

ASX ANNOUNCEMENT

30 April 2020

March 2020 Quarterly Report and Appendix 4C

Highlights

- **Record monthly revenue of \$8.5 million achieved in February and \$8.1 million in March, driven by increased lactoferrin sales due to emergence of the COVID-19 pandemic**
- **A fourth successive cash flow positive quarter, with \$18.5 million in cash receipts generating \$1.65 million in net cash from operations**
- **ANMA operations continue to expand, boosting production through double shifts and recruitment of new staff, with first stage of construction and installation of new machinery at ANMA facility completed and additional equipment ordered to meet demand for new products**
- **JAT forms research partnership with University of Sydney to develop antiviral food supplement**
- **First order of dairy products under \$80 million Ocker agreement secured and first batch of plant-based meat products ready for shipping by mid-May under JV**
- **Cash balance of \$10.5 million as at 31 March 2020, after which JAT secured \$5 million in new funding for capital expenditure and working capital**

Health and wellness consumer goods developer and manufacturer, Jatenergy Limited (ASX: JAT) is pleased to provide its quarterly report for the period ended 31 March 2020.

JAT Managing Director Wilton Yao said:

"We continue to see positive near-term growth drivers for our business, with demand stoked by global circumstances and our ability to deliver reinforced by the investments we have made over the past year. We grew and diversified our revenue base in the March quarter and expect this to continue, enabled by capacity expansion at our ANMA dairy manufacturing factory.

"We achieved a material increase in our product orders in the March quarter. Revenue is running at record levels, achieving \$8.5 million in February and \$8.1 million in March. We are well-placed to maintain these heightened activity levels, having invested heavily in our brands, manufacturing capabilities, distribution and marketing.

“The \$5 million in new funding we recently secured will allow JAT to reach even higher turnover levels. It will empower us to increase raw material and inventory levels as well as acquire and install new machinery at our ANMA facility to develop and produce the new products which our customers are demanding. We have developed the world’s first Lactoferrin with Camel Milk Powder and another new A2 protein Children’s Milk Powder, and look forward to bringing these to market.

“We intend to continue building a strong asset base for JAT as we boost our exports of various new products to Asia and deliver on our long-term growth plans.’

Financial Commentary

- A fourth successive cashflow positive quarter, generating \$1.65 million in net cash from operations
- \$18.5 million in cash receipts with a strong and diverse contribution across JAT’s business lines
- Revenue expected to be stable over coming months, driven by:
 - Increased lactoferrin product sales driven by COVID-19 pandemic
 - New products developed and released into markets by JAT and its subsidiaries, including Green Forest, which increased revenue from \$1.1 million in January 2020 to \$3.3 million in February and \$3.6 million in March
 - ANMA manufacturing facility ramping up after construction / installation of new machines
 - Further orders under Ocker contract – first order of more than US\$1.5 million
 - New distribution and cooperation agreements to be arranged between JAT and its new business partners

Operational Commentary

- Lactoferrin sales increase in February and March, driving revenue growth
- With first stage of construction and installation of new equipment at the ANMA facility completed, ANMA has now ramped production close to full capacity (with current machinery), operating two shifts
- ANMA has identified demand for new products and ordered new equipment – a high-quality probiotics multi-packing machine and a resealable plastic milk powder bag machine – to be installed mid-2020
- First batch of plant-based meat products soon to be shipped to China by JV
- First order of dairy products under \$80 million Ocker agreement secured

Lactoferrin sales

In February, JAT reported unprecedented demand for its lactoferrin dairy products since December, with demand driven by the emergence of the COVID-19 virus.

Lactoferrin plays an important role in modulating the immune system, both systemically and in the gastrointestinal tract. Its unique iron-binding capacity helps to deprive pathogens, such as bacteria, viruses and fungi, of iron, an essential nutrient for their growth and replication.

Sales of the Neurio lactoferrin brands in January 2020 amounted to \$1.8 million, compared to sales of \$294,000 in January 2019. Orders for February and March were also much higher than previous periods. In February 2020, JAT achieved sales across its Neurio product range of \$5.2 million (February 2019: \$1,099,917) and March sales of \$2.7 million (March 2019: \$388,714).

