ECOFIBRE

ANNUAL REPORT 2021

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About Ecofibre

Ecofibre is the leading diversified hemp company globally.

In the United States, Ananda Hemp is the leading pharmacy brand for hemp-derived CBD products. The Company produces nutraceutical products for human and pet consumption, as well as topical creams and salves. See www.anandaprofessional.com and www.anandahemp.com. The Company also supplies its leading Ananda Hemp CBD products to Australians via the SAS B program. See www.anandahemp.com.au.

Hemp Black manufactures and sells sustainable, high-performance textile products in the United States. See www.hempblack.com.

In Australia, Ananda Food is the leading grower and producer of a range of hemp food products including protein powders, de-hulled hemp seed and hemp oil. See www.anandafood.com. The Company is also a leading provider of quality industrial hemp genetics in the United States.

The Company owns or controls key parts of the value chain in each business, from breeding, growing and production to sales and marketing. Our value proposition to customers is built on strong brands and quality products.

FINANCIAL OVERVIEW

Revenue
down 43%
from $50.7m to
$28.8m

NPAT
down 153%
from $13.2m to
-$7.0m

TexInnovate
Acquisition
on track

Further
growth
investment
$4.7m

Hemp Black
production capacity
$75m

Cash ($8.6m)
& grants / options
$18.6m

Net Tangible Assets
per share
17.64 cps

Earnings
per Share
-2.16 cps

CHAIRMAN'S LETTER

Dear Shareholders

As your outgoing Chairman, I wanted to take the opportunity to thank you for being an Ecofibre (EOF) shareholder.

EOF was established with the firm intention of creating products to assist people with their health and wellbeing. We are at the cusp of realising the full potential EOF can provide to human health and lifestyle wellbeing. It has been a positive and productive experience for me as your Chairman and I would like to take this opportunity to wish you good health and your Company a growing and prosperous future.

Unfortunately, during FY21 your Company was negatively impacted by both COVID and the civil unrest on our USA Health business. The resulting disrupted consumer access and experience meant that we were unable to fully realise our targets in terms of product sales.

Fortunately, as reported elsewhere in this Annual Report, your Company is on a path to recovery and we are implementing a series of new, technology-based strategies to address any potential future disruption and maximise our distribution capabilities.

Director Appointments

I would like to extend my sincere thanks to the recently appointed Directors for contributing their expertise and leadership experience to assist EOF to prosper and I would encourage you to vote for their formal election at the AGM.

Vanessa Wallace's strong track record of experience as an ASX Company Director and business consultant is highly valued by EOF. Vanessa is currently a director of two large and successful ASX listed companies as well as a director of two smaller listed and unlisted medical companies.

Professor Bruce Robinson AC is a distinguished Medical Doctor and Researcher who has received Australia's highest public recognition for his contribution to Australia in medical research and administration. Bruce will Chair our newly formed Health & Government Relations Board Committee in FY22. Our Ananda Health subsidiary is a very important component of EOF and Professor Robinson's expert knowledge and experience will be invaluable in overseeing our investment into cannabinoid science and research as well as government relations engagement.

At our last AGM we also welcomed Kristi Woolrych as a Director of EOF. Kristi is a senior marketing executive with an International Food group. Kristi will Chair a working group focused on amplifying and positioning EOF's capabilities and products to target customers throughout Australia and the US, where her marketing and brand management experience will be highly valuable at this stage of our development.

Following my retirement at this year's AGM, this will leave EOF with five Directors, including our Managing Director. It is likely that the new Chairman may wish to appoint another suitably qualified director to the Board and an update on this will provided to shareholders in due course.

Business Update

We are all disappointed that EOF is yet to reach its potential and that you have not been rewarded as shareholders.

However, I remain confident that management, assisted by the appointment of the new directors, will soon deliver profits across all three of our businesses - Hemp Black (USA), Ananda Health (USA) and Ananda Foods (Australia). Our CEO Eric Wang provides more detail in his report on each business and their prospects, but for our newer shareholders let me summarise my views on these three businesses.

Hemp Black

Most people recognise hemp as a very hardy, rapid growing plant used for clothing fabric or for industrial use such as, for example, in rope, animal bedding and garden mulch.

We hold a strong belief that the application of hemp in industrial products can be much broader and higher value add in terms of its sustainability, anti-microbial properties, resilience, and strength.

As a result, EOF chose to work with Thomas Jefferson University (TJU) to develop and patent specific high value processes and uses, including the ability to incorporate CBD oils and hemp biochar into polymer-based fabrics. The potential uses are significant and diverse and while some present immediate opportunities for the Company, others will require development, education, and investment to bring the benefits into industrial production.

To maximise this part of the business, we acquired an advanced manufacturing business specialising in polymers, yarns and knitted fabrics. Based in North Carolina, TexInnovate became part of Ecofibre in August 2020 and is expected to begin making a meaningful contribution in FY22. Further details are set out in the Hemp Black section of this annual report.

Ananda Health

Given the laws around growing, processing and selling hemp-derived CBD extract over the counter (OTC) are more advanced in USA than in Australia, the Ananda Health business is USA-centric at this time.

We are currently undertaking two major FDA approved, randomised, placebo controlled, double blind trials in the USA with the Lankenau Institute for Medical Research and Eastern Virginia Medical School. The focus of these trials is on pain, sleep and anxiety in different patient groups. Unfortunately, there were initial delays due to mandated COVID lockdowns during the period, but the studies are now progressing as expected.

Australia's Therapeutic Goods Association (TGA) has announced they will consider legalising 98% CBD (THC Free) OTC product in Australia. In late FY21 we commenced a sleep study with Southern Cross University in Australia to help meet TGA's product requirements. Subject to TGA approval, we expect the company will have its leading US Pharmacy products available over-the-counter in Australian pharmacies from late 2022.

Ananda Professional THC Free (S4) and Full Spectrum (S8) products are already available in Australia via a medical practitioner prescription.

Ananda Food

Ananda Food is our Australian based business. To date our hemp-based food products have mostly been grown in Tasmania and processed in our NSW facility in Newcastle. As the business grows, we are diversifying our growing regions across multiple states to disperse harvesting costs and harvest dates and minimise any adverse seasonal impacts in any single region. Whilst Tasmania has proven to be a very reliable farming area, diversification of our geographic growing areas to address production and inventory risk is an important protection measure for our customers and for EOF.

Barry Lambert & Jon Meadmore, Ecofibre seed crop, South East Queensland, June 2021

Hemp Food is often referred to as a 'super food' because it is gluten free with a high protein content and optimum mix of Omega oils. The Hemp plant is also environmentally friendly and performs a bioremediatory function by adding carbon to the soil when left as mulch. The notable global trend toward substitution of meat production with plant based protein signals the growth outlook is positive for Ananda Food.

As one of Australia's largest growers of hemp seed, EOF also supplies third party food producers and distributors. Products are currently available to consumers in leading Supermarkets under the following brands: Macro Wholefoods in Woolworths; Soul Seed Hemp and ECS Botanics (from 2Q22) in Coles; and Ananda Food in selected IGA stores.

It is our expectation that Ananda Food will become profitable during FY22 and this sustainable 'super food' should continue to grow strongly and profitably in the years to follow.

Ecofibre Team

I would like to acknowledge that it has been a very difficult year for our entire team across the globe. On behalf of the Board, I would like to extend our sincere thanks to each of our employees for their considerable and dedicated efforts in this very difficult year which has been challenging both personally and professionally. It has not been easy given the sheer number of our team who have endured protracted "lock-downs" in the US and in Australia and for those in our Australian team who have been unable to visit our USA operations to do their work. