



30 July 2020

Quarterly Activity Report for the Period Ending 30 June 2020

June 2020 Quarter Highlights

- Acquisition of nutraceutical company Kiwi Dreams International Limited completed, providing NZCS with immediate access to the high value nutraceutical market.
- Cash receipts from customers increased by approximately 200% from NZ\$219,849 (A\$212,000) for the March 2020 quarter, to NZ\$660,000 (A\$620,000) for the June 2020 Quarter.
- NZ\$400,000 Purchase Agreement with Good Health Products Limited, for the sale of a minimum of 4,000kg of Nutraceutical Oyster Powder over a 12 month period.
- Purchase orders for NZ\$120,000 of Astaxanthin Oil from an existing KDI customer, New Zealand Health Manufacturing, and a new US based customer, Elevate Health Sciences.
- European Union Listing Approval for the export of marine products to Europe, and US Food and Drug Administration Listing Approval for the export of products to the United States.
- Export order received from BuyNatural for the first shipment of products from the NZCS branded ready to eat range.
- Risk Management Program (RMP) Approval for upgraded and expanded production and processing facility.

Corporate

- Successful rights issue completed raising a total of A\$1.819m (before costs).

After Balance Date Events

- NZ\$468,000 (approx. A\$434,000) of invoices issued for July 2020 to date, indicating very strong initial sales for the September 2020 quarter.
- Strong Ling Maw sales continued during July 2020, with a new Hong Kong based customer placing a significant trial order for NZ\$148,000.
- First European order received for Mussel Powder valued at NZ\$58,700, with dispatch expected during August 2020.
- First Astaxanthin trial order to Japan successfully shipped in July 2020.

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- Andrew Peti Appointed as Chief Executive Officer.

Clarification Statement

- The Company would like to address its ASX Release dated 30 April 2020, and clarify that the SMB Purchase Agreement is for a total of NZ\$4.4m over a 12 month period, and when this amount is amortized over 12 months, will generate an average of over NZ\$360,000 per month (rather than NZ\$360,000 per quarter as typographically stated in error in the ASX Release dated 30 April 2020 – Quarterly Update and Appendix 4C). It should also be noted that variation will occur relating to seasonality, Chinese New Year and general market demand, which will result in varied revenues each month.

Leading secondary producer of nutraceutical, seafood products and premium marine ingredients **New Zealand Coastal Seafoods Limited (ASX:NZS) (“NZCS”, the “Company”)** is pleased to provide an update on the Company’s activities for the quarter ending 30 June 2020 (“**Quarter**”, “**Reporting Period**”).

New Zealand Coastal Seafoods CEO, Andrew Peti, commented on the Quarter: “The June 2020 Quarter was a significant period for NZCS, 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 has provided substantial growth opportunities for NZCS, and we continue discussions regarding high value purchase agreements, with leading customers globally.”

“Cash receipts from customers for the Quarter increased by approximately 200% from NZ\$219,849 (A\$212,000) for the March 2020 quarter, to NZ\$660,000 (A\$620,000) for the June 2020 Quarter, demonstrating NZCS’s growth strategy to be robust and indicating a strong recovery of the nutraceutical, seafood and premium marine ingredients markets.”

“Importantly, as part of NZCS’s international growth strategy, the Company received European Union Listing Approval for the export of marine products to Europe, and US Food and Drug Administration Listing Approval to export products to the United States.”

“Although occurring after the balance date, during July 2020, NZCS continued to forge its way into international markets and expanded its international footprint with the Company’s first order of mussel powder being shipped to Europe in August 2020. NZCS will continue to explore opportunities to secure further distribution of NZCS nutraceutical products into Europe.”

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“Already NZCS has issued invoices totalling NZ\$468,000 (approx. A\$434,000) for July 2020 to date, which indicates that the Company has a strong September quarter ahead.”

“The Company has also shipped its first order to Japan in July 2020, further expanding its distribution channels in Asia, as the Company continues to position itself as a global tier one supplier of nutraceutical, seafood products and premium marine ingredients.”

