



30 April 2020

Quarterly Activity Report for the Period Ending 31 March 2020

Highlights

- NZCS agreed to acquire 100% of New Zealand based nutraceutical ingredient developer and supplier, Kiwi Dreams International Limited, with the acquisition completed on 6 April 2020.
- NZ\$4.4m purchase agreement with SuperMilkBaba (NZ) Limited, for the sale of a minimum of 100 tonnes of frozen ling maw over a 12 month period, with the first 1000kg shipment dispatched in March 2020, on advance payment terms.
- Agreement with Reach China for the distribution of the Company's nutraceutical and ready to eat product range in Australia, Hong Kong and China.
- Completed upgraded and expanded seafood processing and production facility in Christchurch.
- NZCS received delivery of a new milling machine used to produce nutraceutical products, including the Company's recently developed powdered collagen nutraceutical ling product.
- As a primary food producer, under COVID-19 restrictions, NZCS' operations were deemed an 'Essential Service' by the New Zealand Government, with operations approved to continue during the lockdown period.
- Flagship e-commerce portal launched on the Company's website, selling the NZCS branded ready to eat and powdered collagen nutraceutical ling maw product, direct to consumers.
- Despite global lockdowns in NZCS's main markets including China, Hong Kong and Australia, during the March Quarter, NZCS continued to focus on the sale of stock on hand products, which resulted in cash receipts of NZ\$219,849 (A\$206,000).
- Following lockdown restrictions being lifted in China, the Company invoiced NZ\$246,492 of sales during April 2020, a significant increase from the April 2019 sales revenue of \$42,187.

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New Zealand Coastal Seafoods Limited (“NZCS”, the “Company”) (ASX:NZS) is pleased to provide an update on the Company’s activities for the quarter ending 31 March 2020 (**“March 2020 Quarter”**).

Interim CEO, Andrew Peti, commented on the Quarter: “The March 2020 Quarter was a significant period for the Company with the acquisition of KDI, as the Company entered the high growth nutraceutical market. With a complimentary product offering and strong synergies between the seafood and nutraceutical businesses, the acquisition provides substantial growth opportunities for NZCS.

During the quarter, NZCS also continued to execute its growth strategy of increasing production capacity, with the completion of the expanded and upgraded processing and production facility, allowing the Company to produce and deliver high volume orders and realise economies of scale in manufacturing.

NZCS also took delivery of a new milling machine used to produce nutraceutical products, thereby completing the equipment required for the bulk production of nutraceutical products, as we continue to seek opportunities in this market.

The Company also focused on expanding distribution channels in existing markets including Australia and further penetrating the Chinese market, through an agreement with Reach China for the distribution of the NZCS branded ready to eat and nutraceutical product range.

Although NZCS achieved several milestones, the March 2020 Quarter was certainly not without challenges. The pandemic and temporary global lockdowns impacted upon NZCS’s ability to deliver to China, which affected cash receipts for the period.

Having said this, in late March NZCS entered a NZ\$4.4m purchase agreement with SuperMilkBaba (NZ) Limited (**“SMB”**), for the sale of a minimum of 100 tonnes of frozen ling maw over a 12 month period (**“SMB Purchase Agreement”**). The SMB Purchase Agreement demonstrates that demand for NZCS’s products remains strong in China and importantly, the SMB Purchase Agreement is expected to generate an average of over NZ\$360,000 per quarter over the following 12 months, forming strong revenue streams for the June 2020 quarter and subsequent quarters.

During the March 2020 Quarter, NZCS’s operations were deemed an ‘Essential Service’ by the New Zealand Government, with operations approved to continue during the lockdown period and we continue to work with government bodies to ensure compliance and the safety and wellbeing of our staff, contractors and stakeholders. We look forward to a strong June 2020 quarter and thank our shareholders for their support to date.”

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Acquisition of Kiwi Dreams International Limited

On 9 March 2020, NZCS agreed to acquire 100% of the issued share capital of New Zealand based nutraceutical manufacturer and developer, Kiwi Dreams International Limited (“**KDI**”) (“**KDI Acquisition**”). Based in New Zealand, KDI is a developer of innovative nutraceutical products and services, including ingredient supply, quality and validation, as well as formulation and development.

The KDI Acquisition was completed on 6 April 2020 and provided NZCS with immediate access to the lucrative value-added nutraceutical and pharma ingredient sector.

The KDI Acquisition of KDI followed the development of an NZCS branded collagen ling maw nutraceutical product, and is in line with the Company’s growth strategy to potentially expand revenues streams by adding greater depth to the existing product line. Through the development of nutraceutical products, NZCS has recognised significant opportunities in this high growth market, with the global Nutraceutical market estimated at US \$230.9 billion in 2018¹.

NZ\$4.4m Purchase Agreement with SuperMilkBaba

During the March 2020 Quarter, NZCS entered into the NZ\$4.4m SMB Purchase Agreement with SuperMilkBaba (NZ) Limited, for the sale of a minimum of 100 tonnes of frozen ling maw over a 12 month period, with the first 1000kg shipment dispatched in March 2020 on advance payment terms.

