,201	-
Payments to suppliers and employees	(9,130)	(6,024)
Interest received	3	4
Research and development incentive tax refunds	-	3,153
Interest paid	(97)	(274)
Net cash used in operating activities	<u>(4,512)</u>	<u>(2,244)</u>
Cash flows from investing activities		
Payments for plant and equipment	(393)	(1,688)
Payments for intangibles	(32)	(30)
Net cash used in investing activities	<u>(425)</u>	<u>(1,718)</u>
Cash flows from financing activities		
Proceeds from convertible loan	-	5,000
Repayments of borrowings	-	(3,000)
Repayments of convertible notes	-	(2,687)
Proceeds from issued capital	-	16,500
Capital raising costs	-	(995)
Payment of lease liabilities	(507)	(90)
Net cash from investing activities	<u>(507)</u>	<u>14,728</u>
Net increase/(decrease) in cash and cash equivalents	(5,444)	10,766
Cash and cash equivalents at the beginning of the financial half-year	<u>18,318</u>	<u>1,606</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>12,874</u></u>	<u><u>12,372</u></u>

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

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 25 February 2020.

Note 2. Significant accounting policies

These general-purpose financial statements for the interim half-year reporting period ended 31 December 2020 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 2020 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.

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 2020.

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.

Micro-X Limited
Notes to the financial statements
31 December 2020

Note 5. Revenue

	31 December 2020 \$'000	31 December 2019 \$'000
Sale of goods	2,345	427
Contract revenue	88	413
	<u>2,433</u>	<u>840</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

	31 December 2020 \$'000	31 December 2019 \$'000
Implied interest on convertible instruments	-	(117)
Implied interest on leases	(128)	(62)
Implied conversion costs on convertible notes	(213)	(241)
Other finance costs	(373)	(352)
Net foreign exchange (loss)/gain	(148)	-
	<u>(862)</u>	<u>(772)</u>

Note 7. Other income

	31 December 2020 \$'000	31 December 2019 \$'000
Interest received	4	4
Research and Development tax incentive refund	804	1,366
Net foreign exchange (loss)/gain	-	(44)
Net Gain/(loss) on disposal of assets	-	(3)
Grant funding recognised	1,013	695
Fair value through profit and loss – Financial instruments	-	115
	<u>1,821</u>	<u>2,133</u>

Note 8. Current assets - Trade & other receivables

	31 December 2020 \$'000	30 June 2020 \$'000
Trade receivables	822	2,350
Research and Development tax incentive refund	2,769	1,965
Other receivables	173	417
	<u>3,764</u>	<u>4,732</u>
GST Receivable	37	466
	<u>3,801</u>	<u>5,198</u>

Micro-X Limited
Notes to the financial statements
31 December 2020

Note 9(a). Non-current assets - property, plant and equipment

	31 December 2020 \$'000	30 June 2020 \$'000
Leasehold improvements - at cost	1,642	1,642
Less: Accumulated depreciation	(281)	(199)
	<u>1,361</u>	<u>1,443</u>
Plant and equipment - at cost	1,764	1,681
Less: Accumulated depreciation	(854)	(608)
	<u>910</u>	<u>1,073</u>
Fixtures and fittings - at cost	94	94
Less: Accumulated depreciation	(84)	(77)
	<u>10</u>	<u>17</u>
Computer equipment - at cost	416	388
Less: Accumulated depreciation	(273)	(243)
	<u>143</u>	<u>145</u>
Work in progress - at cost	<u>132</u>	<u>-</u>
	<u><u>2,556</u></u>	<u><u>2,678</u></u>

Note 9(b). Right-of-use assets

	31 December 2020 \$'000	30 June 2020 \$'000
Right-of-use assets - at cost	5,276	5,071
Less: Accumulated depreciation	(132)	(489)
	<u>5,144</u>	<u>4,582</u>

Micro-X Ltd renegotiated the lease of its Tonsley premises on 30 September 2020. As a result, the right of use asset and lease liability were disposed and recalculated in line with AASB 16.

Right of use asset

As at 1 July 2020	4,582
CY Depreciation expense – to 30 September 2020	(157)
Disposal (cost) – 30 September 2020	(5,071)
Disposal (accumulated depreciation life to date) – 30 September 2020	647
Addition – 1 October 2020	5,276
CY Depreciation – Remainder of half-year to 31 December 2020	(133)
Right of use asset as at 31 December 2020	<u><u>5,144</u></u>

Note 10. Non-current assets - Intangibles

	31 December 2020 \$'000	30 June 2020 \$'000
Development – at amortised value	480	840
Patents and trademarks – at amortised value	182	197
	<u>662</u>	<u>1,037</u>

Note 11. Current liabilities – Trade and other payables

	31 December 2020 \$'000	30 June 2020 \$'000
Trade payables	1,233	1,543
Accrued Payroll	152	105
PAYG	421	709
Unearned Grant Income	558	623
Payroll Tax	20	44
Other payables	449	1,680
	<u>2,833</u>	<u>4,704</u>

Note 12. Current liabilities – Borrowings and other financial liabilities

	31 December 2020 \$'000	30 June 2020 \$'000
Short term loan – South Australian Government Financing Authority	3,000	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 2020 as the repayment date is 31 December 2021.

Note 13(a). Non-Current liabilities – Borrowing and other financial liabilities

	31 December 2020 \$'000	30 June 2020 \$'000
Thales Convertible Loan – Host Debt	4,885	4,715
	<u>4,885</u>	<u>4,715</u>

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 2020.

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(b).

At 30 June 2020, the value of the host debt was \$4.72 million. \$0.12 million implied interest was accrued on the host debt instrument to 31 December 2020.

The closing balance of the host debt at 31 December 2020 also includes interest payable of \$0.05 million accrued during the financial year.

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

	31 December 2020 \$'000	30 June 2020 \$'000
Convertible Notes – Tranche 2 ¹	-	500
Thales Convertible Loan – Conversion feature ²	524	311
	<u>524</u>	<u>811</u>

1. Conversion of \$500,000 of October 2018 convertible notes during the period equating to 2,173,914 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(a) above. At 30 June 2020, the fair value of the conversion feature was \$0.31 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 \$0.52 million includes a \$0.21 million finance gain which has been recognised against the convertible loan.

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Note 14. Equity - Issued capital

	31 December 2020 Shares	30 June 2020 Shares	31 December 2020 \$'000	30 June 2020 \$'000
Ordinary shares - fully paid	359,451,756	357,167,839	84,837	84,297

In total, 2,283,917 new shares were issued during the period pursuant to conversion of notes and Employee Share Scheme as outlined below:

Form of issue	No. of Shares	Unit Price	Value of issue \$'000
Conversion of October 2018 convertible notes	2,173,914	0.23	500
Employee Share Scheme	110,003	0.37	40
Total shares issued during the period, net of costs	2,283,917	-	540

Note 15. Equity – Convertible Notes

	31 December 2020 \$'000	30 June 2020 \$'000
Convertible Notes – Tranche 1	165	165

Note 16. Equity – Reserves

	31 December 2020 \$'000	30 June 2020 \$'000
Employee Share Scheme	40	-
Share based payments - Options	371	417
FX reserve	5	
	416	417

Micro-X issued service and performance rights to all staff under its Employee Share Scheme, effective on 23 December 2020. The rights hold various service and performance conditions which vest over 3 years to 23 December 2023. The rights have been valued using a Black-Scholes option pricing model using a Monte Carlo simulation model. The following assumptions have been used:

Valuation Inputs & Conclusions					
Description	STI Rights	Service Rights	LTI Rights Tranche 1	LTI Rights Tranche 2	LTI Rights Tranche 3
Valuation Date	23 Dec 2020	23 Dec 2020	23 Dec 2020	23 Dec 2020	23 Dec 2020
Number of instruments issued	3,148,054	3,431,835	1,033,024	1,033,024	1,033,024
Spot Price	\$0.370	\$0.370	\$0.370	\$0.370	\$0.370
Exercise Price	nil	nil	nil	nil	Nil
Life (Years)	1	1 to 3	1	2	3
Volatility (Based on historical volatility of Micro-X shares and comparable companies)	75%	75%	75%	75%	75%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Risk Free Rate	0.04%	0.11%	0.04%	0.09%	0.11%
Assessed Value	\$0.370	\$0.370	\$0.219	\$0.231	\$0.243

The fair value of the rights expensed for the period ended 31 December 2020 was \$0.04 million representing 8 days to 31 December 2020.

Micro-X Limited
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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	Expired ¹	Balance at the end of the half-year
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>2,820,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(320,000)</u>	<u>2,500,000</u>

1. Expiry of 320,000 unlisted options, valued at \$0.045 million, issued in connection with MX1's initial public offering on the ASX.

Note 17. Events after the reporting period

Micro-X Ltd completed a placement of shares totalling \$30.5 million, before costs at 34 cents per share to institutional and sophisticated investors on 5 February 2021 and a share purchase plan of shares totalling \$3.5 million, before costs at 34 cents per share to eligible shareholders on 17 February 2021.

Note 18. Earnings per share

	31 December 2020	31 December 2019
	\$'000	\$'000
Loss after income tax attributable to the owners of Micro-X Limited	<u>(4,787)</u>	<u>(4,152)</u>
	Cents	Cents
Basic earnings per share	(1.34)	(2.45)
Diluted earnings per share	(1.34)	(2.45)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>357,719,697</u>	<u>169,313,801</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>357,719,697</u>	<u>169,313,801</u>

As the group has made a loss for the period there are no diluted securities deemed to be on issue in accordance with AASB 133.


Micro-X Limited
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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 2020 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

A handwritten signature in black ink that reads "David Knox". The signature is written in a cursive, slightly informal style.

Mr David Knox
Non-Executive Chair

25 February 2020

Independent Auditor's Review Report

To the Members of Micro-X Limited

Report on the review of the half year-financial report

Conclusion

We have reviewed the accompanying half-year financial report of Micro-X Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, 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, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Micro-X Limited does not comply with the *Corporations Act 2001* including:

- a giving a true and fair view of the Micro-X Limited's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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 2020 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*.

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.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



J. L. Humphrey
Partner – Audit & Assurance

Adelaide, 25 February 2021