Operational Update

Acquisition of Kiwi Dreams International Limited

On 3 April 2020, NZCS announced that the Company had completed the acquisition of Kiwi Dreams International Limited (“KDI”), a New Zealand based developer of innovative nutraceutical products and services, including ingredient supply, quality and validation, as well as formulation and development.

The Acquisition has provided the Company with immediate access to the lucrative value added nutraceutical and pharmaceutical ingredient sector, with NZCS having the benefit of KDI’s key suppliers, clients and technical intellectual property on settlement.

Under the Acquisition Agreement, KDI Managing Director, Tony Dowd, has been contracted to NZCS over a 12 month period, for the purposes of developing potential high value products including; Mussel Powder and Oils, Marine Based Collagens (Ling Maw and Fish Skin), Seaweed Extracts (Fucoxanthin) and Oyster Powder.

Through the Company’s prior development of nutraceutical products, NZCS recognised significant opportunities in this high growth market, with the global nutraceutical market estimated at US \$230.9 billion in 2018.

The acquisition of KDI aligns with the Company’s growth strategy to potentially expand revenues streams, by adding greater depth to the existing product line.



NZCS’s Nutraceutical Powder Milling Machine in operation at the Company’s New Zealand processing facility.

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June Quarter Cash Receipts

During the Quarter, NZCS continued to focus on stock on hand sales, which were complemented by revenues from high value purchase agreements and nutraceutical sales.

Cash receipts from customers for the Quarter increased by approximately 200% from NZ\$219,849 (A\$212,000) for the March 2020 quarter, to NZ\$660,000 (A\$620,000) for the June 2020 Quarter.

The significant increase in cash receipts from customers compared to the March 2020 quarter demonstrates the strong recovery and durability of the nutraceutical, seafood products and premium marine ingredients sectors, and also reinforces the strategic value of the acquisition of KDI, as NZCS continues to generate solid sales from nutraceutical products.

NZ\$400,000 Purchase Agreement with Good Health Products Limited

In May 2020, NZCS entered into a NZ\$400,000 Purchase Agreement with Good Health Products Limited, for the sale of a minimum of 4,000kg of Nutraceutical Oyster Powder over a 12 month period, with opportunities to expand order quantities to up to 10,000 kilograms over the same period. As announced on 25 May 2020, the first 475kg shipment was dispatched in May 2020, with further shipments expected over the September 2020 Quarter.

Good Health is a leading New Zealand based retailer of quality health and nutraceutical products, which are sold under the Good Health brand. NZCS aims to build a long term relationship with Good Health, as the companies seek to identify further opportunities in the high growth nutraceutical market.

The purchase agreement with Good Health aligns with NZCS's growth strategy of entering new markets and improving profit margins by extending the range of products.

International Export Approvals for US and Europe

As the Company further expands into international markets, US Food and Drug Administration Listing Approval to export products to the United States was received by the Company during May 2020. NZCS also received European Union Listing Approval, allowing the Company to export marine product to Europe.

These international export licenses facilitate NZCS's entry into new markets, thereby adding geographical diversity to its customer base and reducing reliance on one particular market. The

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export licenses also align with the Company's strategy of expanding distribution channels by entering new markets.

Purchase orders for NZ\$120,000 of Astaxanthin Oil

During the Reporting Period, NZCS received purchase orders for NZ\$120,000 of Astaxanthin Oil from an existing KDI customer, New Zealand Health Manufacturing, and a new US based customer, Elevate Health Sciences.

Astaxanthin is a carotenoid pigment that occurs in trout, microalgae, yeast, and shrimp, amongst other sea creatures. As an antioxidant, Astaxanthin has several health benefits, and has been linked to healthier skin, endurance, heart health, joint pain, and has also been applied to cancer treatment¹.

The purchase orders align with NZCS's growth strategy of expanding sales capacity and expanding distribution channels, in existing and new markets.

Continued discussions regarding high value purchase agreements

During the Quarter, NZCS continued discussions with leading nutraceutical and pharmaceutical distributors globally, with the aim of entering into purchase agreements to further build on the NZ\$4.4m and NZ\$400,000 purchase orders with Supermilkbaba and Good Health respectively.

On 25 March 2020, 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, with the first 1000kg shipment dispatched during the Reporting Period.



