

QUARTERLY UPDATE & APPENDIX 4C

Highlights;

- *Production of Nonwoven Fabric from Nanollose's Tree-Free Rayon*
- *Cooperation Agreement for the Development of Wipes with Codi Group*
- *Heidi Beatty Joined Nanollose Board as Independent Nonexecutive Director*
- *Reduction in Executives Cash Remuneration*

Nanollose Limited (ASX: NC6) ("Nanollose" or the "Company") is pleased to provide its Appendix 4C cash flow statement for the quarter ending 30 September 2019, together with the following commentary.

World first production of a Tree-Free Nonwoven Fabric:

After successfully manufacturing a Tree-Free viscose fibre for nonwoven applications in April this year, the fibre was successfully converted into a nonwoven fabric during the quarter, in what the Company believes to be another world first sustainable material.

This development was a significant milestone and marked a breakthrough in Nanollose's extensive Research and Development program aimed at creating a range of high performance and eco-friendly products for multiple applications across the global textile market.

The fabric was produced on a pilot scale using standard industrial equipment currently used by manufacturers, and demonstrates the commercial flexibility of Nanollose's technology in specifically engineering products for the production of nonwoven textiles, an estimated US\$98 billion market by 2026.

Due to nonwoven products being among the most used in the world, such as baby diapers and disposable wipes, Nanollose's strategy is to take advantage of the growing necessity from major manufacturers seeking alternative sustainable materials and processes to create their products.

Agreement signed for development of wipes:

Nanollose signed a cooperation agreement with Codi International BV, which is part of the Codi Group ("Codi"), a global leader in the development, manufacturing and marketing of high-quality personal care wipes. The agreement will see both companies exclusively work together in developing commercially viable consumer wipe products using Nanollose's Tree-Free nonwoven fibre.

Codi is the perfect partner for Nanollose, as the company produces more than 7 billion wipes in around 150 million consumer packages per year. Their clients include multinational brands,

European retailers, distributors and institutional parties. The group distributes their products to more than 40 countries and owns high value proprietary technical information relating to the production, marketing and distribution of consumer wipes.

Codi's extensive technical and commercial understanding, along with its ability to prototype and test products, will assist Nanollose in commercialising its Tree-Free rayon fibre for this market sector. Through the partnership, Nanollose will grant exclusivity to Codi for the use of the company's Tree-Free nonwoven fibre for the development of personal and homecare wipes.

Codi Group's CEO, Fridjov Broersen, said "This cooperation agreement with our partner Nanollose is at the heart of our Codi Group strategy to drive real sustainability into our products. In close cooperation with our customers we are delighted to be able to lead our markets into new opportunities".

Implementation of a 'fibre first' strategy:

Following a review of current research projects, Nanollose has implemented a 'fibre first' commercial strategy, whereby after an important research and development phase investigating multiple potential applications for the Nanollose technologies, the Company will now focus on exploiting its breakthrough fibre technologies and products in a number of markets. This strategy has been based on examining the Company's technologies against the market demand, competitor landscape, stage of development and barriers to entry. The fibre first strategy will allow the Company to focus its resources on its breakthrough rayon fibres nullarbor™ for fashion and nufolium™ for nonwovens. In addition, the Company will seek new high value applications of its fibre technologies where synergy and co-development is possible. Other non-fibre applications may still be progressed but with external partners who have the required resources and expertise.

Tissue Scaffold Project at Murdoch University:

Results from the Company's research project with Murdoch University investigating the potential of microbial cellulose as a scaffold for both human and animal tissue engineering and cell culture have been positive. Cells have been shown to replicate and migrate throughout the three dimensional structure of the scaffold as desired. However, in line with Nanollose's fibre first strategy, the Company does not intend to expend any more resources on this project at this point in time. Instead Nanollose will look for commercial partners in both the human tissue growth and artificial meat markets to exploit its scaffold technology.

Collaboration with MoRe, Umeå University and RISE Processum:

Nanollose's six month collaborative research project entitled "Bacterial nanocellulose, production and application testing" with, MoRe Research and RISE Processum has now been completed. The project investigated three areas of interest to Nanollose, i) the production of microbial cellulose by up-scaling in stirred-tank reactors, ii) comparison of the properties of this type of microbial cellulose with other cellulose materials in various applications, such as paper manufacture and iii) produce and evaluate cellulose acetate from microbial cellulose. The project indicated a number of areas of potential future applications and these are being considered in light of the Company's fibre first strategy. The project ultimately cost only 200,000 SEK (\$30k) which was 175,000 SEK (\$26k) under budget.

