

## 1. Company details

Name of entity:	Ecofibre Limited
ACN:	140 245 263
Half year ended (current period):	31 December 2022
Half year ended (previous period):	31 December 2021

## 2. Results for announcement to the market

	31 Dec 2022 \$'000	31 Dec 2021 \$'000	Variance
Revenues from ordinary activities	16,453	15,470	6%
Profit (loss) from ordinary activities after tax attributable to the owners of Ecofibre Limited	(17,608)	(6,694)	-163%
Profit (loss) for the half-year attributable to the owners of Ecofibre Limited	(17,608)	(6,694)	-163%
Profit (loss) for the half-year attributable to the members of the company (after exchange differences)	(16,692)	(3,864)	
Basic earnings (loss) per share (cents)	(5.25)		
Diluted earnings (loss) per share (cents)	(5.25)		

### Dividends

There were no dividends paid, recommended or declared during the reporting period.

## 3. Net tangible assets

	31 Dec 2022 Cents	30 Jun 2022 Cents
Net tangible assets per ordinary security	<u>7.27</u>	<u>13.23</u>

#### 4. Audit qualification or review

Additional information supporting the Appendix 4D disclosure requirements can be found in the Directors' Report and the consolidated financial statements for the half-year ended 31 December 2022. This report is based on the consolidated financial statements for the half-year ended 31 December 2022 which have been reviewed by William Buck (Qld).

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# ECOFIBRE



HALF-YEAR  
FINANCIAL  
STATEMENTS  
**2023**

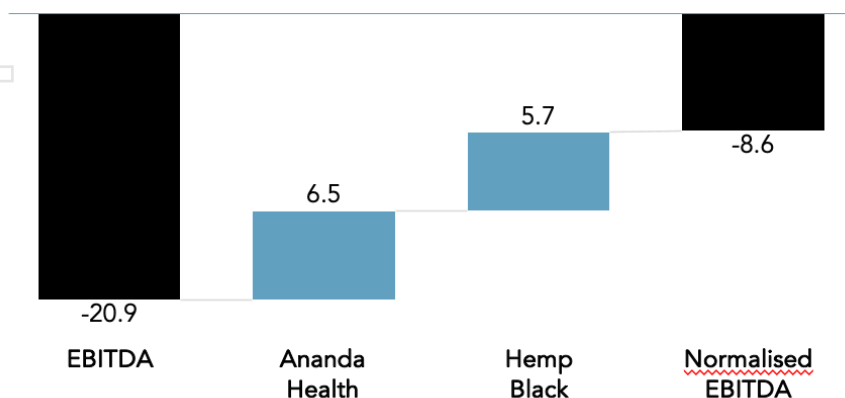
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Ecofibre has undertaken a comprehensive strategic and operational review completed to deliver positive operating cash flow in FY24 from a portfolio of business lines able to deliver profitable growth.

As a result of this review, in 1H23 Ecofibre recognised one-off impairment charges totalling \$12.2m for assets in Ananda Health and Hemp Black.

1H23 Normalised EBITDA, \$m



# Key Financial Metrics

## 1H23 RESULT

**Revenue**  
up from \$15.5m to  
**\$16.5m**

**Gross Margin**  
down from 51% to  
**15%**

**Other Income**  
down from \$1.5m to  
**-\$5.7m**

**Operating Costs**  
up from  
\$18.3m to  
**\$20.4m**

**Loss before Tax**  
up from \$9.6m to  
**\$24.9m**

**Loss after Tax**  
up from \$6.7m to  
**\$17.6m**

**EPS**  
**-5.25cps**

## 1H23 RESULT excluding impairments

**Revenue**  
up from \$15.5m to  
**\$16.5m**

**Gross Margin**  
unchanged at  
**54%**

**Other Income**  
down from \$1.5m to  
**\$0.1m**

**Operating Costs**  
up from  
\$18.3m to  
**\$20.4m**

**Loss before Tax**  
up from \$8.9m to  
**\$12.6m**

**Loss after Tax**  
up from \$6.2m to  
**\$8.5m**

**EPS**  
**-2.52cps**

## BALANCE SHEET & OTHER METRICS

**Cash**  
**\$7.4m**

**Cash + IRS  
credits & refund**  
**\$12.7m**

**Investment  
(R&D)**  
**\$3.6m**

**Investment  
(Capital)**  
**\$1.3m**

**NTA  
per share**  
**7.27 cps**

# Directors' Report

The directors of Ecofibre Limited present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Ecofibre Limited (referred to hereafter as the 'Company' or 'Parent Entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2022.

## Directors

The following persons were directors of Ecofibre Limited during the half-year reporting period 1 July 2022 to 31 December 2022 and up to the date of this report, unless otherwise indicated.

Vanessa Wallace	Non-Executive Chairman
Eric Wang	CEO & Managing Director
Jon Meadmore	Non-Executive Director
Prof Bruce Robinson	Non-Executive Director
Michele Anderson	Non-Executive Director
Mark Bayliss	Non-Executive Director (appointed 1 September 2022)

## Principal activities

The principal continuing activities of the Group during the half-year were researching, producing, and selling hemp derived nutraceuticals and foods, and sustainable industrial products.

## Significant changes in the state of affairs

In July 2022, the Group received USD6.4m from NuBridge Commercial Lending LLC, being the balance of funds due on a USD10m loan. The Group also repaid \$2.0m due to the James & Cordelia Thiele Trust Fund (Thiele) in July 2022.

On 1 September 2022, Director Mark Bayliss joined the Board of the Company as an independent, non-executive director. Mr Bayliss assumed the role of Chair of the Audit, Risk & Compliance Committee.

In October 2022 Ecofibre lodged four Track 1 utility patent applications with the USPTO for endometriosis, gynecological cancers, and other non-malignant gynecological disorders. The Company has started the engagement process with the USPTO to prioritise the sequence of their review. Ecofibre's CANN-Sleep phase 3 clinical trial, conducted independently by the National Centre for Naturopathic Medicine, Southern Cross University (SCU), indicated that whilst there was improvement in sleep outcomes compared to baseline, the improvements did not reach statistical significance compared to placebo. Ecofibre met with the Therapeutic Goods Administration (TGA) to discuss the initial result and is evaluating a potential follow-on crossover study to complete the clinical trial.

The company undertook a comprehensive strategic and operational review of its portfolio to refocus the business around a tighter set of activities that can generate positive cash flow in the near term and have significant growth potential over time. As a result a number of actions have been taken. The Company has decided to close part of its knitting business, specifically the garment business that uses Santoni machines for 3D and tubular knitting, and an impairment expense has been recognised in relation to fixed assets, intangible assets and inventory used in this business. The Company has also made the decision to write down the balance of fixed assets, inventory and intangible assets in line with lower capacity utilisation at its production facility in Georgetown, Kentucky, and in line with lower market costs for key inputs such as hemp extracts used to blend and manufacture cannabinoid based nutraceuticals.

On 31 December 2022 Ecofibre renegotiated the terms of loans from the James & Cordelia Thiele Trust Fund (Thiele) and the Lambert Superannuation Fund (LSF) to extend maturity from 15 July 2023 to 15 July 2025, with the exception of \$1m payable to Thiele on 15 July 2023. Interest on the Thiele loan increased from 8% to 11%.

There were no other significant changes in the state of affairs of the consolidated entity during the half-year.

## Review of Operations and Results

GROUP RESULT	1H23	1H22	%
AUDm			
Revenue	16.5	15.5	+6%
Gross Margin	15%	51%	-35%
Other Income (Expense)	(5.7)	1.5	-472%
Operating Costs	(20.4)	(18.3)	-11%
Profit (Loss) before Tax	(24.9)	(9.6)	-160%
Profit (Loss) after Tax	(17.6)	(6.7)	-163%
Total Pre-tax impairment:			
Inventory	(6.5)	(0.7)	-893%
Property, plant and equipment & Intangible assets	(5.9)	-	-100%
Profit (Loss) before Tax excluding total impairment <sup>1</sup>	(12.6)	(8.9)	-41%
Investments:			
Research & Development	3.6	2.9	+23%
Capital Expenditure	1.3	1.5	-16%

**Overall summary**

In the six months to 31 December 2023 ('1H23'), Ecofibre incurred a loss after tax of \$17.6m (1H22 loss: \$6.7m).