Ling maw being processed at the NZCS facility

¹ www.ncbi.nlm.nih.gov/pmc/articles/PMC5946307/

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NZCS Deemed Essential Service

As a primary food producer, under COVID-19 restrictions, NZCS was deemed an 'Essential Service' by the New Zealand Government, with operations continuing during the lockdown period.

Although NZCS's supply chain and ability to fulfil customer orders remained unaffected, it should be noted that global uncertainty and market conditions impacted upon demand for NZCS's products during the Reporting Period.

In response to COVID-19, NZCS implemented a strategic response plan to ensure continuity in product delivery and sales, including drying, pre-processing and packing sufficient stock to maintain staff safety, whilst allowing for ease of dispatch to customers during the temporary COVID-19 disruptions.

During the lockdown period, the first 1000kg order for SuperMilkBaba (NZ) Limited ("**SMB**") was successfully dispatched and processed, with NZCS continuing to fulfil further orders for SMB and other customers during the lockdown period.

Export Order from BuyNatural

On 16 April 2020, NZCS announced that it had received an export order from BuyNatural for its 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 order from BuyNatural aligns with NZCS's growth strategy of improving profit margins by extending NZCS's range of products to include ready-to-eat products including as pre-packaged soups.

RMP Approval for Upgraded and Expanded Production and Processing Facility

On 8 April 2020, NZCS announced that the Risk Management Programme ("**RMP**") for Company's new upgraded and expanded processing and production facility, had received approval from the New Zealand Ministry of Primary Industries ("**MPI**"), a requirement under the Animal Products Act to process and manufacture animal products in New Zealand.

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Corporate Update

Rights Issue

On 15 May 2020, NZCS announced a rights issue to raise up to \$1.819m, with shareholders entitled to one (1) new share at an issue price of \$0.01 per new share for every (3) shares held at the record date, together with one (1) free attaching listed option for every three (3) shares subscribed for under the rights issue.

The Company received acceptances for 38,026,015 shares and applications for shortfall from existing shareholders for 29,096,841 shares raising \$671,228. Securities were allotted and holding statements dispatched to shareholders as per the timetable. The shortfall was subscribed through the underwriter Canaccord Genuity (Australia) Limited raising a total of \$1.819m.

Performance Options

Following the completion of the Reporting Period, NZCS issued performance options to its executive management team. The Company is focussed on growing shareholder value and believes the alignment of management / board returns with shareholders returns is a valuable way of achieving that growth. The Company plans to seek shareholder approval for the issue of performance incentives for its directors at the upcoming 2020 Annual General Meeting.

Appendix 4C – Listing Rule 4.7C Disclosure

Further to the Appendix 4C Cash Flow Statement which is attached to this announcement, the Company provides the following supplementary information pursuant to Listing Rule 4.7C.

Use of Funds

The following table sets out the Company's actual cash expenditure for the period from 5 August 2019 (being the date of re-admission) to 30 June 2020, against the proposed use of funds as set out in the Prospectus dated 24 May 2019.

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Description of use of funds	Funds allocated under prospectus \$A'000 ¹	Actual funds expended from re-admission to 30 June 2020 \$A'000 ¹
Sales staff and marketing expenditure	1,000	586
Operational costs ²	975	2,232
Manufacturing facilities and capital expenditure	1,100	1,222
Listing, compliance and corporate costs	635	1,422
Expenses of the offer	786	1,062
Other working capital	504	64
	5,000	6,588

Notes:

¹ The above table shows cash outflows only and does not contemplate the impact of cash inflows from sales and other income. Cash inflows over the period have been \$1,636,000 in receipts from customers, \$95,000 in government grants and \$1,819,000 from a fully underwritten renounceable pro-rate entitlement rights issue.

² Includes staff and raw material inputs.

