

APPENDIX 4C – 31 DECEMBER 2019 COMPANY UPDATE & QUARTERLY CASHFLOW REPORT

Highlights:

- *Key agreements and engineering studies for the Hazer Commercial Demonstration Plant progressed.*
- *Entered a Memorandum of Understanding with Chiyoda Corporation to collaborate on the commercialisation of the Hazer technology in Japan.*
- *Application to Western Australia Renewable Hydrogen Fund successful—up to \$250,000 for a feasibility study on the creation of a renewable hydrogen transport hub.*
- *Completed capital raisings totalling \$6.3 million, including a \$2.5 million placement to institutional and sophisticated investors and an oversubscribed \$3.46 million Share Purchase Plan.*
- *Cash reserves of \$9.6 million at 31 December 2019.*

PERTH, AUSTRALIA; 31 JANUARY 2020: Hazer Group Ltd (“Hazer” or “the Company”) (ASX: HZR) lodges the attached Appendix 4C Quarterly Cashflow Report for the six-month period ended 31 December 2019.

Activities update

Hazer focussed on progressing the Hazer Commercial Demonstration Plant (“CDP”) during the quarter.

Key activities included:

- Engineering, design and procurement planning necessary to support a detailed project budget and preparation of EPC contracts and equipment packages;
- Securing a non-binding Term Sheet with BOC Ltd for hydrogen offtake, executing non-binding Term Sheets with Water Corporation for biogas supply and project development; and
- Negotiating the detailed ARENA Funding Agreement.

The proposed Hazer Process CDP is a 100 tons per annum, low-emission hydrogen production facility that will be the first large-scale, fully integrated deployment of the Hazer Process. It is proposed to locate the CDP at the Water Corporation’s Woodman Point Waste-Water Treatment Plant in Western Australia. The CDP will utilise biogas produced at the treatment plant as feedstock to produce hydrogen and graphite. The CDP represents the key next step in fully commercialising the Hazer technology.

In addition, Hazer commenced research activities in partnership with the Innovative Manufacturing CRC (IMCRC); executed a Memorandum of Understanding with Chiyoda Corporation for collaboration on commercialisation of the Hazer technology in Japan; and secured \$250,000 from the WA Renewable Hydrogen Fund for a feasibility study on establishing a renewable hydrogen transport infrastructure hub in the City of Mandurah and Peel region.

Hazer Commercial Demonstration Plant Update

Hazer made significant progress during the quarter on developing the Hazer Commercial Demonstration Plant, across technical, commercial and funding activities.

Engineering design and procurement planning activities continued to progress through the Early Contractor Involvement (ECI) contract with Primero Group Ltd (Primero) and additional specialist engineering service providers. An interim report from the ECI phase has identified a robust and sound design basis for the project and provided key engineering deliverables necessary to support an updated detailed project budget and schedule. Hazer is very pleased with the interim ECI results. The results represent a significant advance in the development of the Hazer Process, particularly around the upscaled detailed reactor design, catalyst and graphite handling systems, and balance of plant systems that have been incorporated into this first fully integrated plant design.

Hazer is now reviewing the interim results with Primero to identify any additional scope of work necessary to complete this phase and finalise the project budget. While Hazer is very pleased with the interim engineering package, the Company has identified a small number of areas that have scope for improvement or that have higher-than-anticipated costs of equipment packages. Hazer has commenced a short-duration Value Engineering review to assess and confirm identified improvements that Hazer can implement ahead of asking the Hazer Board for full project sanction, committing to an EPC contract and placing orders for major equipment packages. Hazer anticipates that this exercise will be completed by the end of March 2020.

Costs for the Hazer CDP have experienced only limited anticipated increases during progression from the initial FEED study (-20/+30% accuracy) to the interim ECI results. While Hazer will not be able to fully update the budget until the end of the Value Engineering review, Hazer anticipates the project will have a CAPEX cost of \$16-17 million. The new anticipated target cost is \$16.5 million (a \$0.7 million, or 4%, increase over the initial target budget of \$15.8 million). The Board will confirm the budget at the time of project sanction.

Completion of the initial ECI scope has been a little slower than projected. This has been primarily caused by slow responses to our vendor enquiries and the need to clarify some vendor submissions, driven by the small scale and first-of-type nature of our project, and impacts of the annual holiday shutdown period. While this has delayed completion of the interim ECI phase by approximately six weeks, Hazer remains on target to make a project sanction decision by the end of Q1 2020. Hazer still aims to commission the Hazer CDP in Q1 2021.

Hazer has made progress during the quarter with key commercial and funding activities to support the project sanction decision.