The result included pre-tax impairment charges against the carrying value of assets in Hemp Black and Ananda Health totalling \$12.4m (one-off: \$12.2m). The impairments resulted from the Group's decision to close the Hemp Black apparel and 3D knitting business, and to reflect the lower level of capacity utilisation required for cannabinoid extraction at Ananda Health's production facility in Georgetown, Kentucky.

Excluding these impairment charges, the Group's loss before tax was \$12.6m, which was \$3.7m (41%) higher than 1H22.

**Impairment Expense****by Asset Type and Business Segment**

AUDm

**Inventory**

Ananda Health	4.8
Hemp Black	1.7
Ananda Food	0.1
Corporate	-
Total	6.5

Ananda Health cannabinoid extracts written down to estimated market value if sold as is rather than processed into finished goods, and Hemp Black apparel and associated fabrics and yarns.

**Property, Plant and Equipment**

Ananda Health	1.1
Hemp Black	1.0
Ananda Food	-
Corporate	-
Total	2.1

Ananda Health equipment written down to reflect lower utilisation, such as cannabinoid extraction equipment, and provisions against 3D knitting equipment and pyrolysis equipment to be sold.

<sup>1</sup> Impairment includes write off expenses for property, plant and equipment and intangible assets and impairment of inventory expenses

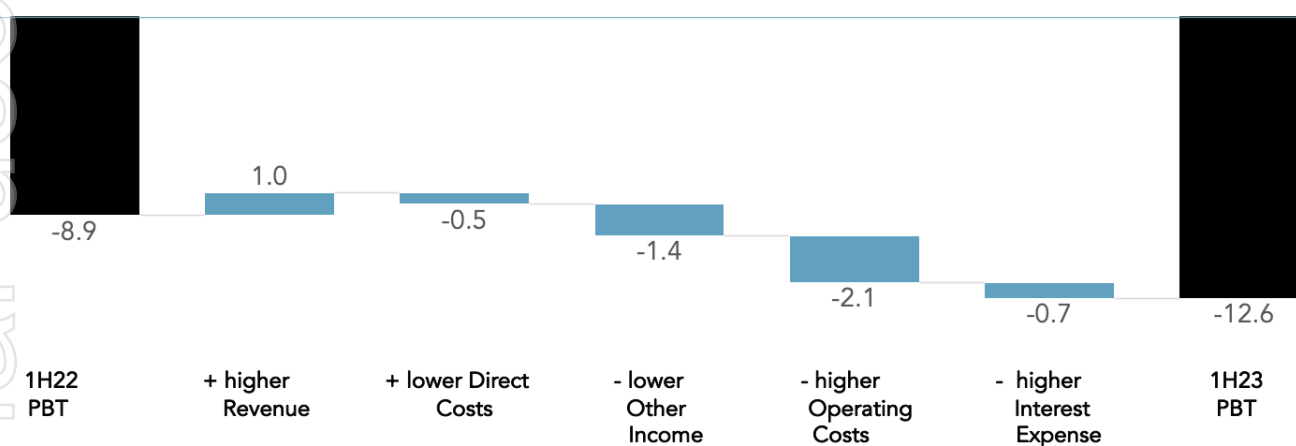
## Review of Operations and Results (continued)

## Intangible Assets

Ananda Health	0.6
Hemp Black	3.1
Ananda Food	-
Corporate	0.1
Total	3.7
<hr/>	
Total Impairment Expense	12.4

Hemp Black patents that had been intended to be used as part of the apparel business, and website and software development used variously for online apparel sales and to support large Ananda Health customers such as CVS.

The following table shows the key changes in the normalised loss before tax compared with the prior year:



Each of these items is discussed further below.

**Revenue, Direct Costs and Margin**

Group revenue increased 6%, from \$15.5m to \$16.5m (+\$1.0m):

- Hemp Black (1H23: \$7.7m; 1H22: \$6.8m)

Hemp Black grew revenue by 14% in 1H23. This growth includes higher production for core turf and biomedical yarn extrusion lines, as well as higher average prices for turf yarn as the business began to shift some of its production capacity toward higher value nylon polymers.

- Ananda Health (1H23: \$6.8m; 1H22: \$6.6m)

Ananda Health's revenue increased by 3% in 1H23, with improved sales in the professional channel in the US (+\$0.5m) and Australia (+\$0.4m) and initial JC Penney sales (+\$0.2m), partially offset by lower US sales of Ananda Hemp branded products (-\$0.8m) and lower CVS sales (-\$0.2m).

- Ananda Food (1H23: \$1.9m; 1H22: \$2.1m)

Ananda Food revenue declined by 7% in 1H23, with record sales of planting seed (1H23: \$1.0m, 1H22: \$0.5m) to Australian and US farmers for fibre crops offset by lower food sales, as higher sales to Coles Supermarkets were more than offset by lower Woolworths sales.



## Review of Operations and Results (continued)

Normalised gross margin for the Group was steady at 54%. Within each business segment:

- Hemp Black margin was steady (1H23: 49%; 1H22: 49%)
- Ananda Health margin was higher (1H23: 67%; 1H22: 66%)
- Ananda Food's margin was lower (1H23: 29%; 1H22: 33%)

### Other Income

Normalised Other Income reduced by 94%, from \$1.5m to \$0.1m (-\$1.4m).

\$1.4m was recognised in the prior period in relation to US federal government relief programs, including the final US Government Employee Retention Credit (\$1.4m) (ERC) which was derived in 1Q22. The US Federal Government ceased the ERC program effective 1 October 2021.

### Operating Expenses

Operating expenses increased by 11%, from \$18.3m to \$20.4m (+\$2.1m), which was higher than the increase in revenue.

The increase in operating expenses included higher staff costs (+\$0.8m) and investment in R&D (+\$0.7m), both of which are expected to reduce in 2H23 and 1H24 as the Group implements a cost reduction program across its businesses.

By cost type, the change in operating costs included:

- Staff costs (+\$0.8m)
  - higher costs for employees and contractors (+\$1.1m) includes US health benefits (+\$0.3m due to premium increase), higher Hemp Black wages (+\$0.5m including NCP acquisition) and higher Ananda Health wages (+\$0.4m)
  - Share-based payments (-\$0.3m) as share rights lapsed
- Operating cost investment in R&D (+\$0.7m)
  - Ananda Health R&D operating costs increased from \$1.6m to \$2.5m (+\$0.9m), which mainly related to the increased cost of clinical studies (+\$1.2m, mostly attributable to the University of Newcastle cancer study). Other R&D costs include staff for clinical studies and product development, and operational trials and testing.
 

Inclusive of clinical, legal and consultancy costs, and excluding a pro-rata allocation of internal staff time, the total cost attributable to the two main clinical studies (University of Newcastle and Southern Cross University) were \$1.7m and \$0.6m respectively.
  - Hemp Black R&D operating costs reduced from \$1.2m to \$1.0m. 1H23 R&D costs mainly related to staff costs (\$0.9m) and operational trials and testing.
  - Ananda Food R&D operating costs was steady at \$0.1m, mainly focused on new product development.

## Review of Operations and Results (continued)

- Legal & compliance costs (+\$0.6m) included the cost of gynecological patent applications, Nubridge facility lender fee, and defending and obtaining favourable court orders in a dispute with a former supplier.

By business segment, the increase in operating costs is split as follows: Ananda Health (+\$0.8m), Hemp Black (+\$0.7m), and Ananda Food (+\$0.5m) and Corporate (+\$0.1m).

### Income Tax

Ecofibre recognised an income tax benefit of \$7.3m during the period, which was in line with the increase in the company's loss before income tax.

