



29 January 2018

ASX Announcement

Appendix 4C – Quarterly Report for Entities Admitted on the Basis of Commitments and Quarterly Update

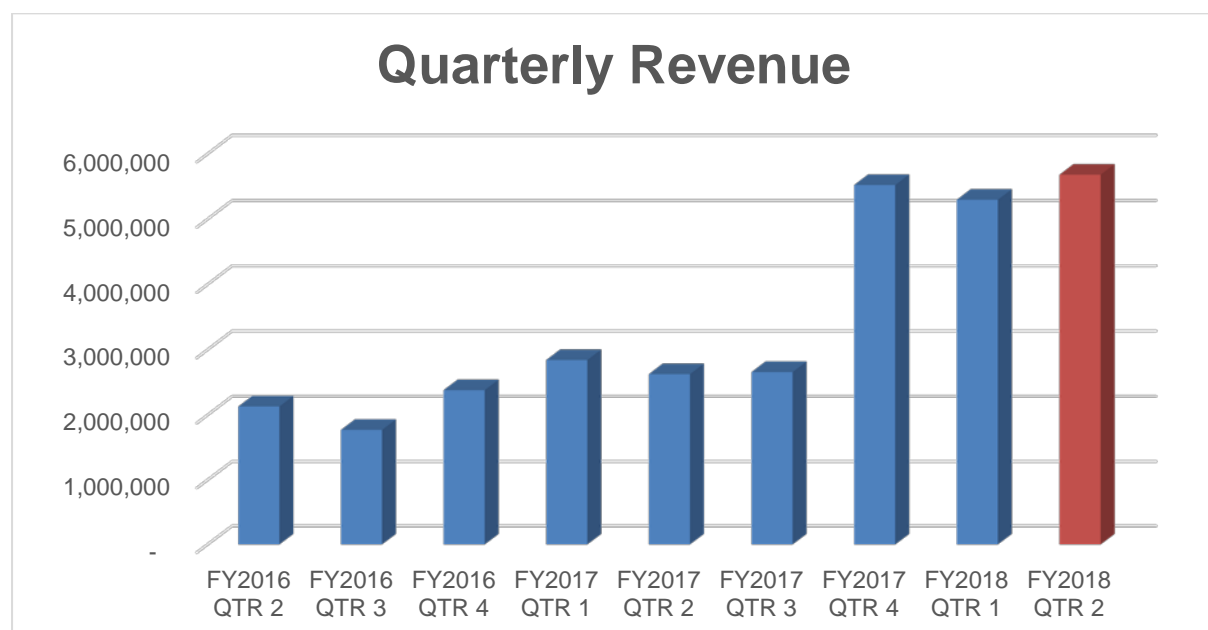
QUARTER HIGHLIGHTS

- Positive operating cashflow year to date of AUD \$923k (including costs for new service lines, tax and acquisition expenses)
- Completed acquisition of Analytica Laboratories, a leading analytical chemistry laboratory business based in New Zealand. Integration progressing to plan
- A\$16m capital raised through an institutional placement and securities purchase plan
- Extended and expanded strategic alliance agreement signed with MilkTest NZ Limited
- Three new laboratory service lines commenced – Acid sulphate soils, gravimetric dust and crystalline silica

Second Quarter Trading and Cashflows

During the quarter, HRL generated \$518k net cash from operating activities. After excluding payments for tax and Analytica acquisition costs, operating cashflows were \$738k. Full details are included in the attached Appendix 4C. These results include 1 month of trading (December) for Analytica.

Trading in the quarter was solid with the Group generating revenues of \$5.7M.





The Group had \$3.87M in cash, drawn finance lease borrowings of \$0.7M and a further \$1.4M in undrawn loan facilities at the end of the quarter.

Food and environmental laboratory services

The Food and Environmental Laboratory division is a new addition to the Group which incorporates the Analytica business unit.

As it was acquired on 30 November 2017, Analytica only contributed one holiday shortened month (December) of results to the Group.

Activity in recent months for Analytica has been highly encouraging.

Dairy and milk testing was very strong through spring. As noted earlier, Analytica and HRL have extended and expanded the strategic alliance with MilkTest NZ for a further 5 years which will underpin recurring dairy revenues.

The Manuka honey season is about to commence in New Zealand. Initial indications from honey apiaries is that it will be a strong season in 2018. In addition, the New Zealand Ministry of Primary Industries have recently released their revised guidelines for the definition of Manuka Honey. This has created a short-term demand to test Manuka honey samples under the new guidelines. Analytica is the market leader of honey testing in New Zealand and is well placed to benefit from this regulation change.

Laboratory testing for drugs of abuse has grown significantly since its inception 2 years ago with field consultants providing record number of samples for laboratory analysis. Analytica expect this trend to continue.

