

QUARTERLY UPDATE & APPENDIX 4C

Highlights:

- Successful creation of test garment made from the Company's Nullarbor™ fibre
- Awarded Advanced R&D Findings from the Department of Industry, Innovation and Science
- Confirmed viability of additional wastes streams for the production of microbial cellulose

Nanollose Limited (ASX:NC6) ("Nanollose" or the "Company") is pleased to provide its Appendix 4C cash flow statement for the quarter ending 30 September 2018, together with the following operational update.

Successful creation of test garment made from Nullarbor™ fibre

The Company recently created a test garment using the latest 3D sweater-knit technology. This marks the first time a piece of clothing has been made using our Tree-Free rayon fibre, and is a drastic departure from clothing made from traditional rayon fibre that comes from environmentally challenging wood pulp processing. Our Nullarbor fibre performed extremely well and successfully withstood the industrial manufacturing process.

This milestone is a significant step in Nanollose's journey from converting its Nullarbor fibre into a piece of clothing, validating that the Company's technology could offer a commercially viable, eco-friendly manufacturing solution for the clothing industry who are urgently seeking alternatives to rayon and cotton fibres. Furthermore, throughout all steps the fibre, fabric and garment were produced using standard industrial equipment currently used by textile and clothing manufacturers.

Awarded Advanced R&D Findings from the Department of Industry, Innovation and Science

The Company was recently awarded favourable findings from the Department of Industry, Innovation and Science ("Innovation and Science Australia"), which will enable the Company to claim tax rebates on certain overseas research and development expenditure up to \$1.419 million over the next three years. This represents potential tax rebates of \$617,000 (at the current rate of 43.5%) over the next three years, subject to Nanollose undertaking these overseas R&D activities, and will be in addition to rebates claimed from the Company's Australian based R&D expenditure.

The certificates enable partial recovery of expenses for overseas R&D work that cannot be undertaken in Australia. These include refinement of Nanollose's fibre spinning technology, creation of additional fibre types and development of the Company's pilot plant, which is being established to optimise production and processing conditions for microbial cellulose.

Combined with tax rebates from the Company's R&D undertaken in Australia, these additional tax rebates on overseas expenditure will be an important source of non-dilutive funding for Nanollose.

Confirmed viability of additional wastes streams for the production of microbial cellulose

Nanollose has continued its R&D towards improving the growing and processing of microbial cellulose with a particular focus on scale-up methodology. Recent results have been positive with a number of wastes from the beer and sugar industries successfully used to produce microbial cellulose in good yields. Further work is ongoing into developing scalable processes to convert the raw microbial cellulose into a form and purity readily acceptable to the textile industry.

Nanollose signs a policy with Canopy

The Company has recently been recognised as a next generation solution provider by Canopy, a global leader in forest conservation. Canopy works to protect the world's forests, species and climate by collaborating with business leaders, scientists and decision-makers to help create sustainable supply chains and foster innovative solutions to environmental challenges.

Canopy works with over 750 of the forest industry's largest customers, from book publishers and printers to leading clothing brands and fashion designers, to help shape their purchasing practices and create permanent solutions for the world's threatened forests. Canopy's brand partners include H&M, Sprint, Penguin-Random House, Zara/Inditex, TC Transcontinental, Levi Strauss & Co., Stella McCartney, The Globe and Mail and Guardian Media Group.

<https://canopyplanet.org/>

Outlook

The next 3-6 months will see Nanollose focus on the following objectives:

- Commence pilot scale production of microbial cellulose while continuing to develop improved processes to increase the throughput and reduce the cost of production.
- Select and develop commercial relationships with companies which align with Nanollose's commercialisation strategy.
- Convert our existing stockpile of 250kg of microbial cellulose into Nullarbor fibre to be offered up to brands to create limited edition offerings.

[ENDS]

For further information, please contact:

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ABOUT NANOLLOSE

Nanollose Limited (ASX: NC6) is an innovative Australian company that uses a 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 uses streams from various large-scale industries like sugar, wine and food, has the ability to produce 'Plant-Free' Cellulose. Cellulose is the hidden polymer building block most consumers know nothing about, but forms a huge part of items used in their everyday life such as clothing, paper and hygiene products.

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")

30 September 2018

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	(151)	(151)
(b) product manufacturing and operating costs		
(c) advertising and marketing (including business development)	(75)	(75)
(d) leased assets		
(e) staff costs	(50)	(50)
(f) administration and corporate costs	(145)	(145)
1.3 Dividends received (see note 3)		
1.4 Interest received	18	18
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	(403)	(403)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(62)	(62)
(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	(62)	(62)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	42	42
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	(17)	(17)
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	25	25

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	2,970	2,970
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(403)	(403)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(62)	(62)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	25	25

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	2,530	2,530

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	260	433
5.2	Call deposits	2,270	3,020
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)	2,530	3,453

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

(250)

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	250
9.2 Product manufacturing and operating costs	
9.3 Advertising and marketing (including business development)	80
9.4 Leased assets	
9.5 Staff costs	60
9.6 Administration and corporate costs	150
9.7 Other (provide details if material)	
9.8 Total estimated cash outflows	540

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

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 2018

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.