### Cashflows and Balance Sheet

1H23 cash movements comprised

- \$5.9m operating cash outflows, including \$3.1m cash expenditure on R&D and \$1.8m received in relation to US government Employee Retention Credits (ERC)
- \$1.2m investing cash outflows, including \$0.9m for plant and equipment and \$0.3m for business acquisitions.
- \$6.9m financing cash inflows, including \$9.2m (USD 6.4m) secured loan funds received from Nubridge Capital and \$2.0m repaid on an unsecured loan.

At year-end, the Group had \$12.7m available to fund its operations and ongoing investments, including:

- Cash on hand, \$7.4m
- One-off receivables from the US Federal Government, \$5.4m

This relates to the remainder of ERC receivable for FY21 and FY22 (\$1.4m) and a US federal tax refund due to a one-off measure to carry back current period losses into prior years (\$4.0m).

The Group is focused on rapidly improving underlying operating cashflows whilst balancing the need to invest in revenue growth and client development.

Cash operating cost savings in 2H23 and 1H24 will be focussed on overall staff costs, R&D costs (including clinical studies), and legal and professional fees.

In the near term, the Group continues to use existing inventory balances and reducing non-cash working capital, to generate higher operating cash margins.

Dried flower purchases for Ananda Health CBD have stopped, and smaller food seed crops were planted for Ananda Food as those businesses can draw down on existing crop inventories.

The value of Inventory and Biological Assets reduced by \$6.1m, mainly due to the \$5.9m inventory impairment recognised during the period.

## Review of Operations and Results (continued)

Trade Receivables reduced by \$1.2m during the period.

Non-current assets were steady during the period, increasing slightly from \$112.9m to \$113.7m.

- Property, Plant and Equipment was steady over the period (\$47.0m), as depreciation charges were offset by foreign exchange impacts.
- Intangible Assets reduced from \$55.4m to \$52.3m, reflecting impairments recognised for patents and software costs.

The remaining balance mainly relates to Goodwill recognized on the acquisition of the business and assets of TexInnovate in August 2020 (\$51.1m) and the acquisition of Soul Seed and New Composite Partners in FY22 (\$0.5m).

The Group also has a corresponding \$14.0m liability from the TexInnovate acquisition for Contingent Consideration payable in cash, and a \$14.3m Share Capital Reserve for contingent equity consideration applicable to the transaction. These amounts become payable if the acquired business delivers Earnings before Interest and Tax of US6.0m in two consecutive annual periods within five years from the date of the acquisition (21 August 2020).

- The value of the Group's Deferred Tax Asset increased from \$9.7m to \$17.1m, reflecting the value of accumulated tax losses once applied against future profits.

Current liabilities total \$7.1m, down from \$8.1m at the beginning of the period. The balance includes \$1.0m payable to the James & Cordelia Thiele Trust Fund (J&CTTF) in July 2023.

Non-current liabilities total \$40.2m, including the non-current portion of the J&CTTF term loan (\$7.0m), Lambert Super Fund loan (\$3.5m), the NuBridge loan (USD 10.0m), and TexInnovate Contingent Consideration (\$14.0m).

Overall, the Group's net assets reduced from \$109.9m at 30 June 2022 to \$93.9m during the period, and the number of shares on issue increased slightly from 335.5m to 335.7m as 0.2m shares issued by the Employee Share Trust. At the end of the period the Net Tangible Assets per share was 7.27 cps (30 June 2022: 13.23 cps).

The value of net assets, and the Consolidated Statement of Other Comprehensive Income, included a benefit of \$0.9m in 1H23 because of the strengthened USD and the consequent revaluation of the net assets of the group's US entities.

## Review of Operations and Results (continued)

ANANDA HEALTH AUDm		1H23	1H22	%
	Revenue	6.8	6.6	+3%
	Gross Margin	-2%	58%	-60%
	Operating Costs	(9.2)	(8.4)	-9%
	Profit (Loss) before Tax	(11.0)	(4.0)	-172%
	Pre-tax impairment:			
	Inventory	(4.8)	(0.5)	-787%
	Property, plant and equipment & intangible assets	(1.7)	-	-100%
	Profit (Loss) before Tax excluding Impairment	(4.5)	(3.5)	-29%
	Investments:			
	Research & Development	2.5	1.6	+52%
	Capital Expenditure	0.3	0.1	+151%

The North American CBD market continues to be difficult and is forecast to decline over the next few years. Ecofibre is responding to these conditions by cutting costs where possible and stabilising revenues through product and sales channel expansion. Key Developments and value drivers for the future include:

- Maintain and grow our leading position in the US Independent Pharmacy market by focusing on more successful individual and multi-store chains. We will use new product development for Ananda Professional and the more affordable MyEveryday CBD brand to support our position.
- Grow our channel presence in the very large and attractive US Health Care Practitioner market. This large and growing channel focuses on a client base with discretionary spend. Ananda's research portfolio, product development capability and quality manufacturing underpin this priority.
- Advance our Gynecological cancer research portfolio by developing key partnerships to manage financial and execution risk.
- Continue to work towards the introduction of an over-the-counter CBD product for the Australian market via the S3 program.

***Maintain and grow our leading US Independent Pharmacy position and develop the US Healthcare practitioner channel***

Ananda Health supplies pharmacies in the United States with high quality, safe and federally legal hemp-derived CBD products in a wide variety of formats. We have an ongoing opportunity to expand the breadth of our offer to these pharmacies and to increase re-order rates by helping them better serve their customers.

The US continues to be the world's largest market for hemp-derived CBD<sup>2</sup>, and accounts for most of Ananda Health's revenue. Over the past two years the US CBD market has been challenging, but COVID related challenges for US independent pharmacies have abated, and industry supply also continues to consolidate and reduce.

<sup>2</sup> Grandview Research, Cannabidiol Market Size, Share & Trends Analysis Report, 2022

## Review of Operations and Results (continued)

Despite hemp-derived CBD being federally legal since December 2018, the FDA has not yet established these products as a dietary supplement or food. Because of this lack of clarity, products containing hemp-derived CBD have limited access to mainstream retail distribution channels.

The FDA has recently announced that it will be clarifying regulatory guidance on CBD which will hopefully create clarity and confidence with the mainstream channels. The business has received third-party certification for both dietary supplements and ISO22716 in preparation for any future regulatory changes.

Given the more difficult conditions over the next few years, Ecofibre is responding by cutting costs where possible and stabilising revenues through product and sales channel expansion. Key value drivers for the future include:

- Ananda Professional continues to be our key product range
- New MyEveryday CBD brand aims to increase shelf space

This 'value' range was launched in August 2022 and features a smaller and more affordable product range that leverages existing production capacity. It also aims to help pharmacies address the impact of inflation on their customers, and to capture additional shelf space in Ananda Health's pharmacy network.

- Focused on more successful pharmacies and multi-store chains as changes in DIR fee collections beginning in calendar year 2024 will affect pharmacies that are unprepared for these changes.
- Ananda Health will leverage clinical research outcomes to launch multi-active based CBD products into Practitioner channel beginning in February 2023.

These will be specifically formulated for a range of conditions, including pain and inflammation, sleep and stress, and progressively released in all three product formats (tinctures, soft gels and fruit chews).

The business has received verbal approval and commitment from a US distribution platform provider who is the market-leading scripting platform in the United States and critical in servicing the Practitioner channel.

By March 2023, CVS Pharmacy will no longer stock BalansLabs products due to the underperformance of their CBD category due to regulatory uncertainty. Sales to CVS Pharmacy totalled AUD0.2m in the 12 months to September 2022.

In September 2022, JCPenney began stocking BalansLabs, in 235 of its 660 stores, as part of its shift from Sephora in-store shops to JCPenney Beauty format. Initial sales to support the stocking of the range were \$0.2m.

### ***Advance gynecological cancer research portfolio towards commercial opportunities***

The commercial objective of the research partnership with The University of Newcastle is to establish a portfolio of intellectual property on a range of gynecological cancers that can be commercialized with a group of future partners.