The recently launched environmental service line which incorporates laboratory testing on air, water, soil including organic and inorganics, is expected to contribute the bulk of Analytica's revenue growth in the near future. A number of key clients have already been secured and there is a continual focus on further business development. Testing methods have been accredited and the laboratory instruments and workflows are set up to handle substantial testing volumes.

Analytica's other service lines such as Timber and Food Origin Testing have been performing in line with expectation.

Analytica also hold a 26% interest in CAIQTest (Pacific) Limited, a New Zealand based laboratory, providing pre-shipment testing services for clients exporting goods from Australasia to China assisting greatly with supply chain bottlenecks. Results from the first few months of trading post-certification with IANZ, MPI and CNAS have been encouraging.

HAZMAT

The HAZMAT division, which incorporates the OCTIEF and Precise businesses, has seen strong activity over the 6 months year to date.

New Zealand operations were the primary contributors to this growth. Precise continues its strong performance providing a range of services with government agencies, councils, corporate and commercial clients. The performance of the regional branches (Palmerston North and Dunedin) was particularly impressive backed up by solid results across the major centres (Auckland, Wellington and Christchurch). Precise continued to improve its market share of property contamination testing and is widely recognised as a preferred operator for government agencies and insurance clients.

Australian operations saw solid results during the period. The Queensland market remains strong. OCTIEF has secured a direct contract with the QLD state government (it previously acted as a subcontractor) and has seen volumes of works steadily increase from the previous few years. The environmental engineering/sciences service line continued its recent growth securing a number of large contaminated land projects during the period, several of which were direct referrals from or joint bids with Morrison Geotechnic.



In late FY2017, OCTIEF was awarded a significant contract by the Northern Territory Department of Housing and Community Development to carry out asbestos surveys across a range of public housing assets throughout the Darwin, Casuarina and Palmerston regions of the Northern Territory. Works on this contract commenced in late August 2017 and is expected to continue through to April 2018.

The NSW loose-fill asbestos insulation program was suspended during the quarter. Activity in the ACT branch consequently fell back to its normal operating level, with excess staff redeployed to the Northern Territory. HRL understands the NSW loose-fill asbestos insulation program will resume sometime in 2018.

Geotechnical

Morrison Geotechnic results were hampered by record rain events across south-east Queensland during October through early December. Customer sites were shut down for prolonged periods which in turn affected the number of soil tests and engineering assessments Morrison could conduct.

As a result, Morrison's results for the last quarter have been adversely impacted. After normalising for these weather affected months, trading remains consistent with historical trends and the future prospects for the business remain positive. The earn-out mechanism negotiated as part of the acquisition has afforded HRL downside protection from such weather events.

Underlying civil infrastructure and large scale commercial development activity remains strong and Morrison is seeing a consistent project pipeline.

Software

The OCTFOLIO business focussed on business development and software enhancement during the period. A number of new opportunities across both the HAZMAT sector and other new markets are well advanced.

OCTFOLIO also focused on scoping and designing software improvements tailored to the needs of potential customers in new market segments. These include items such as:

- Improved mobile applications;
- Easily customisable customer portals;
- Streamlined and scalable customer onboarding and data migration; and
- Back end software improvements which will reduce third party data hosting costs.

Development of these improvements is underway and is expected to be released before the end of this financial year.



Acquisition of Analytica Laboratories

On 30 November 2017, HRL acquired all the issued capital in Analytica Laboratories Limited. Analytica is a privately owned, New Zealand-based analytical chemistry laboratory business specialising in mass spectroscopy analysis to the milk, honey, drugs of abuse and environmental markets.

Integration activities have commenced and are proceeding to plan, some of which has included:

- Key customer visits have been undertaken and positively received.
- Order placed for new real time gas testing equipment to support an expansion of services – equipment due in Q3 for commissioning
- Orders placed for PCR equipment to undertake additional DNA based dairy herd testing and provide redundancy

The first months trading met expectations and the pipeline for laboratory volumes continues to support the forecast.

Institutional Placement and SPP

Institutional Placement

To fund the upfront cash consideration of the Analytica acquisition price, HRL undertook a share placement raising A\$15m, issuing 176,500,000 shares at a price of A\$0.085 (**Placement**).

The Placement was strongly supported by domestic and international sophisticated and institutional investors. Following shareholder approval of the Placement at the AGM 23 November 2017 the Placement was settled on 28 November 2017.

Securities Purchase Plan

The Company also offered eligible shareholders the opportunity to participate in the Securities Purchase Plan (**SPP**). The SPP Offer was strongly supported reaching the \$1m limit within a week of opening. Shares issued under the SPP were issued on 16 November 2017.

Strategic Alliance with MilkTest NZ

HRL has entered into a five-year strategic alliance agreement with MilkTestNZ to provide analytical testing services to the New Zealand dairy industry. The strategic alliance agreement represents a continuation and expansion of the existing arrangement between HRL's recently acquired subsidiary Analytica Laboratories and MilkTestNZ.

