

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDING 31 DECEMBER 2020

Operational Highlights

- **Following significant research during the Quarter, Nanollose and Grasim Industries Limited filed a joint patent application for a high tenacity lyocell fibre made from Microbial Cellulose, that is significantly stronger and greener than conventional lyocell made from wood pulp.**
- **Nanollose and Birla Cellulose, Grasim's business unit focused on sustainable fibres, are now working towards taking this success to the pilot production phase, to produce initial quantities of this next generation, Tree-Free fibre to generate fabric samples and facilitate commercial agreements with fashion brands.**
- **Carla Woitd appointed as a Fashion Consultant to the Company, to assist in further building on the Company's established relationships in the Australian and global fashion and textiles industries.**
- **The Company continued to maintain a low cash burn for the Quarter, preserving capital as Nanollose advances towards commercialisation of its next generation fibres.**

2021 Objectives – Commercialisation of Next Generation Lyocell

- **Production of tonne quantities of Microbial Cellulose, which will be shipped to Birla Cellulose's R&D facility, to further optimise production processes.**
- **Commence pilot stage testing of the recently patented, next generation, Tree-Free lyocell, following the delivery of larger commercial quantities of Microbial Cellulose.**
- **Produce the first amounts of fibre and fabrics for samples and limited commercial use.**
- **Commence product trials with leading global brands in the fashion and apparel industry.**
- **Explore the use of high tenacity Tree-Free lyocell for the nonwoven sector as the Company seeks to commercialise nufolium™ for nonwoven applications, including personal wipes.**

Commenting on the Quarter, Nanollose Executive Chairman, Wayne Best, said: "The December 2020 Quarter has been a monumental period for the Company, with significant research and development undertaken, which culminated in the filing of a joint patent application for a high tenacity lyocell fibre made from microbial cellulose, with Grasim Industries in January 2020. This next generation fibre, which is stronger and greener than traditional lyocell made from wood pulp, has the potential to significantly impact the textile and fashion industries, as we continue to see an ever growing shift towards sustainability, particular as a follow on effect from the global pandemic.

We are very excited to be working with global industry leader Birla Cellulose, as we seek to commence pilot stage testing to produce sufficient quantities of nullarbor™ lyocell to generate a variety of fabric samples which will facilitate our ongoing discussions with leading fashion brands.

We look forward to receiving the first samples of the nullarbor lyocell, with the 2021 calendar year set to be a Company maker for Nanollose. I would like to thank shareholders for their support to date, and also take this opportunity to welcome new shareholders to the registry.”

Nanollose Limited (ASX:NC6) (“Nanollose” or the “Company”) a leading biomaterials company commercialising scalable technology to create fibres and fabrics with minimal environmental impact, is pleased to provide shareholders and investors with an overview of activities to accompany the Appendix 4C, for the period ending 31 December 2020 (“Quarter”, “Reporting Period”).

Operational

Nanollose and Grasim File Joint Patent Application for High Tenacity Lyocell

During the Reporting Period, Nanollose continued research and development work with Birla Cellulose, Grasim Industries Limited’s business unit focused on sustainable fibres, which resulted in the filing of a joint patent application for a next generation, Tree-Free, high tenacity lyocell fibre made from Microbial Cellulose, that is significantly stronger and greener than conventional lyocell made from wood pulp.

The patent application, entitled *High Tenacity Lyocell Fibres From Bacterial Cellulose and Method of Preparation Thereof*, represents a major advancement over the Company’s previous viscose versions of nullarbor™ and nufolium™. Using the lyocell process, a team of fibre experts at Grasim’s Pulp and Fibre Innovation Centre produced Tree-Free nullarbor™ fibre that was finer than silk and stronger than traditional lyocell, as well as being more environmentally friendly.

Lyocell is a form of rayon, made using a closed loop process with low demand on chemical and water usage and low waste generation, which makes it very environment-friendly resulting in an elevated demand from clothing brands.

Lyocell is widely used in textile and nonwoven applications and has become popular due to a number of desirable strength and comfort characteristics. Furthermore, the combination of the Nanollose’s Tree-Free cellulose, along with lyocell’s closed-loop production process, could potentially make Nanollose’s Tree-Free lyocell one of the most eco-friendly and sustainable fibres available.