Sales of JAT's lactoferrin products saw JAT achieve record monthly revenue of \$8.5 million in February followed by another strong month with \$8.1 million revenue in March 2020. JAT increased production to meet the strong order book, and has confirmed orders to fully utilise the capacity at its ANMA plant by June 2020.

ANMA activity and contracts

In October 2019, JAT's manufacturing subsidiary, ANMA ordered new machinery so that the facility meets the highest of standards of milk powder and multi-line packing in Australia. The new equipment would give ANMA the capacity to deliver milk powder into different sized containers and could produce individually packed sachets (for products such as lactoferrin) into three different pack sizes. The first stage of construction and installation was completed in April 2020.

In March, ANMA confirmed orders of more than 660,000 units (various lactoferrin and milk powder products) from March 2020 to the end of June 2020. Additional orders are expected to be received by ANMA for delivery before June 2020. The sources of these orders will be unrelated third parties and new products being developed by each of JAT and its subsidiaries. One of those product ranges will be for Neurio, JAT group's largest selling brand.

As a result of the increase in activity, the ANMA production facility commenced operating two eight-hour shifts in April 2020, with recruitment of additional staff members.

ANMA identified additional dairy product types for which there is significant demand. In order to manufacture those products, additional machinery with a cost of approximately \$1 million will be required. The directors have determined that ANMA acquire the new equipment – a high-quality probiotics multi-packing machine and a resealable plastic milk powder bag machine – with installation taking place in mid-2020.

- *Beta A2 Australia Manufacturing Pty Limited ("Beta")*

ANMA entered a five-year manufacturing and supply agreement with Beta in November 2019.

The agreement was for an expected total amount of \$6.7 million in the first year, which would commence with an initial order of \$1.8 million followed by orders of over \$4.9 million scheduled for the eight months commencing June 2020.

JAT reported ANMA's receipt of the initial order of \$1.8 million from Beta, together with an initial deposit of \$340,000.

- *Ultinature Nutritional Australia Pty Ltd ("Ultinature")*

During the quarter, ANMA signed a two-year manufacturing and supply agreement with Ultinature, an Australian provider of premium quality nutritional supplement products to international markets. Ultinature placed its first order with ANMA, and, in accordance with the agreement, paid the required deposit upfront.

Under the agreement, Ultinature will place orders with ANMA for the manufacture of four specific Ultinature products as well as any new products which Ultinature may develop. The agreement specifies an indicative non-binding cumulative order quantity over three years which, if met, represents approximately \$6 million in revenue to ANMA over the period.

Although the agreement is for a two-year period, the parties expect the agreement to be extended and a three-year indicative order quantity was specified in the agreement.

Research agreement with University of Sydney

In March, JAT entered into a commissioned research agreement with the University of Sydney to develop a novel food supplement with potential antiviral properties against a broad range of pathogens.

JAT's research aims to develop a novel formula from naturally derived products with potential potent antiviral activity against several common infectious diseases such as influenza, herpes simplex virus and norovirus. The food supplement would be based on lactoferrin.

JAT will provide management support and general assistance to the University's research team, as well as providing lactoferrin and lactoferrin-based products for testing. The University of Sydney will undertake necessary testing.

The research is expected to be complete in April 2021. JAT will work with the University of Sydney to ensure that the compounds which are developed through the research are registered with the Australian Therapeutic Goods Administration, so that marketing can commence in Australia, which is expected in late 2021 or early 2022. JAT will in parallel seek corresponding approvals with regulatory authorities outside Australia, where required, in order to commence marketing in the same timeframe.

Assuming the research is successful, JAT expects to own a range of compounds based on lactoferrin which will be an effective treatment of conditions including herpes simplex virus Type 1, influenzas and norovirus.

More detail on the terms of the agreement is available in the ASX Announcement dated 31 March 2020.

JAT plant-based meat business

JAT established a joint venture with leading Australian based food manufacturer, Oppenheimer Pty Ltd, in November 2019 to develop plant-based meat substitute products to be sold worldwide.

In accordance with the JV agreement, Oppenheimer has undertaken extensive R&D and product development. JAT has, pursuant to its responsibility under the JV agreement, sourced the buyers of the products in China.

The first batch of products, amounting to around 250kg, was ordered by the JV in March 2020 and is being manufactured in Australia. The first batch includes products which are substitutes for Wagyu beef, pork and beef balls and minces, fish, chicken strips and hot pot meatballs. Each product is designed for use in typical Chinese dishes such as fried rice, dumplings and wonton.

The products are expected to be shipped to restaurants in China by mid-May 2020. The JV has capacity to supply large quantities of the products, which will be vital if order flow continues based on the first batch.

First order under Ocker Products Pty Ltd/Beijing Grain Group Co distribution agreement

In January, JAT announced it had entered into a distribution agreement with Ocker Products Pty Ltd ("OPP") for the non-exclusive distribution of JAT dairy products in China for the next three years. OPP in turn has a strategic partnership with Beijing Grain Group Co Ltd and Beijing JingLiang Logistics Co Ltd ("BJL") to procure food and farm produce on behalf of both companies.

Under the distribution agreement, OPP agreed to purchase a minimum of A\$80 million of JAT dairy products in the first year, however, there are no specific remedies if OPP does not purchase the minimum amount in the first year.

JAT received its first order from OPP in March, details of which included:

- Products to be supplied by JAT are dairy products.
- Contract price is US\$1.517 million.

- Delivery of the goods is to BJL on CIF basis at a Chinese port.
- The terms require JAT to be paid in in the form of a transferable letter of credit issued by BJL.

Shanghai retail store

As a result of the COVID-19 pandemic, the Chinese New Year holidays were extended into mid-February 2020. The extension of the holidays and subsequent movement restrictions in Shanghai have impeded access to the site of its Shanghai Maternity and Infant Boutique and delayed completion of the fitout. JAT will provide a further update when the opening date is finalised.

On opening, the Boutique will be the only Australian dairy company retail store in Shanghai and will be fully stocked with a broad range of its products, including the Neuroio lactoferrin range. Significant stocks of product are held in storage in Shanghai in order to meet the expected retail demand.

Corporate

New funding for capital expenditure and working capital

In April 2020, JAT arranged two facilities totalling \$5 million by way of a convertible note facility and a convertible loan. The funds will be used for capital expenditure and working capital purposes.

Details of both facilities are set out below. A meeting of shareholders to approve both facilities is to be held in late May or early June 2020. A notice of meeting will be forwarded to shareholders in the next few days.

JAT believes it can fund its operations through its current bank balance and the facilities described below.

Related party costs – Appendix 4C

Section 6 of the new format of ASX appendix 4C requires disclosure in this activity report of any amount included in section 6. The amount included in line 6.1 of appendix 4C includes payment of directors' fees to Wilton Yao (\$27,500 per month) and Brett Crowley (\$5,500 per month).

A. Convertible Note Facility

JAT has entered into a convertible note facility ("Facility") to raise \$4 million to fund capital expenditure and working capital. The Maturity Date of the Notes is 18 months after issue. The Facility has been provided by Obsidian Global GP, LLC ("Obsidian") and was arranged by EverBlu

Capital Pty Ltd (“EverBlu”).

JAT will be entitled to draw down an amount of \$4 million as debt within five days after shareholders have approved the issue of the convertible notes (the “Notes”) to Obsidian upon the terms set out in the Facility. If shareholder approval is not received, the drawdown and the issue of the Notes will not proceed. All material terms of the Notes to be issued under the Facility are included in JAT’s ASX announcement made on 22 April 2020.

B. Convertible Note

JAT will issue a convertible note (“Convertible Note”) to Ms Wen Huang (the “Noteholder”) on the following terms:

1. The Noteholder is to subscribe \$1 million in cash for the issue of the Convertible Note.
2. The Convertible Note must be redeemed on the Maturity Date if it is not converted to shares in JAT as at that date.
3. The Maturity Date is 21 July 2020, being three months from the date of issue.
4. The Convertible Note will, subject to shareholder approval, convert to JAT shares at an issue price of 5c per share.
5. There is no provision for partial conversion of the Convertible Note.
6. If shareholder approval is not obtained for the conversion, the Convertible Note will be redeemed for \$1 million cash.
7. No interest is payable on the Convertible Note.
8. The Convertible Note is unsecured.

Outlook

JAT expects to see continued growth in its dairy products business for the remainder of 2020. JAT’s Neurio dairy product brands containing lactoferrin have seen strong demand in China driven by the emergence of COVID-19.

Although the coronavirus outbreak has created some challenges in terms of doing business in China, JAT expects to maintain its rate of revenue through stronger sales for ANMA and the release of new products.

With the first stage of installation of new machinery at ANMA now complete, JAT expects to be able to increase the margins earned from producing its own products as well as generate revenue from the manufacture of products for third parties.

The release of this announcement was authorised by Wilton Yao, Managing Director, on behalf of the Board.

Wilton Yao
Managing Director

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About Jatenergy Limited

JAT is a China-Australia trade specialist and develops and markets a portfolio of in-house branded FMCGs, focusing on growth opportunities in dairy products.

JAT has positioned itself as a major player in the flourishing Australian consumer goods export industry, offering Chinese retail presence, online sales to Chinese consumers through offshore platforms, and high-volume wholesaling to daigou groups and other distribution channels.

JAT's extensive network of Chinese business affiliations is a substantial source of opportunities, both for JAT and for its Australian business partners.

Appendix 4C

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

Name of entity

Jatenergy Limited

ABN

31 122 826 242

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	18,460	51,996
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(13,926)	(41,588)
(c) advertising and marketing	(708)	(980)
(d) leased assets	(120)	(88)
(e) staff costs	(648)	(1,647)
(f) administration and corporate costs	(776)	(2,253)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	79	233
1.5 Interest and other costs of finance paid	(698)	(1,356)
1.6 Income taxes paid	(54)	(1,119)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	39	164
1.9 Net cash from / (used in) operating activities	1,648	3,362

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	(3,604)	(9,076)
	(e) intellectual property	-	-
	(f) other non-current assets	(461)	(1,318)
2.2	Proceeds from disposal of:		
	(g) entities	-	-
	(h) businesses	-	-
	(i) property, plant and equipment	-	-
	(j) investments	-	-
	(k) intellectual property	-	-
	(l) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	1,238
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(4,065)	(9,156)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	750	1,254
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	-	-
3.5	Proceeds from borrowings	6,703	11,450
3.6	Repayment of borrowings	(1,739)	(1,780)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	(2,447)
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	5,714	8,477

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	7,230	7,844
4.2	Net cash from / (used in) operating activities (item 1.9 above)	1,648	3,362
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(4,065)	(9,156)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	5,714	8,477
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	10,527	10,527

5.	Reconciliation of cash and cash equivalents	Current quarter \$A'000	Previous quarter \$A'000
	at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		
5.1	Bank balances	10,527	7,230
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)	10,527	7,230

6. Payments to related parties of the entity and their associates		Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	99
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.

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	\$10 million	\$10 million
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	\$10 million	\$10 million

7.5	Unused financing facilities available at quarter end	Nil
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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.

1. Lender: Topwei Two Pty Ltd. Amount: \$5 million. Term: Repayable before 3 September 2021. Interest rate: 20% per annum. Repayable at any time provided 60 days' notice to the lender is made. Security: unsecured.
2. Lender: Topwei Two Pty Ltd. Amount: \$5 million. Term: Repayable at any time before 8 January 2021. Interest rate: 13% per annum. Repayable at any time. The lender may, subject to shareholder approval, request that repayment of the loan take place by converting the loan to shares at 85% of 10 business day VWAP prior to the date of repayment. Security: PPSR security interest over JAT's shares in ANMA.
3. Funding to be received in quarter ended 30 June 2020: Convertible Notes to the amount of \$5m as set out in accompanying Activities Report.

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	1,648
8.2	Cash and cash equivalents at quarter end (Item 4.6)	10,527
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	10,527
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	

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?

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?

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Compliance statement

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- This statement gives a true and fair view of the matters disclosed.

Date: 30 April 2020.....

Authorised by: By the Board
(Name of body or officer authorising release – see note 4)

Notes

- 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.
- 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.