Both HRL and Analytica are party to the strategic alliance agreement, which not only reaffirms the existing relationship but also provides the ability for MilkTestNZ and HRL to potentially explore new opportunities in the future, both in New Zealand and other geographical territories.

MilkTestNZ is a world leading milk testing laboratory using highly automated processes and advanced technology. Over 97% of New Zealand dairy farm supplier samples are tested at MilkTestNZ.

HRL and Analytica are excited to continue the ongoing relationship with MilkTestNZ and look forward to exploring new opportunities together in the future.



New Service Line Development

During the quarter HRL commenced expansion of the Brisbane laboratory to facilitate the expansion of laboratory services, some of which will utilise Analytica technology and workflows. The following services are expected to be commissioned and provide a contribution during the second half of FY2018:

Acid sulfate soils – utilising Analytica workflows and capability - common in many parts of the world, acid sulfate soils are saturated with water, almost oxygen-free and contain microscopic crystals of iron sulfide minerals. Testing of soil is required during construction by environmental engineers and geotech consultants.

Silica dust – when coupled with the gravimetric offering this provides a service capability for coal mines required to monitor exposures associated with coal workers' pneumoconiosis (CWP), also known as black lung disease. This testing also has application across construction, tunnelling and other mining sectors.

HRL is developing a business case for additional laboratory expansions.

For further information contact:

Investor and media:

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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

HRL HOLDINGS LIMITED

ABN

99 120 896 371

Quarter ended ("current quarter")

December 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	6,481	12,113
1.2 Payments for		
(a) research and development	-	-
(b) direct costs of sales	(786)	(1,476)
(c) advertising and marketing	(2)	(5)
(d) leased assets	(240)	(476)
(e) staff costs	(3,296)	(6,332)
(f) administration and corporate costs	(1,404)	(2,494)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	2
1.5 Interest and other costs of finance paid	(17)	(35)
1.6 Income taxes paid	(150)	(254)
1.7 Government grants and tax incentives	-	-
1.8 Acquisition costs	(70)	(120)
1.9 Net cash from / (used in) operating activities	518	923
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(375)	(426)
(b) businesses (see item 10)	-	-
(c) net cash on acquisition of subsidiaries	(11,974)	(11,974)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	12
(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)	35	35
2.6 Net cash from / (used in) investing activities	(12,314)	(12,353)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	16,003	16,003
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	(828)	(828)
3.5 Net proceeds from borrowings	-	-
3.6 Net repayment of borrowings	(393)	(537)
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	14,782	14,638

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	924	728
4.2 Net cash from / (used in) operating activities (item 1.9 above)	518	923
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(12,314)	(12,353)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	14,782	14,638

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(36)	(62)
4.6	Cash and cash equivalents at end of quarter	3,874	3,874

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	3,754	805
5.2	Call deposits	120	120
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,874	925

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 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

Current quarter \$A'000
131
-

Executive and Non-Executive Directors' remuneration and fees (\$113k)

Rental payments to a Director related entity in relation to premises rented by OCTIEF Pty Ltd (\$18k) for the months of October and November. The premises were sold to unrelated party on 30 November 2017. From 1 December 2017 onwards, payments to Directors and related entities will be limited to director remuneration only.

7. Payments to related entities of the entity and their associates

- 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

Current quarter \$A'000
-
-

8. Financing facilities available

Add notes as necessary for an understanding of the position

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	2,105	731
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-

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.

Equipment loan facility provided by Westpac. Security taken over the asset that the borrowings relates to. Interest rates of 4.35% - 5.10% per annum which expire between December 2018 and February 2019.

Morrison Geotechnic equipment loan facility provided by NAB. Security taken over the asset that the borrowings relates to. Interest rates of 4.67% - 5.20% per annum which expire between June 2018 and December 2020.

Commercial bank loan provided by Westpac. Secured against all current and non-current assets of the Group by floating charge. The facility has an interest rate of 4.85% per annum and expires in September 2019.

Insurance financing is unsecured. The facilities have an average interest rate of 5.51% per annum and expire between July 2017 and March 2018.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	-
9.2 Direct cost of sales	1,060
9.3 Advertising and marketing	20
9.4 Leased assets	300
9.5 Staff costs	4,170
9.6 Administration and corporate costs	820
9.7 Other	-
9.8 Total estimated cash outflows	6,370

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	Analytica Laboratories	
10.2 Place of incorporation or registration	New Zealand	
10.3 Consideration for acquisition or disposal	Cash \$12,088,711 HRL Shares \$6,399,906	
10.4 Total net assets	\$9,484,138	
10.5 Nature of business	Laboratory	

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: 29 January 2018

Print name: Paul Marshall

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.