The lyocell market is predicted to be worth US\$1.5 billion by 2024¹, and is part of the larger rayon market (predicted to be US\$20.9 billion by 2024²), both growing with a CAGR of around 8%, presenting a significant opportunity for Nanollose and Birla Cellulose.

Following the filing of the patent, Nanollose and Birla Cellulose are now focused on taking this success to the pilot scale to produce initial quantities of fibre to enable commercial agreements with a select number of fashion brands.

The joint patent application strengthens the intellectual property portfolio of both companies and provides protection for this innovative Tree-Free fibre technology.

Appointment of Leading Fashion Consultant Carla Woidt

During the Reporting Period, the Company announced the appointment of Carla Woidt as a Fashion Consultant to the Company, to assist in further building on Nanollose’s established relationships in the Australian and global fashion industry. Nanollose also aims to leverage her in-depth knowledge

¹ <https://www.gminsights.com/industry-analysis/lyocell-fiber-market>

² <https://www.fiormarkets.com/report/global-rayon-fibers-market-growth-2019-2024-374230.html>

of internal operations in the fashion industry, to assist the Company with its strategy of commercialisation and implementation.

Carla Woit is a leading fashion consultant with 15 years' experience across all facets of the fashion industry including product development, design, product processes, supply chain assessment and strategy, business process refinement, sustainable product practice proposal and integration, sourcing, wholesale, textile design and innovation.

Carla has worked in senior positions for leading brands Theory / Helmut Lang in New York, Temperley London in the United Kingdom and has also worked as a Freelance Textile Designer in The Netherlands. She has also provided consultancy services to leading international brands including Nobody Denim, Camilla and Country Road.

Corporate

Changes to Management

During the Reporting Period, Alfie Germano resigned from his position as CEO and Managing Director of Nanollose for personal reasons. The resignation followed successful introductions to an extensive network of global fashion brands, with these ongoing relationships forming a strong foundation for a pipeline of commercial opportunities once Nanollose's next generation, Tree-Free, high tenacity lyocell is produced at scale.

The Company thanked Mr Germano for his work and dedication, with Executive Chairman, Wayne Best continuing to oversee operations of the Company from both a management and corporate perspective, including progressing the next stage of pilot testing with Birla Cellulose.

Appendix 4C Commentary

In accordance with Listing Rule 4.7C, as noted in its Appendix 4C, during the Quarter the Company expended a gross total, excluding income sources, of \$320,000 on the operations of the Company. This was made up of research and development (\$141,000), advertising and marketing (\$58,000), staff costs (\$21,000), and administrative and corporate costs (\$99,000). The Company also made payments for property plant and equipment (\$38,000) for investments (\$200,000) and for equity issue costs (\$34,000).

The payments included at section 6.1 of the attached Appendix 4C relate to Executive Directors' Salaries (\$83,000), Non-Executive Director Fees (\$22,000), and Company Secretary, Accounting and Office Fees (\$27,000).

The Company further notes that it is anticipating receipt of a payment of approximately \$320,000 under the ATO research and development tax incentive scheme.

FY2021 Objectives – Commercialisation of Next Generation Lyocell

As Nanollose continues to progress towards the commercialisation of its next generation, Tree-Free fibres, there are several key milestones that the Company aims to achieve during the 2021 Calendar Year.

- Production of tonne quantities of Microbial Cellulose, which will be shipped to Birla Cellulose's R&D facility, to further optimise production processes.
- Commence pilot stage testing of the recently patented, next generation, Tree-Free lyocell, following the delivery of larger commercial quantities of Microbial Cellulose to Grasim.

- Produce the first amounts of fibre and fabrics for samples and limited commercial use.
- Commence product trials with leading global brands in the fashion and apparel industry.
- Explore the use of high tenacity Tree-Free lyocell for the nonwoven sector as the Company seeks to commercialise nufolium™ for nonwoven applications, including personal wipes.

[ENDS]

AUTHORITY AND CONTACT DETAILS

This announcement has been authorised for release by the Board of Nanollose Limited.

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ABOUT NANOLLOSE

Nanollose Limited (ASX: NC6) is a leading biotechnology Company commercialising scalable technology to create fibres with minimal environmental impact. Nanollose uses an eco-friendly fermentation process to grow fibres that could become a sustainable alternative to conventional plant-derived cellulose fibres.