This research studies the effects of Ananda full spectrum extract on gynecological diseases. A clinical set-up study was concluded in 1H22 and based on the outcomes of the study, Ecofibre filed four patent applications with the US Patent and Trademark Office (USPTO) in October 2021.

Ecofibre subsequently accelerated this program to develop clinical trials and to support and expand on its existing IP portfolio, and this subsequent research collaboration with the University of Newcastle enabled the Company to successfully lodge full Track 1 utility patent applications in October 2022.

### Review of Operations and Results (continued)

Overall, the program is running ahead of schedule and the business is very encouraged by the ongoing progress of the study, which is a compelling opportunity to improve the lives of women globally. We have been in regular contact with the US Patent and Trademark Office as our patent portfolio is being reviewed.

Ananda Health is now developing a partnership to further advance the portfolio toward commercialisation.

#### ***Continue to work towards an over-the-counter CBD product for the Australian market via the S3 program.***

In Australia, Ananda Health imports CBD dominant (< 0.3% THC) products to Australia from its production facility in the US and does not participate in the high-THC or dried flower market segments. Products are distributed under Schedule 4 and Schedule 8.

Ecofibre has undertaken a Phase III Double-Blind, Randomised Placebo-Controlled clinical trial (Sleep Study) to support a commercial objective of being the first provider of CBD for the over-the-counter market.

The Sleep Study did not show statistically significant improvement vs placebo and following a meeting with the Australian Therapeutic Goods Administration Ecofibre is evaluating a potential follow-on crossover study to complete the clinical trial.

#### ***Outlook***

Ananda Health expects to maintain and see modest growth in its US Independent Pharmacy channel and larger growth opportunities as it enters the attractive health care practitioner channel. The business looks to become operating cash flow positive as we expect modest revenue growth and cost reductions across the expense base.

## Review of Operations and Results (continued)

HEMP BLACK AUDm		1H23	1H22	%
	Revenue	7.7	6.8	+14%
	Gross Margin	27%	49%	-23%
	Operating Costs	(6.2)	(5.5)	-13%
	Loss before Tax	(8.2)	(1.3)	-538%
	Pre-tax impairment:			
	Inventory	(1.7)	(0.1)	-2513%
	Property, plant and equipment & Intangible assets	(4.0)	-	-100%
	Profit (Loss) before Tax excluding Impairment	(2.5)	(1.2)	-105%
	Investments			
	Research & Development	1.0	1.3	-20%
	Capital Expenditure	0.7	1.4	-49%

Hemp Black is a specialist manufacturer with deep capabilities across several core disciplines. The business recently exited its apparel and 3D knitting business lines to increase its focus on filling manufacturing capacity with new and existing clients across four areas that have strong cash flows and / or good growth profiles. These four business lines are:

- Yarn extrusion
  - Medical yarns
  - Outdoor turf yarns
  - Specialty multi-filament yarns
- Polymer compounding
  - Hemp Black BioPallets
  - /eco6 bio-based compounded materials

*Fill manufacturing capacity with new and existing clients for yarn extrusion*

- *Medical yarn* - operated as a dedicated, ISO9001 production facility supplying yarn for vascular grafts to Intervascular SAS, part of the Getinge AB group.

In the US the product and its manufacture is regulated by the Food and Drug Administration, and barriers to entry for new suppliers are very high due to the certification process for medical devices. The business line runs its operations 24x7 and we have implemented restructuring initiatives to increase operational throughput to maximise revenue.

- *Turf yarn* - produced for two customers using polypropylene and nylon to create higher specification synthetic turf systems. The business recently brought on its second client and the production line operates 24x7.

Industry tailwinds for artificial turf include year-round use, no watering, mowing, pesticides, herbicides, or fertilizers required, reducing maintenance costs.

## Review of Operations and Results (continued)

As demand for turf yarn continues to expand in the US, production is currently running at capacity and the Hemp Black team are working to further increase the speed and throughput of the existing line to maximise revenues. Opportunities also potentially exist to expand production capacity in conjunction with a large customer.

In 1H23 R&D investment in this business resulted in new yarns being developed for the market-leading provider of turf products in the United States, including different polymer types, colours and physical properties.

- *Specialty multi-filament yarns* - Hemp Black has been focused on conducting R&D with two global industrial companies to manufacture specialty yarns focused on delivering performance and sustainability. The addition of these two clients will consume all current and future manufacturing capacity.

A key driver and tailwind for this project is the ability to transition apparel inputs to more sustainable materials.

### *Fill manufacturing capacity with new and existing clients for Bio-pallets and /eco6™*

Hemp Black has worked with supply chain partners to formulate and manufacture a BioPallet from recycled plastic and biobased content and has provided samples to large potential customers.

Bio-pallets are an alternative to the traditional wood pallets utilised in the transport and logistics industry, particularly in environments where pallet hygiene is important, for example in food and pharmaceuticals.

### **Outlook**

Hemp Black will experience continued growth with new core clients. We expect Hemp Black to be profitable in FY24 with the contribution from the execution of our /eco6 strategy and large-scale production with new multi-filament yarn customers.



## Review of Operations and Results (continued)

ANANDA FOOD	1H23	1H22	%
AUDm			
Revenue	1.9	2.1	-7%
Gross Margin	29%	31%	-1%
Operating Costs	(1.5)	(1.1)	-43%
Loss before Tax	(0.9)	(0.4)	-116%
Pre-tax impairment:			
Inventory	(0.1)	(0.1)	-9%
Property, plant and equipment & Intangible assets	-	-	-
Profit (Loss) before Tax excluding Impairment	(0.8)	(0.4)	-129%
Investments:			
Research & Development	0.2	-	+326%
Capital Expenditure	0.3	-	+1448%

Ananda Food aims to be the leading hemp food supplier in Australia, and is focused on three priorities

- Be the lowest cost producer
- Grow the category via product innovation and brand
- Be the leading provider of hemp fibre seeds in the US and Australia

### Overview

Ananda Food operates two business in Australia and the United States. Each business is based on unique, registered varieties of hemp genetics:

- *Hemp foods:* Ananda Food supplies 100% Australian hemp seed products that are rich in digestible protein, fibre, omega 3 and omega 6 fatty acids, iron and other essential vitamins and minerals.

Ecofibre's hemp varieties enable high yields and progressive grain harvests in growing regions from Tasmania to North Queensland.

The business operates a highly efficient BRCGS<sup>3</sup> and HACCP<sup>4</sup> rated food processing facility in Beresfield, Australia. This facility has the only processing capability in Australia that can produce all three major categories of hemp food: de-hulled seed, oil and protein / fibre, as well as a pelletising line.

Varieties such as ECO-Excalibur produce reliable, high-yielding grain crops and are bred for optimal performance in specific growing latitudes.

- *Fibre planting seed:* Ananda Food propagates and sells planting seed to hemp fibre growers in the United States and Australia.

<sup>3</sup> British Retail Consortium - Brand Reputation through Compliance of Global food safety Standards

<sup>4</sup> Hazard Analysis and Critical Control Point

## Review of Operations and Results (continued)

Varieties such as ECO-MS77 produce high biomass in a short growing season and are adaptable to a wide range of growing conditions.

### *Hemp Foods*

The food business continues to focus on being the lowest cost producer through building scale as the white label and wholesale partner-of-choice, continuous improvement in crop yields, and best in class production facilities.

In 1H23 the business continued to invest in automation and processing efficiency to strengthen its cost position.

The business has a quality customer base, including both the Coles and Woolworths supermarket chains.

There is an ongoing focus on product innovation to expand market demand and share and expand distribution with large customers. This strategy includes new hemp formats to improve usability and use of by-products in products such as cat litter. As part of this strategy, in 1H23 Ananda Food completed the purchase the hemp food and wellness business of ECS Botanics for \$0.25m plus a small amount of stock at valuation.

Equine feed and other emerging pet markets are also a key area of focus.

### *Fibre Planting Seed*

The US market for hemp fibre seed has been growing strongly as new industrial applications are developed for hemp stalk (inner 'hurd' and exterior 'fibre') materials.

