



ROTOGRO

ASX Release

30 April 2020

## Quarterly Activities Report for the Period Ended March 31, 2020

Roto-Gro International Limited (“ASX:RGI”, “RotoGro” or the “Company”) is pleased to provide its quarterly activities report for the period ended March 31, 2020.

### Quarter Highlights

- The Company takes swift steps to implement COVID-19 protocols and systems to ensure the health and safety of its employees and its stakeholders,
- Post quarter end, the Company receives a draft License Agreement and a draft Joint Venture Agreement from Rotary Garden Systems SDN BHD (“RGS”) for the cultivation of lawful cannabis in Thailand,
- The Company collaborates on a roll-out plan for the first phase of Freshero’s facility and discusses high level terms for a global partnership focused on operational support, produce knowledge and downstream wholesale and retail relationships,
- RotoGro undertakes reliability and serviceability analysis of the automated perishable gardens to ensure any engineering bugs are eliminated prior to implementation on a commercial scale,
- RotoGro compiles the required drawings and documentation for lodging patents specific to the perishable food gardens,
- The European Patent Office awards RotoGro a patent for its Stackable Modular Rotatable Gardening System in Europe, complementing its parallel patents in Canada and the United States.

### Operational Update Regarding COVID-19 Pandemic

In addition to the catastrophic impact on health and the healthcare providers, the novel coronavirus (“COVID-19”) is wreaking financial turmoil on businesses and the global economy. The World Health Organization declared COVID-19 a pandemic on March 11, 2020 and the corresponding governmental

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isolation orders and shutdowns have had proven to be debilitating. As the international response continues to evolve, we recognize that businesses must adapt to the shifting landscape rapidly.

During the quarter, RotoGro implemented an operational plan in response to the pronouncement of the unprecedented COVID-19 pandemic. The Company took swift steps to implement protocols and systems to ensure the health and safety of its employees and its stakeholders. The Company's plan in response to COVID-19 has been fluid and demands immediate responses to the daily changes and challenges.

In response to the pronouncement of the pandemic, RotoGro reduced its workforce to essential personnel only, suspending the employment of 12 employees to unpaid leave, which is currently being reviewed on a two-week rolling basis. The Board of Directors, Executive Management team and remaining employees agreed to salary reductions and fee deferrals, which includes RotoGro's CEO, Mr. Adam Clode, agreeing to both a 66% salary reduction and deferral of salary payments from CY2019 as the Company works towards driving shareholder value and sustained revenue. The Executive Management Team have initiated cost saving measures, which will remain in place and be reviewed periodically, as the COVID-19 pandemic continues to unfold.

## Operational Overview

The Company continues its focus to establish itself as a leading cultivator of:

- lawful cannabis, through its pending acquisition of a majority stake in Medicinal Compassion CanniFarms Inc. ("MCCF"); and
- perishable foods, in partnership with Freshero and other retail / food services groups, capitalising on the competitive advantage provided by the Company's patented and proprietary equipment and systems.

RotoGro's patented, patent-pending and proprietary Rotational Hydroponic Garden System (the "RotoGro System") delivers proven yield advantages, reduced operational costs and enhanced product consistency. The Company continues to work with MCCF pending the award of its cultivation licence by Health Canada. The awarding of lawful cannabis licenses by Health Canada has been significantly delayed due to the unprecedented impact of COVID-19. However, the principals of MCCF

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have maintained a dialogue with Health Canada and its review is progressing, although much slower than anticipated.

Post quarter end, the Company received a draft License Agreement and a draft Joint Venture Agreement from Rotary Garden Systems SDN BHD (“**RGS**”) for the cultivation of lawful cannabis in Thailand, building on the parties existing non-binding term sheet. The draft agreements are currently being reviewed by the Company’s legal counsel, together with our CEO, Mr. Clode, and our COO, Mr. Di Tommaso, and will be returned to RGS within days. Both the acquisition of a majority stake in MCCF and the agreements with RGS are expected to provide the Company with a sound foundation for the commencement of the Company’s lawful cannabis operations in 2020.

In addition, the Company continues its support of Freshero Pty Ltd’s (“**Freshero**”) first urban vertical farming facility. Post quarter end, the Company commenced collaboration on a roll-out plan for the first phase of Freshero’s facility located at the Ripe Planet property in New South Wales, Australia.

