

4 November 2016

Chairman's Address

Year in Review

The financial year ended 30 June 2016 resulted in an after-tax loss of (\$119,868). The Board believes this is a reasonable result given the year-on-year 68% decline in Alusion™ sales to Merck KGaA ("Merck"). The adverse profit impact of this decline was offset in part by an 18% year-on-year growth in ZinClear™ revenues and initiatives which reduced the cost structure of the company as highlighted by the table below.

	2015	2016	% Change
	\$	\$	
Staff Costs	984,788	849,428	(13.75)
Director Fees	283,059	198,073	(30.03)
Travel	67,703	18,902	(72.09)

Trading results for the first quarter were very encouraging with *ZinClear*™ sales experiencing 114% increase compared to the same quarter in 2015.

As at 31 October, the company had cash on hand of \$813,548.

Operational Update

ZinClear™

While EEC approval of zinc oxide is expected to have a positive impact on demand for *ZinClear*™, it also means zinc oxide is attracting increasing competition from existing and new market entrants who now view zinc oxide UV filters as a "mainstream" rather than "niche" offering.

Since May 2016, the Board has implemented a number of strategic initiatives:

- 37.5% increase in the number of distributors and in discussions with a further four.
- 1,800% increase in the number of compound chemists with the establishment of a global chemist network to support our distributors.
- 25% reduction in staff numbers and a further 35% reduction in payroll costs.
- 20% reduction in insurance costs for 2017.
- \$40,000 reduction in Directors fees.

Alusion™

Subject to final Merck sign-off on a few amendments, we have reached a confidential agreement with Merck to manufacture additional quantities of *Alusion*™ to be shipped to Merck over the course of the next 18 months. This agreement contemplates a further renegotiation of supply arrangements in mid FY17.

New Product Initiatives

We continue to work closely with our research partners on the development of products which leverage our portfolio of patents. Projects include development of battery technology, ceramic materials specifically developed for 3D printing and emissions mitigation for coal fired power stations.

Premises

The leases for both our premises in Welshpool WA were to expire by December this year. To allow sufficient time to transition to outsourced manufacturing, these leases have been successfully extended until 30 June 2017. Our current equipment may not be required by OEM manufacturers which may require us to value the equipment on a different basis with a possible material negative impact on our balance sheet and profit for FY17.

Outlook

The Board is continuing to focus on key areas of the business that will improve sales and profitability in particular:

- Outsourcing all or part of the ZinClear™ production process. ANO is in advanced negotiations with selected OEM manufacturers in USA and Australia with FDA or equivalent approved facilities. The economies of scale, superior purchasing power and significantly greater production capacity of these OEM manufacturers is expected to generate significant cost savings which can be passed on to distributors with lower pricing.
- Sourcing new precursor suppliers who can offer a more cost-effective alternative to our present supply chain while ensuring comparable, if not superior, product performance.

ENDS

Rade Dudurovic
Chairman