Ananda Food is becoming the leading provider of hemp fibre planting seed in the US and Australia

- ECO-MS77 widely considered the best fibre genetic in the US based on yield and ability to grow in all US latitudes
- demand currently exceeds supply
- strong margins

In 1H23, the business harvested 240 hectares of fibre seed crops in Queensland, parts of which was sold during the period to Australian and US growers for \$1.0m.

A second crop of 80 hectares has recently been harvested in Texas, USA. Despite heavy rain and frost impacting crop emergence, the sale value of this crop together with the remainder of the Australian crop is estimated to be c\$1.5m.

### *Outlook*

Ananda Food will continue to experience solid growth. The launch of new animal-based products and the expansion of the fibre planting seed business will be core to profitable growth.

## Material Business Risks

Ecofibre's growth strategy across its business portfolio exposes the Group to various risks, which are fully or partially mitigated in accordance with the Group's risk appetite and risk management framework. Risks and mitigating strategies set out in this report include:

- Managing working capital, including timing of receipt of ERC and income tax refunds in the United States, sale of surplus assets, and improving operating profits and cashflows across each of the Group's businesses through revenue growth and delivery of the Group's cost reduction program
- Improving profitability and managing working capital to re-pay Group loans on agreed timeframes
- Improving profitability is necessary to support the value of the Deferred Tax Asset on the Group's balance sheet.
- Hemp Black's ongoing growth strategy and implementation, including commissioning and filling new production capacity in new market and product segments, and growing the /eco6™ business. Continued revenue growth and consequent profits for Hemp Black are necessary to support the carrying value of the Goodwill asset and the Contingent Consideration liability on the Group's balance sheet.
- Implementing strategy to improve Ananda Health revenue growth, including the focus on professional healthcare and independent pharmacies and responding to ongoing oversupply and heightened competition in the US CBD market
- US FDA position on CBD as a dietary supplement, and managing ongoing regulatory change
- Ananda Food ongoing growth strategy and implementation, including growth of the overall hemp food category in Australia, and retaining and building market share through key distribution relationships
- Managing significant expansion of the fibre seed business (including associated agricultural and yield risk), and balancing the production and sale of different outputs from seed processing
- Changes to key customer purchasing trends, preferences and intentions
- Delivering a commercial return on the Group's investment in research and development, including Ananda Health's clinical research program
- Managing the impact of inflation on Group margins and operating costs
- Key person risk and retention of critical staff
- Global instability, including impacts on major customer strategies, supply chains and foreign exchange rates

Other portfolio risks include systems complexity and cyber risk. The Group's businesses are dependent on sophisticated business processes and systems to operate effectively. If these systems do not operate as intended, through cyber-attack or otherwise, the group's ability to operate its businesses would be significantly impacted.

**Material Business Risks (continued)**

Environmental, social and governance risks are not considered material to the Group's business strategies and financial prospects. Ecofibre published its most recent Governance Report, and a separate Sustainability Report, in August 2022.

Any current risk from climate change may include unpredictable high impact weather events such as tornados in the United States or rain and frost events impacting crops can cause significant damage in a short period. The Group's agricultural risk is considered manageable in the context of the overall business portfolio, a regionally diverse growing strategy and holding sufficient inventory to protect against shortages of hemp inputs in each business.

**Dividend**

No dividend was declared or paid during the half-year (1H22: Nil).

**Rounding of amounts**

In accordance with ASIC Corporations (Rounding in Financials/ Directors' Report) Instrument 2016/191, the amounts in this report are rounded to the nearest thousand dollars unless otherwise indicated.

**Auditor's independence declaration**

The auditor's independence declaration has been received and can be found on page 17 of the half-year report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3) of the Corporations Act 2001.

On behalf of the directors




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Vanessa Wallace  
Director

20 February 2023  
Sydney, Australia




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Eric Wang  
Director

20 February 2023  
Sydney, Australia

The Directors  
Ecofibre Limited  
PO Box 108  
Virginia BC QLD 4014

### AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of Ecofibre Limited for the half-year ended 31 December 2022, I declare that, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Ecofibre Limited and the entities it controlled during the period.

*William Buck*

**William Buck (Qld)**  
ABN 21 559 713 106

*M. Monaghan*

**M J Monaghan**  
Director

Brisbane: 20 February 2023

# Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements.
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



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Vanessa Wallace  
Director

20 February 2023  
Sydney, Australia

# Consolidated Statement of Profit or Loss

For the half-year ended 31 December 2022

	Note	31 Dec 2022 \$'000	31 Dec 2021 \$'000
Revenue		16,453	15,470
Direct costs	4(a)	(13,948)	(7,640)
Gross profit		2,505	7,830
Other income (expense)	3	(5,719)	1,536
Other operating expenses	4(b)	(20,415)	(18,324)
Interest expense		(1,315)	(640)
Profit (loss) before income tax		(24,944)	(9,598)
Income tax credit		7,336	2,904
Profit (loss) after income tax attributable to the members of the company		(17,608)	(6,694)
Earnings (loss) per share:			
Basic earnings (loss) per share - cents		(5.25)	(2.03)
Diluted earnings (loss) per share - cents		(5.25)	(2.03)

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes

# Consolidated Statement of Other Comprehensive Income

For the half-year ended 31 December 2022

	Note	31 Dec 2022 \$'000	31 Dec 2021 \$'000
Profit (loss) after income tax attributable to the members of the company		(17,608)	(6,694)
Other comprehensive profit (loss) for the half-year:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign controlled entities		916	2,830
Total comprehensive profit (loss) for the half-year attributable to the members of the company		<u>(16,692)</u>	<u>(3,864)</u>

*The above consolidated statement of other comprehensive income should be read in conjunction with the accompanying notes*



# Consolidated Statement of Financial Position

As at 31 December 2022

	Note	31 Dec 2022 \$'000	30 Jun 2022 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		7,375	7,251
Trade and other receivables		2,924	4,126
Inventories	5	10,160	15,702
Biological assets		27	579
Other current assets	8	3,171	5,086
Tax recoverable		3,956	3,943
<b>TOTAL CURRENT ASSETS</b>		<b>27,613</b>	<b>36,687</b>
<b>NON-CURRENT ASSETS</b>			
Intangible assets	6	52,305	55,368
Right-of-use assets		480	838
Property, plant and equipment	7	43,755	46,991
Deferred tax assets	14	17,126	9,670
<b>TOTAL NON-CURRENT ASSETS</b>		<b>113,666</b>	<b>112,867</b>
<b>TOTAL ASSETS</b>		<b>141,279</b>	<b>149,554</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		5,761	5,560
Lease liabilities		342	467
Tax payable		23	31
Borrowing	9	1,012	2,012
<b>TOTAL CURRENT LIABILITIES</b>		<b>7,138</b>	<b>8,070</b>
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities		249	463
Contingent consideration		14,368	13,996
Deferred tax liabilities		391	318
Borrowing	9	25,229	16,765
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>40,237</b>	<b>31,542</b>
<b>TOTAL LIABILITIES</b>		<b>47,375</b>	<b>39,612</b>
<b>NET ASSETS</b>		<b>93,904</b>	<b>109,942</b>
<b>EQUITY</b>			
Issued capital	10	115,534	115,347
Foreign currency translation reserve		2,726	1,810
Accumulated losses		(43,612)	(26,004)
Share capital reserve		14,300	14,300
Share-based payment reserve		4,956	4,489
<b>TOTAL EQUITY</b>		<b>93,904</b>	<b>109,942</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2022

	Note	Issued capital \$'000	Share-based payment reserve \$'000	Share capital reserve \$'000	Foreign currency translation reserve \$'000	Accumulated gains/ (losses) \$'000	Total \$'000
Balance 30 June 2022		115,347	4,489	14,300	1,810	(26,004)	109,942
Total comprehensive income for the period		-	-	-	916	(17,608)	(16,692)
Shares issued	10	108	-	-	-	-	108
Share-based payments	10	99	467	-	-	-	566
Share issue cost	10	(20)	-	-	-	-	(20)
Balance 31 December 2022		115,534	4,956	14,300	2,726	(43,612)	93,904
Balance 30 June 2021		108,132	5,796	14,300	(5,097)	(11,334)	111,797
Total comprehensive income for the period		-	-	-	2,830	(6,694)	(3,864)
Shares issued		-	-	-	-	-	-
Share-based payments		386	528	-	-	-	914
Share Options exercised		6,345	(2,068)	-	-	-	4,277
Share issue cost		(40)	-	-	-	-	(40)
Balance 31 December 2021		114,823	4,256	14,300	(2,267)	(18,028)	113,084

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

# Consolidated Statement of Cash Flows

For the half-year ended 31 December 2022

	Note	31 Dec 2022 \$'000	31 Dec 2021 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		18,135	16,676
Government grants		1,838	768
Payments to suppliers and employees		(24,760)	(22,240)
Interest received		19	4
Interest paid		(1,071)	(434)
Income tax paid		(58)	(93)
Net cash flows used in operating activities		<u>(5,897)</u>	<u>(5,319)</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(971)	(1,541)
Payments for business acquisition		(324)	-
Receipt from sale of property, plant and equipment		172	84
Other		(120)	12
Net cash flows used in investing activities		<u>(1,243)</u>	<u>(1,445)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		9,170	-
Repayment of borrowings		(2,000)	-
Repayment of lease liabilities		(238)	(261)
Proceeds from issue of shares		-	4,277
Net cash flows generated from financing activities		<u>6,932</u>	<u>4,016</u>
Net decrease in cash and cash equivalents held		(208)	(2,748)
Cash and cash equivalents at the beginning of the financial year		7,251	8,620
Effect of movement in exchange rates on cash held		332	45
Cash and cash equivalents at the end of the financial year		<u>7,375</u>	<u>5,917</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

# Notes to the Consolidated Financial Statements

## 1. Summary of significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2022 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2022 together with any public announcements made during the half-year.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

### New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. These standards did not have an impact on the Group.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

## 2. Operating segments

### *Identification of reportable operating segments*

The consolidated entity is organised into three operating segments based on differences in products and services provided: nutraceuticals (Ananda Health), food (Ananda Food) and fibre (Hemp Black).

These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (BOD) in assessing performance and in determining the allocation of resources.

Other segments represent the corporate headquarter functions and some of the research and development activities of the Group.

The BOD reviews the profit or loss before income tax for each segment. The accounting policies adopted for internal reporting to the BOD are consistent with those adopted in the financial statements.

### *Types of products and services*

The principal products and services of each of the operating segments are as follows:

Ananda Health	Production and sale of hemp related nutraceutical products in the United States and Australia
Ananda Food	Production and sale of hemp related food products primarily in Australia
Hemp Black	Production and sale of innovative textile and hemp products primarily in the United States
Ecofibre Corporate	Group corporate functions and some of the research and development activities of the Group

### *Intersegment transactions*

Intersegment transactions are made at arms-length market rates and are eliminated on consolidation.

### *Intersegment receivables and payables*

Intersegment transactions are initially recognised at the consideration received. Intersegment receivables and payables that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment receivables and payables are eliminated on consolidation.

## 2. Operating segments (continued)

## Operating segment information

## a) Segment performance

	Ananda Health \$'000	Hemp Black \$'000	Ananda Food \$'000	Ecofibre Corporate \$'000	Total \$'000
<b>Consolidated – 31 Dec 2022</b>					
Revenue					
Sales to external customers	6,791	7,714	1,948	-	16,453
Intersegment sales	-	-	99	-	99
<b>Total sales revenue</b>	<b>6,791</b>	<b>7,714</b>	<b>2,047</b>	<b>-</b>	<b>16,552</b>
Other income (expense)					
Government grant	-	-	46	-	46
Foreign exchange gain/ (loss)	(18)	(13)	20	(74)	(85)
Interest income	-	-	-	15	15
Impairment loss	(1,688)	(4,035)	(9)	(86)	(5,818)
Other income	7	(8)	9	115	123
<b>Total other income (expense)</b>	<b>(1,699)</b>	<b>(4,056)</b>	<b>66</b>	<b>(30)</b>	<b>(5,719)</b>
Total expenses	(16,098)	(11,872)	(2,919)	(4,789)	(35,678)
Intersegment purchases	-	-	(48)	-	(48)
<b>Segment loss before income tax</b>	<b>(11,006)</b>	<b>(8,214)</b>	<b>(854)</b>	<b>(4,819)</b>	<b>(24,893)</b>
Intersegment eliminations					(51)
<b>Loss before income tax</b>					<b>(24,944)</b>
<b>Consolidated – 31 Dec 2021</b>					
Revenue					
Sales to external customers	6,608	6,759	2,103	-	15,470
<b>Total sales revenue</b>	<b>6,608</b>	<b>6,759</b>	<b>2,103</b>	<b>-</b>	<b>15,470</b>
Other income (expense)					
Government grant	498	867	10	-	1,375
Foreign exchange gain/ (loss)	1	(7)	-	90	84
Interest income	-	-	-	1	1
Other income	4	6	6	60	76
<b>Total other income</b>	<b>503</b>	<b>866</b>	<b>16</b>	<b>151</b>	<b>1,536</b>
Total expenses	(11,151)	(8,912)	(2,538)	(4,003)	(26,604)
<b>Loss before income tax</b>	<b>(4,040)</b>	<b>(1,287)</b>	<b>(419)</b>	<b>(3,852)</b>	<b>(9,598)</b>

## 2. Operating segments (continued)

Operating segment information (continued)

## b) Segment assets and liabilities

	Ananda Health \$'000	Hemp Black \$'000	Ananda Food \$'000	Ecofibre Corporate \$'000	Total \$'000
<b>Consolidated – 31 Dec 2022</b>					
Assets					
Segment assets	8,694	74,974	5,402	44,834	133,904
<i>Unallocated assets:</i>					
Cash and cash equivalents					7,375
Total assets					<u>141,279</u>
Liabilities					
Segment liabilities	967	16,421	1,255	2,491	21,134
<i>Unallocated liabilities:</i>					
Borrowings					26,241
Total liabilities					<u>47,375</u>
<b>Consolidated – 30 Jun 2022</b>					
Assets					
Segment assets	16,824	82,296	5,374	37,809	142,303
<i>Unallocated assets:</i>					
Cash and cash equivalents					7,251
Total assets					<u>149,554</u>
Liabilities					
Segment liabilities	1,509	15,560	1,331	2,487	20,887
<i>Unallocated liabilities:</i>					
Borrowings					18,725
Total liabilities					<u>39,612</u>

## c) Geographical information

	Sales to external customers		Geographical non-current assets*	
	31 Dec 2022 \$'000	31 Dec 2021 \$'000	31 Dec 2022 \$'000	31 Jun 2022 \$'000
Australia	2,334	2,259	1,659	2,086
United States of America	14,119	13,211	94,881	101,111
	<u>16,453</u>	<u>15,470</u>	<u>96,540</u>	<u>103,197</u>

\* Excluding deferred tax assets.

**3. Other income / (expense)**

	31 Dec 2022 \$'000	31 Dec 2021 \$'000
Government grant	46	1,375
Foreign exchange gain / (loss)	(85)	84
Interest	15	1
Write off *	(5,818)	-
Other income	123	76
	<u>(5,719)</u>	<u>1,536</u>

\* Breakdown of write off:

Property, plant and equipment (note 7)	(2,106)	-
Intangible assets (note 6)	(3,712)	-
	<u>(5,818)</u>	<u>-</u>

The Company has decided to close part of its knitting business, specifically the garment business that uses Santoni machines for 3D and tubular knitting, and a write off has been recognised in relation to fixed assets, and intangible assets used in this business.

The Company has also made the decision to write down the balance of fixed assets, inventory and intangible assets in line with lower capacity utilisation at its production facility in Georgetown, Kentucky, and in line with lower market costs for key inputs such as hemp extracts used to blend and manufacture cannabinoid-based nutraceuticals.