The Company’s lawful cannabis and perishable food cultivation initiatives are expected to provide the Company with long term sustained operational revenues in a world adjusting to COVID-19.

## Cultivation and Strategic Partnerships

### Medicinal Compassion CanniFarms Inc.

Post quarter end, MCCF advised that Company that it had submitted updated and requested information to Health Canada in support of its application for a lawful cannabis cultivation and processing licence. Recent correspondence between Health Canada and MCCF leads the Company to believe that Health Canada will grant the cultivation and processing licenses in Q2 CY 2020. MCCF’s cultivation and processing facility will provide a platform for the Company to showcase the RotoGro System on a commercial scale, while generating a constant stream of revenue.

### Rotary Garden Systems BDN BHD

The Company has continued its discussions with RGS for licensing and a joint venture for its planned lawful cannabis cultivation operation in Thailand (the “**Licensing and Joint Venture Agreements**”).

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The Licensing and Joint Venture Agreements provide for the licensing of the RotoGro technology the sale and purchase of technology, growing management services, and a net profit sharing arrangement for the proposed commercial operations of CannaGenix SDN BHD (“Cannagenix”), a wholly owned subsidiary of RGS. The Company has been advised that the proposed commercial operations of Cannagenix in Thailand will be in partnership with Suan Sunandha Rajabhat University in Bangkok, Thailand, and the Thailand government. The Company will update the market regarding the Licensing and Joint Venture Agreements during Q2 CY 2020.

### **Freshero Pty Ltd**

The Company continues to focus on developing the global presence of its state-of-the-art, fully automated, perishable food cultivation facilities. Collaboration with Freshero over the past 18 months has led to significant advancements of the Company’s fully automated vertical farming solution, leading to operational efficiencies and a low operational cost base. Despite experiencing delays over the past 3 months due to the unfortunate compounding effects of the Australian bushfires, floods and the current global pandemic COVID-19, the Company and Freshero have made noteworthy progress in defining the deliverables and outcomes for the first phase of Freshero’s proposed state-of-the-art flagship facility located in New South Wales, Australia.

In addition to the first phase of Freshero’s developments, the Company is working on terms for a global partnership with Freshero to add to the operational support, produce knowledge and perishable food relationships into wholesale, retail, and food services groups.

### **Production and Sales Pipeline**

The Company continues to nurture the existing sales pipeline for both lawful cannabis and perishable foods. However, the impact of the COVID-19 pandemic on the flow of goods and commerce arising from the unprecedented border closures and travel restrictions has resulted in numerous sales leads being put on hold indefinitely. The Company is focussed on maintaining healthy commercial relationships with prospective customers until the international pandemic subsides.

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The Company has several proposed technology sale and purchase agreements currently with customers for review. Although these leads are highly prospective, it is not guaranteed these proposals will convert into sales orders and growing management contracts. However, we are hopeful of converting these proposed transactions into sales as we continue to work with new and existing customers at varying stages of their development.

## Research & Development

During the quarter, the Research Team has continued progress on cannabis cultivation quality and consistency. The yield and quality optimisation trials within our RotoGro Systems continue to exceed the anticipated outcomes, with RotoGro's Plant Science team cultivating strains with consistently high yields and superior cannabinoid properties.

Perishable food growing research continues to progress well and build on the existing database. The Research Team have optimised leafy green outcomes utilising RotoGro's proprietary LED lighting solution, which has proven to significantly lower costs by way of reduced power consumption. Trials for additional product lines continue with bok choy, peppers and snacking cucumbers added to the existing leaf green and strawberry data. The resulting cost of production for each product line is proving very competitive and, in most cases, cheaper than the cost of conventional farming.

During the quarter, the application for an Alliance Grant to Canada's National Sciences and Engineering Research Counsel ("NSERC") for university-based research was put on hold. The research application sets out in-depth analysis of nutrient and lighting optimisation, as well as strain selection and manipulation to optimise various plant varieties being cultivated in RotoGro Systems. Deferring the research program allows the Company to focus the efforts of its essential personnel on finalising the Company's fully automated perishable food solution and maintaining its commercial relationships during the COVID-19 pandemic to ensure continued prosperity during this time of economic uncertainty.

