

AUSTRALIAN PRIMARY HEMP LIMITED
MARCH 2020 QUARTERLY REPORT AND APPENDIX 4C

14 April 2020

ASX Release

Australia Primary Hemp Limited (ASX:APH) (“**APH**” or the “**Company**”) is pleased to announce its quarterly report and Appendix 4C for the three months ended 31 March 2020 (3Q20).

Highlights

- Record quarterly revenue of \$0.45m¹ for 3Q20 (up 25% from the previous quarter (2Q20) and up 748% from the 3Q19 quarter). In detail:
 - Quarterly cash receipts of \$0.38m¹ (up 123% from the previous quarter (2Q20))
 - Quarterly online sales (up 80% from the previous quarter (2Q20)).
 - Record revenue month for APH in March.
- Significant shaping of the business for greater future growth largely completed under new strong CEO leadership.
- Substantial sales pipeline, with several well progressed large revenue opportunities.
- COVID-19 has not adversely impacted APH, and the business is monitoring the situation closely.
- Several new products ready for launch with their development spend completed in 3Q20.
- Well progressed growing programme, with grain harvest expected to conclude shortly.
- APH strategy refined and re-focussed by new CEO with detail to follow.
- Cash balance of \$2.9m at 31 March providing a solid run way for growth based on significant cost-out and revenue pipeline.

Strong revenue growth and inventory

APH generated record revenue of \$0.45m during the quarter ended 31 March 2020, with increases in both retail and bulk sales, driven by improved sales processes, greater marketing engagement and supply certainty. Previously announced collaborations/MOUs also had a positive impact on sales. Recent successful and rigorous testing of our product by potential customers suggests an increased likelihood of sales growth in the near future.

March was the largest revenue month in APH’s history.

Online sales grew strongly during the quarter, up 80% from the previous quarter, with the total number of online sessions also increasing markedly, up 72% from the previous quarter.

During March, APH experienced an increased volume of inbound enquiries for its 100% Australian product. While not yet confirmed, feedback from the hemp industry suggest that apart from the high quality of APH’s product, marketing effort and business progress to date, competition from imported

¹ APH had \$0.24m in trade receivables as at 31/03/2020 under standard payment terms that are expected to be collected in this Mar-20 quarter (all numbers are subject to audit).

product is being negatively impacted as a result of lack of tracing/trust in offshore product, and general difficulties sourcing at present.

Grain inventory remains well-stocked with fully paid grain at the end of March. APH will also be able to access further grain over the next two quarters as part of its contracted grower programme, which began in late 2019. Given recent revenue growth and expected pipeline conversions, APH will likely require more grain in the current quarter to meet demand.

Additional Information

The current quarter is a period which is covered by the Use of Funds statement as outlined in the Replacement Prospectus dated 16 September 2019. A summary of expenditure to date is outlined below:

Use of Funds	Per Replacement Prospectus dated 16 Sep 2019	Actual Expenditure since recompliance to 31 March 2020
	\$m	\$m
Build up of Inventory	2.20	0.33
Acquisition of new equipment for expansion	1.00	0.25
Operating Expenses and Working Capital	1.49	1.38
Loan Repayments	0.37	0.37
Expenses of the Offer	0.65	0.74
TOTAL	5.71	3.07

Payments to related parties and their associates during the quarter was \$0.08m. These payments related to Director fees, executive salaries and consulting fees.

Strengthened leadership

Neale Joseph was appointed Chief Executive Officer in March following his appointment in January as Head of Product and Strategy.

Neale has significant product development expertise and a long track record of building brands. Neale has more than 30 years' experience, with previous roles at Boral, Motorola, David Jones, and most recently as CEO of Pure Beauty Australia, where he was responsible for the establishment and growth of that brand.

The Board has been working closely with the new CEO in recent weeks to optimise APH's strategy. The business has undergone significant shaping and is better positioned for greater future growth with improved resourcing, a large reduction in monthly operating costs (approximately 40% below 3Q20 levels) and several other initiatives underway. The company will shortly begin greater investor engagement.