As advised on 2 September 2019, Hazer's application for funding from ARENA under the Advancing Renewables Program was approved by the ARENA Board. The ARENA Board approved ARENA to enter into negotiations for a funding agreement of up \$9.41 million to support the construction and operation of the Hazer Process CDP, including a grant facility of \$7.9 million to support the capital expenditure phase of the project, and \$1.5 million to support the operating phase of the project. As noted in the announcement, any funding advanced will be contingent on Hazer and ARENA executing a Funding Agreement and the satisfaction of certain conditions, in a form acceptable to ARENA, including the completion of a Biogas Supply and Hydrogen Offtake agreements, and demonstrating sufficient financing to allow completion of the project.

During the quarter, Hazer progressed negotiations with ARENA for the detailed Funding Agreement. A draft Funding Agreement, consistent with the general provisions of the funding approval previously advised, is now being progressed through ARENA and Hazer's internal processes for final approval. Hazer expects this will be executed in the coming quarter as part of the planned project sanction decision timetable.

As advised on 16 December 2019, Hazer has entered a non-binding Term Sheet with BOC Ltd (BOC) for Hydrogen Offtake from the CDP. Under the Term Sheet, Hazer and BOC agree to negotiate a binding Hydrogen Offtake Agreement whereby BOC will be the off-taker for hydrogen produced at the Hazer CDP and will supply storage, logistics and refuelling services to deliver hydrogen to end-users. The parties aim to conclude a binding agreement by 31 March 2020.

Additionally, Hazer continues to collaborate closely with Water Corporation on Hazer's engineering studies, planning for approval applications and other pre-project preparation matters. Hazer has executed non-binding Term Sheets for a Biogas Supply Agreement and a Project Cooperation Agreement during the quarter, consistent with the intent of the Memorandum of Understanding between Hazer and Water Corporation announced on 31 May 2019. Hazer is now converting these to binding agreements during the coming quarter to support the project sanction decision.

Memorandum of Understanding with Chiyoda Corporation

As part of its commercial development strategy, Hazer has been engaged extensively with potential partners in key early adopter markets for low-emission hydrogen. Hazer has focussed on markets that have strong support for the transition to a hydrogen economy and the uptake of hydrogen as a transport fuel. Particularly, Hazer is considering emerging premium low-emission hydrogen opportunities in Asia. Hazer also is identifying opportunities in markets such as the USA (California) and Europe.

Hazer is pleased to announce that it has entered a Memorandum of Understanding (MOU) with Chiyoda Corporation to collaborate on the commercialisation of the Hazer technology in Japan and develop low-emission hydrogen production facilities.

Hazer Group Managing Director and CEO Geoff Ward said Hazer is delighted to continue the excellent relationship it has developed with Chiyoda through the MOU.

"Japan is a leading proponent of the hydrogen economy and a key market for clean, low-emission hydrogen such as that produced by the Hazer Process," he said.

"Through their work for the Japanese government, cities, prefectures and private industry clients, Chiyoda is a leader in the hydrogen industry in Japan.

"Chiyoda's knowledge, experience and capability make them an excellent partner for Hazer, with their project development, execution and operation capabilities complementing Hazer's technology offering.

"We look forward to working closely with them in this important market."

Application for Western Australia Renewable Hydrogen Fund Successful

During the quarter, Hazer was pleased to be a successful applicant for Feasibility Study funding under the Western Australian state government's Renewable Hydrogen Fund. The fund is a key part of the government's Renewable Hydrogen Strategy which aims to position WA as a major producer, user and exporter of renewable hydrogen. Hazer's application is for a Feasibility Study on the creation of a renewable hydrogen transport hub in the City of Mandurah and the wider region.

The study aims to identify and aggregate customers for hydrogen-based low-emission transport applications and match them with hydrogen infrastructure and supply solutions, including supply from the proposed Hazer CDP. The WA state government has committed to provide up to \$250,000 to complete the study.

Hazer has been in a dialogue with the City of Mandurah to identify potential users for hydrogen in the city and surrounding region. The feasibility study will build on this initial work which has identified a strong appetite to develop hydrogen mobility projects in and around the Peel region.

Research & Development Activities

During the quarter, Hazer commenced its research program in partnership with the Innovative Manufacturing CRC (IMCRC) to progress its research in advanced carbon materials (ACM) applications. IMCRC is a not-for-profit, independent cooperative research centre that helps Australian companies increase their global relevance through research-led innovation in manufacturing products, processes and services.

Hazer was awarded matching IMCRC funding of \$800,000 to support its ongoing successful research and development (R&D) collaboration with the University of Sydney's School of Chemical and Biomolecular Engineering.

Over the next two years, researchers will be investigating the use of graphite ACM derived from Hazer's novel manufacturing process, the Hazer Process, focusing on applications including Li-ion batteries, water purification, and additives for lubrication products. Previous R&D projects have indicated promising results in these three product sectors and potential use as an additive in advanced building materials and cement.