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## Engineering Design & Innovation

During the quarter, the Company continued to develop and run trials of its fully automated engineering solution for urban vertical farming. The Company built and installed an array of 6 function 7-foot perishables garden systems, stacked 2 high, complete with an automated loading and unloading system, connecting to downstream industry-standard trimming, washing, drying, and packing equipment. The RotoGro Engineering Team are focused on developing the automated software and compiling the required drawings and documentation for patent applications specific to the perishable food gardens.

The 6-unit array of the Company's 7-foot perishables garden systems at our state-of-the-art research facility in Caledon, Ontario Canada will be utilized to analyse the reliability and serviceability of the automated perishable gardens to ensure any engineering bugs are eliminated prior to implementation on a commercial scale.

## Administration

The Company previously issued and served a Statement of Claim for patent infringement against RavenQuest BioMed Inc. (CSE:RQB) ("**RavenQuest**"), George Robinson, and others. RavenQuest subsequently served RotoGro with its Statement of Defence and Counterclaim, to which RotoGro responded by filing its Reply to the Statement of Defence and its Statement of Defence to the Counterclaim. RavenQuest did not respond to RotoGro's Reply or Defence to Counterclaim. RotoGro has agreed to both a bifurcation order and a protective order to streamline this process. The parties will exchange Affidavit of Documents in May 2020, and then attend a court-mediated settlement conference. The Company remains confident that its claim for patent infringement will be successful.

RotoGro continued to work diligently in support of its applications for patents of its Stackable Modular Rotatable Gardening System in both Europe and Australia. On April 22, 2020, the European Patent Office awarded RotoGro patent for its Stackable Modular Rotatable Gardening System in Europe, which compliments its parallel patents in Canada and the United States. The Company continues to work towards the award of its patent in Australia.

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## Corporate

During the quarter, the Company had net operating cash outflows of A\$919K. At the end of the quarter, the Company held A\$1M in cash. During the quarter, the Company expended A\$243K in design & innovation costs to develop and run trials of its fully automated engineering solution for urban vertical farming. The Company remains committed to the R&D on cannabis cultivation quality and consistency, while continuing to demonstrate prudent cash management and adapt its operational policies and procedures in line with COVID-19 mitigation measures. The Company expended A\$260K in property, plant & equipment to continue building and installing an array of 6 function 7-foot perishables garden systems, complete with an automated loading and unloading system.

## Classifications for current quarter and year to date

As of the current quarterly reporting, an update to allocating costs to specified classifications was completed. Previously, items were posted under administration costs. However, as of this quarterly reporting, the costs have been allocated appropriately to specific categories. This process has been amended to support the understanding of the organization's operational needs. It has enabled us to manage and track expenses in the most accurate way possible. In addition, by updating the way expenses are tracked, we can complete trends analysis and are able to provide adequate explanations on expenditures.

## Related party transactions

Payments to related parties and their associates during the quarter, as outlined in Section 6 of the accompanying Appendix 4C to this quarterly activities report, were A\$272K. These payments are related to the settlement of director fees for the current and prior periods of A\$95K, as well as payments to Baker Young for corporate advisory and capital raising costs of A\$177K.

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Chief Executive Officer, Adam Clode states, *“The current quarter has been unprecedented with serious implications for people’s health and global economic challenges. In times of uncertainty it is important for organisations to adapt quickly and make tough business decisions to ensure longevity and prosperity. The executive management team (supported by the Board) have been proactive in implementing immediate austerity measures with a targeted focus on activities that lead to revenue generation and futureproofing the business. The demand for RotoGro’s patented and proprietary agricultural technology in a world of change and uncertainty will only increase as food security and supply chain integrity, both international and domestic, come to fore. Our heartfelt thoughts are with those impacted by COVID-19 as we all work together to overcome this global pandemic.”*

--ENDS--

#### For more information please contact

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##### About Roto-Gro International Limited

Roto-Gro International Limited is an Australian-based company with global operations focused on the cultivation of lawful cannabis and perishable food (produce) which take advantage of its proprietary, patented, and patents-pending technology in the stackable rotary hydroponic garden space.

The Company has collaborated with Gibio Inc. and Freshero Pty Ltd for perishable foods. These ventures leverage RotoGro’s patented rotational hydroponic garden systems, crop management fertigation hardware and proprietary software systems to produce greater yields and lower operating costs. In addition, the Company has also entered into a Share Purchase Agreement to acquire 51% of the issued and outstanding shares in the capital stock of Medical Compassion Canni Farms Inc. which is a late stage Health Canada cannabis cultivation and processing license applicant.