The Company's process, which uses streams from various large-scale industries like agriculture and food, has the ability to produce 'Plant-Free' Cellulose. Cellulose is the hidden polymer building block most consumers know nothing about, but forms a huge part of items used in their everyday life such as clothing, paper and hygiene products.

ABOUT BIRLA CELLULOSE AND GRASIM INDUSTRIES LIMITED

Birla Cellulose, a business unit of Grasim Industries Limited, part of Aditya Birla Group (ABG), is a leading sustainability focused man made cellulosic fibre producer, with its nature based fibres being produced from renewable wood sourced from sustainably managed forests. Grasim Industries Limited, a flagship company of the ABG, ranks amongst the top publicly listed companies in India and operates pulp and fibre business in India.

Grasim Industries operates its pulp and fibre business, which applies closed loop processes and environmentally efficient technologies, that recycle raw materials and conserve natural resources. Grasim's five global advanced research centres are equipped with state of the art facilities and pilot plants, with new generation innovative products including Livaeco™, Liva Reviva, Birla Excel (lyocell), in addition to Liva Antimicrobial and Birla Spunshades, which are designed with superior sustainable credentials.

With an aim to create bigger and broader impact, Grasim collaborates actively with its value chain partners and works closely with organizations including, Canopy Planet, Sustainable Apparel Coalition (SAC), Zero Discharge of Hazardous Chemicals (ZDHC), Changing Markets Foundation, Textile Exchange, WBSCD, Fashion for Good amongst others to continually learn and apply the best practices within its global operations and across its value chain.

Appendix 4C

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

Name of entity

Nanollose Limited

ABN

13 601 676 377

Quarter ended ("current quarter")

31 December 2020

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	0	0
1.2 Payments for		
(a) research and development	(141)	(344)
(b) product manufacturing and operating costs	0	0
(c) advertising and marketing	(58)	(104)
(d) leased assets	0	0
(e) staff costs	(21)	(40)
(f) administration and corporate costs	(99)	(222)
1.3 Dividends received (see note 3)	0	0
1.4 Interest received	1	2
1.5 Interest and other costs of finance paid	(1)	(2)
1.6 Income taxes paid	0	0
1.7 Government grants and tax incentives	0	0
1.8 Other (Covid 19 Cash Flow Boost)	12	49
1.9 Net cash from / (used in) operating activities	(307)	(661)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	0	0
(b) businesses	0	0
(c) property, plant and equipment	(38)	(50)
(d) investments	(200)	(200)
(e) intellectual property	0	0
(f) other non-current assets	0	0

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	0	0
	(b) businesses	0	0
	(c) property, plant and equipment	0	0
	(d) investments	0	0
	(e) intellectual property	0	0
	(f) other non-current assets	0	0
2.3	Cash flows from loans to other entities	0	0
2.4	Dividends received (see note 3)	0	0
2.5	Other (provide details if material)	0	0
2.6	Net cash from / (used in) investing activities	(238)	(250)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	660	660
3.2	Proceeds from issue of convertible debt securities	0	0
3.3	Proceeds from exercise of options	0	0
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(34)	(35)
3.5	Proceeds from borrowings	0	0
3.6	Repayment of borrowings	0	0
3.7	Transaction costs related to loans and borrowings	0	0
3.8	Dividends paid	0	0
3.9	Other (provide details if material)	0	0
3.10	Net cash from / (used in) financing activities	626	625

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	468	835
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(307)	(661)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(238)	(250)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	626	625
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	549	549

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	329	58
5.2	Call deposits	220	370
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)	549	468

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	132
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
	Payments at section 6.1 relate to Executive Directors' Salaries (\$83,000), Non-Executive Director Fees (\$22,000), and Company Secretary, Accounting and Office Fees (\$27,000).	

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

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	0	0
7.2 Credit standby arrangements	0	0
7.3 Other (please specify)	0	0
7.4 Total financing facilities	0	0
7.5 Unused financing facilities available at quarter end		0
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)	(307)
8.2 Cash and cash equivalents at quarter end (item 4.6)	549
8.3 Unused finance facilities available at quarter end (item 7.5)	0
8.4 Total available funding (item 8.2 + item 8.3)	549
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.78
<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?	
Answer: Yes.	
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 Company is anticipating receipt of a payment of approximately \$320,000 under the ATO research and development tax incentive scheme.	
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.	
<i>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.</i>	

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: 29 January 2021
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Authorised by: The Board of Directors
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(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.