Variations to Use of Funds in Prospectus

- The sales and marketing budget had not been fully committed as at 30 June 2020.
- The actual cash spent on operational costs includes costs that are funded from cash raised in the RTO as well as cash inflows from sales. The latter of which is not contemplated in the Use of Funds disclosures in the Prospectus. Operational costs include large upfront purchases of raw materials (primarily raw fish) for processing, and is therefore not linear over the two year period set out in the Use of Funds disclosures in the Prospectus, with the majority of these costs to be born upfront, and recycled as the Company turns over stock and generates more revenue.
- The actual expenditure on listing, compliance and corporate costs includes costs that are funded from cash raised in the RTO as well as cash inflows from sales. The latter of which is not contemplated in the Use of Funds disclosures in the Prospectus.

As detailed in Section 6 of the Appendix 4C, payments to related parties and their associates are payments for;

1. Executive director fees (\$26,125),
2. Non-executive director fees (\$56,997); and
3. Accounting, company secretarial and registered office fees (\$32,708).

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After Balance Date Events

Ling Maw Sales – Hong Kong & Global

During July 2020, strong Ling Maw sales continued with a new Hong Kong based customer placing a significant trial order for NZ\$148,000, and consistent orders being received from existing customers, in addition to two new customers.

The Company has utilised trial orders to build relationships with key customers globally, whilst providing the opportunity for NZCS's customers to receive feedback from end consumers before proceeding to higher value orders.

The significant trial order to Hong Kong aligns with the Company's growth strategy of expanding sales by entering new markets including China, Hong Kong, Japan, Malaysia, Singapore, Indonesia and Vietnam.

Nutraceutical Sales to European Market

In July 2020, NZCS also received its first order from the European market for Mussel Powder valued at NZ\$58,700, which will be produced at the NZCS processing facility this month, with dispatch expected during August 2020.

This European order follows the Company receiving European Union Listing Approval, allowing the Company to export marine product goods to Europe. US Food and Drug Administration Listing Approval to export products to the United States was also received by the Company during May 2020.

This European order and international export licenses align with the Company's growth strategy of expanding distribution channels by entering new markets.

Astaxanthin Sales to Japan

NZCS shipped an initial Astaxanthin trial order to a leading nutraceutical manufacturer in Japan in July 2020, as the Company seeks to enter this market.

The trial order of Astaxanthin to Japan aligns with the Company's growth strategy of expanding sales by entering new markets and by extending NZCS's range of products to also include nutraceuticals.

Andrew Peti Appointed as Chief Executive Officer

On 13 July 2020, NZCS announced that Interim CEO, Andrew Peti, has been appointed as permanent CEO of the Company. Mr Peti was appointed as Chief Operating Officer in September 2019, before being appointed Interim CEO on 3 March 2020.

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Authority

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

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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. 275

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")

30 June 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	620	1,636
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(554)	(1,895)
(c) advertising and marketing	(26)	(269)
(d) leased assets	(4)	(103)
(e) staff costs	(187)	(654)
(f) administration and corporate costs	(400)	(1,422)
1.3 Dividends received (see note 3)		
1.4 Interest received		7
1.5 Interest and other costs of finance paid		(8)
1.6 Income taxes paid	(4)	(32)
1.7 Government grants and tax incentives		95
1.8 Other (GST Refunds)		(3)
1.9 Net cash from / (used in) operating activities	(555)	(2,648)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) businesses	(18)	(18)
(c) property, plant and equipment	(454)	(1,069)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
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)		
2.6	Net cash from / (used in) investing activities	(472)	(1,087)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	1,819	6,819
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	(203)	(1,062)
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		(28)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)	(21)	(32)
3.10	Net cash from / (used in) financing activities	1,595	5,697

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,386	12
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(555)	(2,648)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(472)	(1,087)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,595	5,697
4.5	Effect of movement in exchange rates on cash held	(24)	(44)
4.6	Cash and cash equivalents at end of period	1,930	1,930

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	1,930	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)	1,930	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**

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Refer Activities Report

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.

- 7.1 Loan facilities
- 7.2 Credit standby arrangements
- 7.3 Other (please specify)
- 7.4 **Total financing facilities**

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000

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.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(555)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	1,930
8.3 Unused finance facilities available at quarter end (Item 7.5)	
8.4 Total available funding (Item 8.2 + Item 8.3)	1,930
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	3.47

- 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: Not Applicable.

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: Not Applicable.

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: Not Applicable.

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 July 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.