Board restructure to enhance diversity and independence:

In July, the Company was delighted to welcome Heidi Beatty as an independent non-executive director to the board. Ms Beatty has 20 years' experience in identifying, developing and launching new consumer and healthcare products. Her considerable technical expertise and an in-depth commercial knowledge of the nonwovens and hygiene markets have already proved particularly valuable to Nanollose following the recent entry into these markets. Coinciding with Ms Beatty's appointment, the Company also announced that executive director, inventor and founder, Gary Cass, stepped down from the board.

Nanollose restructures remuneration to align with commercialisation:

Effective from 1 September, Nanollose implemented a revised remuneration structure, with Executive Chairman Dr Wayne Best and Managing Director Mr Alfie Germano reducing their annual base salary from \$225,000 to \$165,000, whilst Mr Cass reduced his annual base salary from \$160,000 to \$130,000. In exchange for this reduction, and to further incentivise the commercialisation of Nanollose's technology, the company will issue two million performance rights to Dr Best and Mr Germano and one million performance rights to Mr Gary Cass.

The terms of the performance rights will include the principal vesting conditions being that the Company enters into a commercial agreement or multiple agreements to exploit Nanollose's Intellectual property via the licensing of the Company's intellectual properties and/or sales of products made from or related to the Company's microbial cellulose business, and the Company receives \$1 million of gross revenue under that agreement or those agreements, on or before 31 December 2020; or the Company is taken over.

Cash and funding moving forward:

Nanollose's cash balance at the end of the quarter was \$600k. It is anticipated that an R&D Tax Incentive rebate of approximately \$462k will arrive from the ATO in November which, coupled with an expected reduction in cash burn, will see the Company funded well into 2020.

3-6 Month Outlook:

Nanollose will continue to engage with fibre manufacturers until it has secured the preferred partner. Once selected, Nanollose will begin to bring through supply of microbial cellulose for initial small-scale fibre production and testing. These initial small-scale quantities of fibre will be used for future apparel brands to test and create small collections of clothing and to facilitate further nonwoven fabric trials. Meanwhile Nanollose continues to work with existing and potential suppliers of microbial cellulose to improve the production process and refine its specifications. Work is also ongoing to improve and diversify the properties of our rayon fibres for new but related applications.

[ENDS]

For further information, please contact:

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ABOUT NANOLLOSE

Nanollose Limited (ASX: NC6) is an innovative Australian company that uses a potentially low cost and eco-friendly fermentation process to grow fibres that could become a sustainable alternative to conventional plant-derived cellulose fibres. The Company's process, which can use streams from various large-scale industries like sugar, wine and food, has the ability to produce 'Tree-Free' Cellulose. Cellulose is the hidden polymer most consumers know little about, but forms a huge part of items used in their everyday life such as clothing, paper and hygiene products.

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

Nanollose Limited

ABN

13 601 676 377

Quarter ended ("current quarter")

30th September 2019

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities			
1.1 Receipts from customers		0	0
1.2 Payments for			
(a) research and development		(261)	(261)
(b) product manufacturing and operating costs			
(c) advertising and marketing (including business development)		(44)	(44)
(d) leased assets			
(e) staff costs		(45)	(45)
(f) administration and corporate costs		(169)	(169)
1.3 Dividends received (see note 3)			
1.4 Interest received		5	5
1.5 Interest and other costs of finance paid			
1.6 Income taxes paid			
1.7 Government grants and tax incentives			
1.8 Other (provide details if material)			
1.9 Net cash from / (used in) operating activities		(514)	(514)
2. Cash flows from investing activities			
2.1 Payments to acquire:			
(a) property, plant and equipment		(3)	(3)
(b) businesses (see item 10)			
(c) investments			

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
	(d) intellectual property		
	(e) other non-current assets		
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment		
	(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)		
2.6	Net cash from / (used in) investing activities	(3)	(3)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares		
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		
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		
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		

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	1,117	1,117
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(514)	(514)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3)	(3)
4.4	Net cash from / (used in) financing activities (item 3.10 above)		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of quarter	600	600

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	130	247
5.2	Call deposits	470	870
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)	600	1,117

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
(269)

6.1 Payments to a director and their related entities for R&D consulting services, director's fees and accounting & company secretarial fees.

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
Nil
Nil

N/A

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	0	0
8.2 Credit standby arrangements	0	0
8.3 Other (please specify)	0	0
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.		
N/A		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	289
9.2 Product manufacturing and operating costs	
9.3 Advertising and marketing	58
9.4 Leased assets	
9.5 Staff costs	35
9.6 Administration and corporate costs	135
9.7 Other (provide details if material)	
9.8 Total estimated cash outflows	517

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity		
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

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: 31 October 2019

Print name: Erlyn Dale

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.