Test program and R&D activities are ongoing at Hazer's Fluidised Bed Reactor (FBR) Pilot Plant which is co-located at the Mineral Resources site at Kwinana, Western Australia, and through our collaboration with the University of Sydney. The results of these programs will support the ongoing CDP engineering and Commercial-Scale Hazer Plant development studies. They will also further Hazer's understanding of the applications and functionalisation of Hazer-produced graphite advanced carbon material.

Mineral Resources PTR Pilot Plant & Cooperation Agreement

During the quarter, Hazer continued to support Mineral Resources in its assessment of the PTR Pilot Plant results and assisting as required to support their decision process to continue to Stage 2 of the strategic partnership. At this point, Mineral Resources is continuing to assess options to develop the proposed synthetic-graphite project but has not yet advised Hazer of their proposed decision.

Cashflow commentary, completed capital raisings totalling \$6.3 million

Capital raisings totalling \$6.3 million were completed during the quarter, including \$2.5 million via a placement to institutional and sophisticated investors; \$3.46 million via an oversubscribed Share Purchase Plan; and \$0.36 million from the exercise of options.

Funds from the capital raisings will be used principally to support development of the CDP, continue Hazer's ongoing R&D program into applications for the Company's graphite advanced carbon material (including the recently announced partnership with the Innovative Manufacturing Co-operative Research Centre), progress business development activities to identify commercial partnerships and opportunities, and general working capital.

Cash reserves increased by \$4.7 million to \$9.6 million during the quarter, with new capital raised partly offset by share issues costs (\$0.4 million) and net operating cash outflows (\$1.2 million) covering the Company's ongoing technical development, project development, R&D and administration activities.

The Company has lodged its R&D tax incentive claim for the financial year ending 30 June 2019. The rebate is anticipated to be received in the quarter ended 31 March 2020. The Australian federal government's R&D Tax Incentive program provides a cash refund on eligible research and development activities performed by Australian companies and is an important program to support Australian innovation.

Authorised for release by the Board.

[ENDS]

Forward-looking Statements

This announcement may contain certain “forward-looking statements” which may not have been based solely on historical facts, but rather are based on the Company’s current expectations about future events and results.

Where the Company expresses or implies an expectation or belief as to future events or results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, forward-looking statements are subject to risks, uncertainties, assumptions and other factors, which could cause actual results to differ materially to futures results expressed, projected or implied by such forward looking statements.

The Company does not undertake any obligation to release publicly any revisions to any “forward-looking statements” to reflect events or circumstances after the date of this announcement, or to reflect the occurrence of unanticipated events, except as may be required under the applicable securities laws.

ABOUT HAZER GROUP LTD

Hazer Group Limited (“Hazer” or “The Company”) is an ASX-listed technology development company undertaking the commercialisation of the Hazer Process, a low-emission hydrogen and graphite production process. The Hazer Process enables the effective conversion of natural gas and similar methane feedstocks, into hydrogen and high-quality graphite, using iron ore as a process catalyst.

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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

HAZER GROUP LIMITED

ABN

40 144 044 600

Quarter ended ("current quarter")

31 DECEMBER 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) research and development	(464)	(773)
(b) product manufacturing and operating costs		
(c) advertising and marketing		
(d) leased assets		
(e) staff costs including research and development staff	(521)	(1,059)
(f) administration and corporate costs	(198)	(450)
1.3 Dividends received (see note 3)		
1.4 Interest received	3	19
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
- R&D tax rebate		
1.8 Other (provide details if material)		
- Net GST received / (paid)	(44)	(54)
1.9 Net cash from / (used in) operating activities	(1,224)	(2,317)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment		
(b) businesses (see item 10)		
(c) investments		
(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	0	0

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	5,958	5,958
3.2 Proceeds from issue of convertible notes		
3.3 Proceeds/(refund) from exercise of share options	360	360
3.4 Transaction costs related to issues of shares, convertible notes or options	(383)	(383)
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	5,935	5,935

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
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	4,914	6,007
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,224)	(2,317)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	0	0
4.4 Net cash from / (used in) financing activities (item 3.10 above)	5,935	5,935
4.5 Effect of movement in exchange rates on cash held	0	0
4.6 Cash and cash equivalents at end of quarter	9,625	9,625

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	9,516	4,805
5.2 Call deposits		
5.3 Bank overdrafts		
5.4 Other – bank guarantee	109	109
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	9,625	4,914

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	120
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	0
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	
- Director fees and superannuation paid to Directors (\$120k)	

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	0
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	0
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

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.		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(763)
9.2 Product manufacturing and operating costs	0
9.3 Advertising and marketing	0
9.4 Leased assets	0
9.5 Staff costs	(535)
9.6 Administration and corporate costs	(360)
9.7 Other (provide details if material)	0
9.8 Total estimated cash outflows	(1,658)*

* Estimated cash outflows excludes the rebate from the Company's R&D tax incentive claim for the financial year ending 30 June 2019, anticipated to be received in the quarter.

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

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 January 2020.....

Print name:Emma Waldon.....

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.