**4. Expenses****a) Direct costs**

Costs of goods sold	7,407	6,981
Impairment of inventory	6,541	659
	<u>13,948</u>	<u>7,640</u>

**b) Other operating expenses**

Employees and contractors	7,990	6,855
Share based payments	566	914
Sales and marketing	757	1,141
Travel and accommodation	402	349
Equipment modification and maintenance	678	515
Short term leases	190	130
Legal fees and compliance	1,468	946
Accounting and audit	163	220
Depreciation and amortisation	2,698	2,461
Research and development	3,596	2,916
Bad and doubtful debts	12	63
Other	1,895	1,814
	<u>20,415</u>	<u>18,324</u>



## 5. Inventories

	31 Dec 2022 \$'000	30 Jun 2022 \$'000
Finished goods	2,478	2,048
Work in progress	8,641	9,050
Raw materials	5,530	5,219
Provision for impairment	(6,489)	(615)
	10,160	15,702

Provision for impairment was recognised to reduce inventories to their net realisable value, particularly in the Ananda Health and Hemp Black businesses.

Summary of inventory by segment:

31 December 2022	Ananda Health \$'000	Hemp Black \$'000	Ananda Food \$'000	Total \$'000
Inventories at cost	9,821	4,059	2,769	16,649
Provision for impairment	(4,855)	(1,561)	(73)	(6,489)
Total	4,966	2,498	2,696	10,160
30 June 2022	Ananda Health \$'000	Hemp Black \$'000	Ananda Food \$'000	Total \$'000
Inventories at cost	9,777	4,348	2,192	16,317
Provision for impairment	(74)	(504)	(37)	(615)
Total	9,703	3,844	2,155	15,702

## 6. Intangible assets

	31 Dec 2022 \$'000	30 Jun 2022 \$'000
Goodwill at 1 July / acquisition date	51,093	46,766
Foreign currency impact	524	4,327
Balance at 31 Dec 2022	<u>51,617</u>	<u>51,093</u>
Patents, customer list and trademarks – at cost	791	3,789
Less: Accumulated amortisation	(103)	(146)
	<u>688</u>	<u>3,643</u>
Software – at cost	-	320
Less: Accumulated amortisation	-	(238)
	<u>-</u>	<u>82</u>
Website development – at cost	-	905
Less: Accumulated amortisation	-	(355)
	<u>-</u>	<u>550</u>
Total intangible assets	52,408	56,107
Less: accumulated amortisation	(103)	(739)
	<u>52,305</u>	<u>55,368</u>

## 6. Intangible assets (continued)

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial period / year are set out below:

	Work in progress \$'000	Goodwill \$'000	Patents, customer list and trademarks \$'000	Software \$'000	Website development \$'000	Total \$'000
Balance at 1 Jul 2021	30	46,766	3,247	134	465	50,642
Transfer	(30)	-	-	30	-	-
Additions	-	-	536	8	348	892
Amortisation	-	-	(139)	(90)	(243)	(472)
Exchange difference	-	4,327	(1)	-	(20)	4,306
Balance at 1 Jul 2022	-	51,093	3,643	82	550	55,368
Additions	-	-	250	-	218	468
Write Off	-	-	(3,047)	(64)	(601)	(3,712)
Amortisation	-	-	(163)	(18)	(174)	(355)
Exchange difference	-	524	5	-	7	536
Balance at 31 Dec 2022	-	51,617	688	-	-	52,305

Movement schedule of intangibles by segment:

1H23 movement	Ananda Health \$'000	Hemp Black \$'000	Ananda Food \$'000	Ecofibre Corporate \$'000	Total \$'000
Carrying value 1 Jul 2022	510	54,508	244	106	55,368
Additions	218	-	250	-	468
Write Off	(572)	(3,050)	(9)	(81)	(3,712)
Amortisation	(163)	(120)	(47)	(25)	(355)
Exchange difference	7	529	-	-	536
Carrying value 31 Dec 2022	-	51,867	438	-	52,305

## 7. Property, plant, and equipment

	31 Dec 2022 \$'000	30 Jun 2022 \$'000
Capital work in progress	6,292	6,294
Land	2,927	2,900
Building	31,952	31,856
Less: accumulated depreciation	(2,029)	(1,603)
	29,923	30,253
Motor vehicles	483	522
Less: accumulated depreciation	(204)	(199)
	279	323
Office equipment	1,640	1,555
Less: accumulated depreciation	(1,384)	(1,089)
	256	466
Plant and machinery	12,602	13,719
Less: accumulated depreciation	(8,524)	(6,964)
	4,078	6,755
Total property, plant and equipment	55,896	56,846
Less: accumulated depreciation	(12,141)	(9,855)
	43,755	46,991

	Capital WIP \$'000	Land \$'000	Building \$'000	Motor vehicles \$'000	Office equipment \$'000	Plant and machinery \$'000	Total \$'000
<b>2022 Movement Schedule</b>							
Carrying value 1 Jul 2021	4,904	2,680	30,412	365	720	7,999	47,080
Additions	1,439	-	52	-	137	570	2,198
Transfer	(497)	-	-	-	-	497	-
Disposals	-	-	-	-	-	(116)	(116)
Depreciation	-	-	(789)	(66)	(440)	(2,722)	(4,017)
Exchange difference	448	220	578	24	49	527	1,846
Carrying value 30 Jun 2022	6,294	2,900	30,253	323	466	6,755	46,991

<b>1H23 Movement Schedule</b>							
Carrying value 1 Jul 2022	6,294	2,900	30,253	323	466	6,755	46,991
Additions	692	-	-	43	17	104	856
Transfer	(27)	-	-	-	-	27	-
Sale	-	-	-	(58)	-	(46)	(104)
Write Off	(730)	-	-	-	-	(1,376)	(2,106)
Depreciation	-	-	(401)	(32)	(236)	(1,411)	(2,080)
Exchange difference	63	27	71	3	9	25	198
Carrying value 31 Dec 2022	6,292	2,927	29,923	279	256	4,078	43,755

## 7. Property, plant, and equipment (continued)

Movement schedule of property, plant and equipment by segment:

1H23 movement	Ananda Health	Hemp Black	Ananda Food	Ecofibre Corporate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying value 1 Jul 2022	2,702	19,521	965	23,803	46,991
Additions	132	690	33	1	856
Sale	-	(104)	-	-	(104)
Write Off	(1,116)	(985)	-	(5)	(2,106)
Depreciation	(720)	(829)	(209)	(322)	(2,080)
Exchange difference	28	170	-	-	198
Carrying value 31 Dec 2022	1,026	18,463	789	23,477	43,755

## 8. Other current assets

	31 Dec 2022 \$'000	30 Jun 2022 \$'000
Employee retention credit grant	1,360	3,139
Prepayments	1,296	1,451
Other	515	496
	3,171	5,086

## 9. Borrowings

	31 Dec 2022 \$'000	30 Jun 2022 \$'000
<b>Current</b>		
Unsecured term loan	1,000	2,000
Chattel mortgage	12	12
	1,012	2,012
<b>Non-Current</b>		
Unsecured term loans	10,500	11,500
Secured term loan	14,695	5,225
Chattel mortgage	34	40
	25,229	16,765

**Unsecured term loans**

In June 2020, the Company obtained a \$10m loan from James & Cordelia Thiele Trust Fund. On 15 July 2022, \$2m was repaid. In December 2022 the terms of the loan were renegotiated. \$1m repayable on 15 July 2023, \$1m repayable on 15 July 2024 and \$6m repayable on 15 July 2025 and interest rate on the loan was 11% p.a.

In March 2022, Ecofibre received a \$3.5m loan from the Lambert Superannuation Fund. The interest rate on the loan was 10% p.a. In December 2022, the term of the loan was extended, and the loan is now repayable on 15 July 2025.