SMB is a leading New Zealand based international wholesaler and exporter of high quality sustainable food products, and has worked with leading brands including Melita Honey, Pure NZ spring water, Mr Apple and Ample Meat.

NZCS aims to build a long term relationship with SMB as the companies seek to identify further export opportunities for the bulk wholesale and export of NZCS’s seafood. The SMB Purchase Agreement aligns with NZCS’s growth strategy of further penetrating markets including China.

Distribution Agreement with Reach China

During March 2020, NZCS entered an agreement with Reach China for the distribution of the Company’s ready to eat and nutraceutical product range in Australia, Hong Kong and China (“**Reach China Distribution Agreement**”). Under the Reach China Distribution Agreement, Reach China has the rights to distribute the NZCS branded dried ling maw, cooked ling maw,

¹ <https://www.bccresearch.com/market-research/food-and-beverage/nutraceuticals-global-markets.html>

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paua (abalone) and collagen nutraceutical product, with the agreement including scope for expansion.

Reach China is a Sydney based, China focussed, distribution, sales and marketing company representing brands predominately across the health/wellness, beauty and mother/baby categories. Reach's incubation program has been utilised by leading brands including Colgate, Henkle (Cold Power/Sard), Koala Eco and Tri Nature.

Reach China has also developed a Chinese language eCommerce platform (BuyNatural 百天) to offer natural and organic products, through both wholesale and retail, in addition to providing extensive marketing to support brands seeking to engage with Chinese consumers living both in China and overseas. Through the incubation program, Reach China will provide NZCS with an additional pathway into cross border trade with China.

As announced on 16 April 2020, the Reach China Distribution Agreement commenced with an initial export order from Reach China owned BuyNatural, for the NZCS branded ready to eat product range, including 100 units of dried ling maw, 50 units of cooked abalone and 50 units of cooked ling maw in sauce. The order was shipped to BuyNatural in Australia and represents the first commercial shipment of the NZCS branded ready to eat products.

The Reach China Distribution Agreement is in line with the Company's growth strategy of expanding sales capacity and distribution channels, in existing markets and further penetrating Asian markets.



Image 1 – NZCS Branded Collagen ling maw powder and ready to eat cooked ling maw

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Completed Upgraded and Expanded Production Facility

On 3 March 2020, NZCS announced that it had moved to the new upgraded and expanded seafood processing and production facility in Christchurch, five times larger than the existing facility, and strategically located in close proximity to the Christchurch airport, and the import/export air freight market, providing logistical advantages for export into Asia.

On 1 October 2019, NZCS announced that it has signed a 6 year lease agreement on the new facility with options to extend for a further 8 years.

The facility will be used to increase production of the Company's flagship ling maw product, manufacture ready to eat products, and a new collagen milling machine will be used to produce NZCS's powdered nutraceutical products. The expanded and upgraded production facility is in line with the Company's growth strategy of increasing sales of existing products through expanded production capacity, and improving profit margins by extending the range of products to include ready-to-eat products.

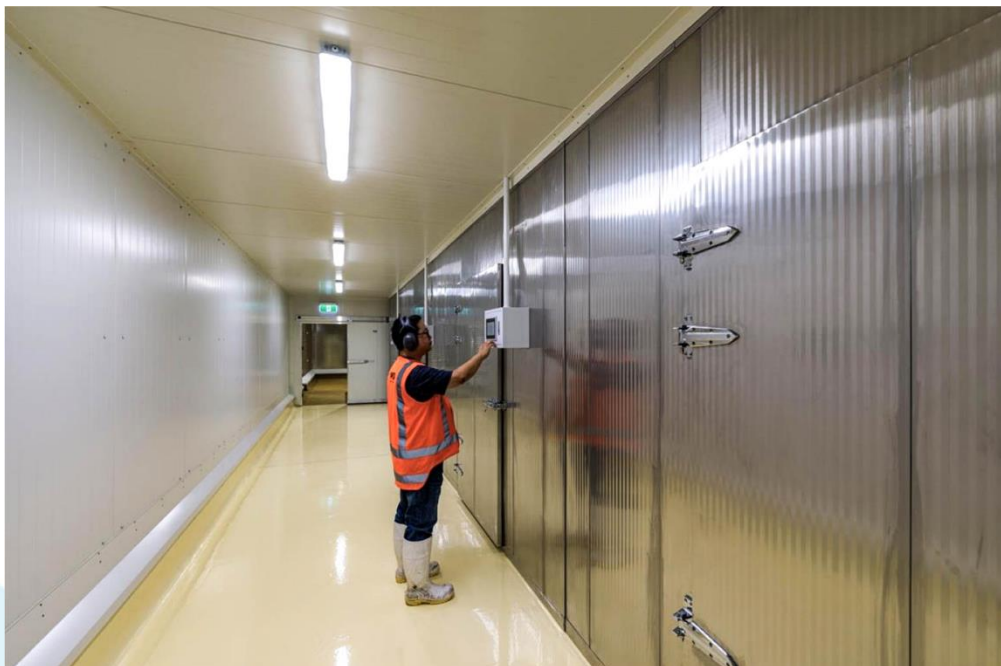


Image 2 – Hygiene / Drier Entry Zone - Final commissioning and testing

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COVID-19 – NZCS Deemed an Essential Service

As announced on 30 March 2020, as a primary food producer, under COVID-19 restrictions, NZCS's operations were deemed an 'Essential Service' by the New Zealand Government, with operations approved to continue during the lockdown period.