Business development and COVID-19

APH continues to develop and convert its sales pipeline. That pipeline includes several business collaborations and other opportunities with a number of potentially large opportunities that are progressing well.

APH continues to develop its own-branded products and expects to launch new products shortly.

In response to COVID-19, APH's entire facility has been thoroughly disinfected and strict operating procedures have been imposed (in line with HACCP infectious disease protocols) to safeguard the high quality of APH's products. COVID-19 has not adversely impacted the operations of APH, its current suppliers nor its customers.

APH will also benefit from some of the Australian Government's programs to assist businesses during the COVID-19 situation.

Outlook

A strengthened sales team and new leadership should enable APH to capitalise upon its substantial pipeline of sales and business development opportunities. The Company will continue to progress new product development and business collaborations and will update shareholders as these are crystallised. With a cash balance of \$2.9m at 31 March, together with projected revenue progress and a significantly reduced burn rate, the business is well positioned for growth during 2020.

ENDS

Authorised on behalf of the APH Board of Directors by:

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About Australian Primary Hemp Limited

Australian Primary Hemp Limited ("APH") is a vertically integrated business that produces, manufactures and distributes a range of hemp products under the APH brand, to retail, wholesale and white label customers in Australia.

APH engages in hemp growing and production services as well as handling in all areas of the hemp value chain, encompassing; hemp seed selection, farming, processing, packaging as well as distribution and sale of bulk and retail edible products.

Appendix 4C

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

Name of entity

AUSTRALIAN PRIMARY HEMP LIMITED

ABN

43 071 666 334

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	382	822
1.2 Payments for		
(a) research and development	-	(8)
(b) product manufacturing and operating costs	(329)	(1,659)
(c) advertising and marketing	(84)	(140)
(d) leased assets	(3)	(10)
(e) staff costs	(289)	(833)
(f) administration and corporate costs	(144)	(592)
(g) travel and conferences	(15)	(64)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	2
1.5 Interest and other costs of finance paid	(8)	(14)
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	(489)	(2,496)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(16)	(237)
(b) businesses	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses	-	-
(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) *	-	5,592
2.6 Net cash from / (used in) investing activities	(16)	5,355

* On 3 October 2019, Australian Primary Hemp Limited (formerly Alchemia Limited) completed the acquisition of 100% of the issued capital in Australian Primary Hemp Pty Ltd. Under AASB 3 Business Combinations (AASB 3) this acquisition was treated as a reverse acquisition. Consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal parent (Australian Primary Hemp Limited) but essentially a continuation of the financial statements of the legal subsidiary (Australian Primary Hemp Pty Ltd).

Accordingly, the Appendix 4C reflect the cash flows of
- Australian Primary Hemp Pty Ltd for the quarter and year to date; and
- Australian Primary Hemp Limited from 3 October 2019 and year to date.

Cash balances of Australian Primary Hemp Limited at the date of acquisition treated as cash acquired on reverse acquisition (net of transaction costs).

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	(66)
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	(8)	(8)
3.5 Proceeds from borrowings	-	720
3.6 Repayment of borrowings	(86)	(588)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Principal elements of lease payments	(12)	(34)
3.10 Net cash from / (used in) financing activities	(106)	24

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,500	6
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(489)	(2,496)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(16)	5,355
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(106)	24
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,889	2,889

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	2,889	3,500
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)	2,889	3,500

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	(84)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

**Current quarter
\$A'000**

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	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>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.</i>		
7.1 Loan facilities	1,530	1,530
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	1,530	1,530
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.		
Loan facilities include a commercial loan (no covenants other than meeting the regular repayment schedule ending on Jul-28) and finance lease facilities outstanding at the end of the quarter.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	489
8.2 Cash and cash equivalents at quarter end (Item 4.6)	2,889
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	2,889
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	5.91
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: N/A	
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: N/A	
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: 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.

Date: 14 April 2020

Authorised by: The Board

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.