**Secured term loan**

In June 2022, the Group obtained a USD10m loan from Nubridge Commercial Lending LLC in the United States for a period of 2 years. The interest rate on the loan was 8.49% p.a, and the origination fee was USD0.2m. The loan is repayable on 1 July 2024. The Group's interests in the following properties were pledged as security for the loan: Corporate Boulevard, Georgetown, Kentucky; Cessna Drive, Greensboro, North Carolina; West Market Street, Greensboro, North Carolina. USD3.6m loan funds were received on 30 June 2022, and the balance of the loan funds were received in July 2022.

## 10. Issued Capital

	31 Dec 2022 \$'000	30 Jun 2022 \$'000	31 Dec 2022 Quantity	30 Jun 2022 Quantity
Ordinary shares	115,534	115,347	335,654,765	335,510,772
<b>Movement in ordinary shares</b>				
Opening balance 1 Jul 2022 / 1 Jul 2021	115,347	108,132	335,510,772	326,696,691
Shares issued for services rendered	108	-	233,993	-
Share options exercised ^	-	6,344	-	7,964,581
Shares issued by the EST	99	911	60,000	849,500
Shares transferred to EST	-	-	(150,000)	-
Share issue cost	(20)	(40)	-	-
Closing balance 31 Dec 2022 / 30 Jun 2022	115,534	115,347	335,654,765	335,510,772

349,214,551 total shares are on issue by the parent entity, which includes 335,654,765 consolidated shares on issue plus shares held by the EST (13,559,786) which have been issued by the parent entity and are eliminated on consolidation.

^ On 28 October 2021, Thomas Jefferson University (TJU) exercised an option over 7,964,581 shares at \$0.537 per share pursuant to the Research and Share Subscription Agreement. Breakdown of increase in amount of share capital from options exercised is as follows:

	\$'000
Cash proceeds from issue of shares @ \$0.537 per share	4,277
Share option fair value at grant date expensed over the term of the option	2,067
Increase in value of share capital	6,344

Reconciliation to the Consolidated Statement of Changes in Equity:

	\$'000
Balance at 30 June 2021	108,132
Shares options exercised	6,344
Share based payment: shares issued as part of the ESS	911
Share issue cost	(40)
Balance at 30 June 2022	115,347
Shares issued for services rendered	108
Share based payment: shares issued as part of the ESS	99
Share issue cost	(20)
Balance at 31 December 2022	115,534

## 11. Interests in subsidiaries

The financial statements of the subsidiaries have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. These financial statements also comply with Australian Accounting Standards and interpretation issued by the Australian Accounting Standards Board (AASB).

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly owned subsidiaries:

Name	Principal place of business / Country of Incorporation	Ownership Interests	
		31 Dec 2022	30 Jun 2022
Ecofibre Services Pty Ltd (ES)	Australia	100%	100%
Ananda Food Pty Ltd (AF)	Australia	100%	100%
Ecofibre Asia Pacific Pty Ltd (EAP)	Australia	100%	100%
Ecofibre USA Inc. (EUSA)	United States of America	100%	100%
Ananda Hemp Inc. (AH)	United States of America	100%	100%
Ecofibre Kentucky LLC (EK)	United States of America	100%	100%
Hemp Black Inc. (HB)	United States of America	100%	100%
Hemp Black Biomedical, LLC (HBB)	United States of America	100%	100%
Hemp Black Polymer, LLC (HBP)	United States of America	100%	100%
EOF Distribution Inc. (EOFD)	United States of America	100%	100%
Ecofibre USA RE LLC (EUSARE)	United States of America	100%	100%
Ecofibre Uruguay SA (EU)	Uruguay	100%	100%

ES's principal activity is the provision of group corporate functions and research and development services.

AF's principal activity is the growing, processing and distribution of hemp food products.

EAP's principal activity is sales and distribution of hemp products.

EUSA's principal activity is an investment holding company.

AH's principal activity is the marketing and distribution of hemp nutraceutical products.

EK's principal activity is to support the manufacture of hemp nutraceutical products.

HB's principal activity is to develop and commercialise hemp fibre products.

HBB's principal activity is manufacturing, and sale of customised polymer-based yarns used for internal medical implants and applications.

HBP's principal activity is to provide performance masterbatch and custom compounding to the plastics industry for technical textiles.

EOFD is a special purpose sales and marketing entity for the Ananda Health business in the United States.

EUSARE is a special purpose entity for the securitisation of loans.

EU is a dormant entity.



## 12. Earnings per share (EPS)

	31 Dec 2022 \$'000	31 Dec 2021 \$'000
Earnings used in the calculation of basic and diluted EPS (\$'000)	(17,608)	(6,694)
Weighted average number of shares outstanding during the period used in the calculation of basic and diluted EPS:	<b>Quantity</b>	<b>Quantity</b>
Basic	335,603,932	329,762,160
Diluted	335,603,932	329,762,160

## 13. Contingent liabilities

The Group had sought declaratory judgments regarding a previous agreement in the United States, and as part of the litigation, the defendants asserted various counter claims against the Group. In August 2022 the court made orders in the Group's favour on all issues. The defendant has since filed a motion to alter or amend the court's judgement. As the matter is still before the courts, no further information has been disclosed as this may prejudice the position of the Group.

## 14. Deferred tax assets

	31 Dec 2022 \$'000	30 June 2022 \$'000
Deferred tax assets comprise temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	(1,040)	(2,307)
Accrued expenses	421	512
Allowance for expected credit losses	32	32
Blackhole expenditure	96	53
Employee share transactions	1,372	1,360
Prepayments	(75)	(117)
R&D non-refundable offsets	2,443	1,702
Carried forward losses	12,006	8,449
Impairment of inventory	1,710	-
Other	92	(103)
Amounts recognised in equity:		
Transaction costs on share issue	69	89
Deferred tax asset	17,126	9,670

Deferred tax assets have been recognised based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The deferred tax assets have been recognised on the basis of expected taxable profits in the future, which is expected to be sufficient to utilise the temporary differences.

#### 14. Deferred tax assets (continued)

The deferred tax asset has been recognised based on:

- The Group has unused tax losses and tax credit that can be carried forward to offset against future taxable income.
- The Group has implemented appropriate tax planning strategies that are expected to support the recognition of the deferred tax assets;
- The recognition of the deferred tax assets is based on the current tax legislation and regulations in the relevant jurisdiction; and
- The Group has assessed the probability of future taxable profits following the decisions made in the first half of the 2023 financial year, which are expected to be sufficient to utilise the deferred tax asset.

The Group will continuously assess the deferred tax asset and make any necessary adjustments based on changes in circumstances and tax legislation.

#### 15. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Consolidated - 31 December 2022</b>				
<i>Assets</i>				
Biological assets	-	27	-	27
<i>Liabilities</i>				
Contingent consideration	-	14,368	-	14,368
<b>Consolidated - 30 June 2022</b>				
<i>Assets</i>				
Biological assets	-	579	-	579
<i>Liabilities</i>				
Contingent consideration	-	13,996	-	13,996

## 15. Fair value measurement (continued)

There were no transfer between levels during the financial period.

The fair value of biological assets is estimated based on the maturity of the plant, the potential output and the estimated grower payments when the crops are harvested.

The fair value of contingent consideration is estimated based on the discounting of potential future cash outflow to present value.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

## 16. Events after the reporting period

On 14 February 2023, the Group received payments totalling USD2.7m (AUD 3.9m) in relation to income tax refunds due from the US Federal Government. This is in relation to the tax recoverable balance recorded at 31 December 2022.

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

## Ecofibre Limited

### Independent auditor's review report

## Report on the Review of the Half-Year Financial Report

### Conclusion

We have reviewed the accompanying half-year financial report of Ecofibre Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated group), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Ecofibre Limited is not in accordance with the *Corporations Act 2001* including:

- a. giving a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the half year ended on that date; and
- b. complying with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

### Responsibility of Management for the Financial Report

The directors of Ecofibre Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

## Auditor's Responsibilities for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*William Buck*

**William Buck (Qld)**  
ABN:21 559 713 106

*M. Monaghan*

**M J Monaghan**  
Director

Brisbane, 20 February 2023