NZCS management continues to actively monitor developments as they unfold across the globe, ensuring full compliance with the latest guidelines issued by health authorities and governments in the jurisdictions in which the Company operates.

NZCS has implemented a strategic response plan to maintain continuity in product delivery and sales, whilst ensuring staff health and safety during the temporary COVID-19 related disruptions.

In anticipation of a lockdown period, NZCS dried, processed and pre-packed sufficient stock, allowing for ease of dispatch to customers and ensuring compliance with government advice. The Company also welcomed the wage subsidy it has received from the New Zealand government to support its ongoing operations.

E-Commerce Portal and Online Sales

During the March 2020 Quarter, NZCS launched a flagship e-commerce portal on the Company's website, selling the NZCS branded ready to eat and powdered collagen nutraceutical ling product, direct to consumers.

The Company is also currently working towards listing the NZCS branded ready to eat and nutraceutical products for sale on the Amazon and EBay global network of websites, and the Trade Me platform in New Zealand, which may provide NZCS with significant awareness as it seeks to build a global consumer brand.

Authority

This announcement has been authorised for release by the Board of New Zealand Coastal Seafoods Limited.

Further information:

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About New Zealand Coastal Seafoods

New Zealand Coastal Seafoods (NZCS) is a New Zealand based, ASX listed, secondary producer of nutraceutical, seafood products and premium marine ingredients. The Company recently acquired Kiwi Dreams International Limited (KDI), a leading developer of innovative nutraceutical products and services including ingredient supply, quality and validation, as well as formulation and development.

Through the development of Nutraceutical projects, NZCS has recognised significant opportunities in this high growth market, with the global Nutraceutical market estimated at US \$230.9 billion in 2018.²

Harnessing the countries reputation for pure, pristine waters and fisheries provenance, NZCS utilise raw ingredients sourced from New Zealand's finest deep sea fishing companies, employing a nose-to-tail philosophy to create a range of high-value products.

The Company's mission is to share the sought-after flavours of sustainably-sourced, nutritious, healthy and organic goodness of New Zealand's seafood with Asian consumers, through expanding distributor, wholesale and consumer channels.

² <https://www.bccresearch.com/market-research/food-and-beverage/nutraceuticals-global-markets.html>

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Appendix 4C

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

Name of entity

New Zealand Coastal Seafoods Limited

ABN

16 124 251 396

Quarter ended ("current quarter")

31 March 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	212	1,016
1.2 Payments for		
(a) research and development	0	0
(b) product manufacturing and operating costs	35	(1,341)
(c) advertising and marketing	(60)	(243)
(d) leased assets	(93)	(99)
(e) staff costs	(188)	(467)
(f) administration and corporate costs	(248)	(1,022)
1.3 Dividends received (see note 3)	0	0
1.4 Interest received	1	7
1.5 Interest and other costs of finance paid	(2)	(8)
1.6 Income taxes paid	(4)	(28)
1.7 Government grants and tax incentives	95	95
1.8 Other (GST Refunds)	81	(3)
1.9 Net cash from / (used in) operating activities	(171)	(2,093)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	0	0
(b) businesses	0	0
(c) property, plant and equipment	(412)	(615)
(d) investments	0	0
(e) intellectual property	0	0
(f) other non-current assets	0	0

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 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	(412)	(615)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	0	5,000
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	0	(859)
3.5	Proceeds from borrowings	0	0
3.6	Repayment of borrowings	0	(28)
3.7	Transaction costs related to loans and borrowings	0	0
3.8	Dividends paid	0	0
3.9	Other (provide details if material)	(4)	(11)
3.10	Net cash from / (used in) financing activities	(4)	4,102

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,965	12
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(171)	(2,093)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(412)	(615)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(4)	4,102
4.5	Effect of movement in exchange rates on cash held	8	(20)
4.6	Cash and cash equivalents at end of period	1,386	1,386

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	1,386	1,386
5.2	Call deposits		
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)	1,386	1,386

6. Payments to related parties of the entity and their associates

6.1 Aggregate amount of payments to related parties and their associates included in item 1

6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
72
0

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

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

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
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)	(171)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	1,386
8.3 Unused finance facilities available at quarter end (Item 7.5)	0
8.4 Total available funding (Item 8.2 + Item 8.3)	1,386
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	8.10

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

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:

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:

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:

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: 30th April 2020

Authorised by: The Board of Directors

(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.