RotoGro’s wholly owned subsidiary, Global Fertigation Solutions Inc. (“GFS”), provides a patent-pending specialised business line for water treatment and nutrient management in the viticulture, perishable foods, and

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lawful cannabis space. GFS has successfully provided design solutions, installations, and ongoing service contracts for licensed lawful cannabis facilities in the State of Nevada, USA and is embarking on expanding this offering globally.

The Company continues its focus on expanding into industry synergistic opportunities; exploring strategic partnerships in related markets which include, perishable food (produce) partnerships, lawful cannabis license ownership, growing management services, industry leading nutrients, emerging tissue culture (micropropagation) expertise and other supporting faculties of hydroponic growing.

### Forward-Looking Statements

Certain statements in this announcement are forward looking statements. Forward looking statements can generally be identified by the use of words such as “anticipate”, “estimate”, “expect”, “project”, “intend”, “plan”, “believe”, “target”, “may”, “assume” and words of similar import. These forward-looking statements speak only as at the date of this announcement. These statements are based on current expectations and beliefs and, by their nature, are subject to a number of known and unknown risks and uncertainties that could cause the actual results, performances and achievements to differ materially from any expected future results, performance or achievements expressed or implied by such forward looking statements.

No representation, warranty or assurance (express or implied) is given or made by AVE that the forward-looking statements contained in this announcement are accurate, complete, reliable or adequate or that they will be achieved or prove to be correct. Except for any statutory liability which cannot be excluded, AVE and its respective officers, employees and advisers expressly disclaim any responsibility for the accuracy or completeness of the forward looking statements and exclude all liability whatsoever (including negligence) for any direct or indirect loss or damage which may be suffered by any person as a consequence of any information in this announcement or any error or omission therefrom.

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## Appendix 4C

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

**Name of entity**

ROTO-GRO INTERNATIONAL LTD

**ABN**

84 606 066 059

**Quarter ended ("current quarter")**

31 March 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	147	1,208
1.2 Payments for		
(a) research and development	(96)	(300)
(b) product manufacturing and operating costs	(155)	(1,766)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(126)	(784)
(f) administration and corporate costs	(332)	(986)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	3
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)	-	-
- Business Development and consultants	(63)	(284)
- Design & Innovation	(243)	(519)
- Property & facilities	(52)	(116)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(919)</b>	<b>(3,543)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(260)	(455)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) 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)	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(260)</b>	<b>(455)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	2,282
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(151)	(153)
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 Lease repayments	(41)	(119)
<b>3.10 Net cash from / (used in) financing activities</b>	<b>(192)</b>	<b>(2,011)</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	2,419	3,009
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(919)	(3,543)

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(260)	(455)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(192)	2,011
4.5	Effect of movement in exchange rates on cash held	(41)	(15)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>1,006</b>	<b>1,006</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	1,006	2,419
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,006</b>	<b>2,419</b>

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

- |     |   | <b>Current quarter<br/>\$A'000</b> |
|-----|---|------------------------------------|
| 6.1 | Aggregate amount of payments to related parties and their associates included in item 1 | 272                                |
| 6.2 | Aggregate amount of payments to related parties and their associates included in item 2 | -                                  |

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.*

	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 <b>Total financing facilities</b>	-	-

7.5 **Unused financing facilities available at quarter end** -

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.

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (Item 1.9)	(919)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	(1,006)
8.3 Unused finance facilities available at quarter end (Item 7.5)	0
8.4 Total available funding (Item 8.2 + Item 8.3)	1,006
8.5 <b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	1

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

- 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: No – The Company have undertaken measures to reduce cash out flows in the unprecedented times the world currently faces with the Covid-19 pandemic. The measures undertaken include the reduction of 12 employees to unpaid leave, reduction and deferral of executive management and director fees and execution of austerity measures.as announced to the market on March 24, 2020 and further clarity is provided in the Company's Quarterly Activity Report.

- 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: The Company is currently at an advanced stage of negotiation with regards to a funding facility. The Company is also considering a number of alternatives to raise cash as and when appropriate, including the option of raising additional equity in support of delivering on the Company's strategy of cultivation and joint ventures.

- 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, the Company expects to be able to continue its operations and meet its business objectives on the basis that it expects to be able to secure funding as described in the answer to Question 2 above and deliver on securing near term partnerships and sales orders.

### 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: 30 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.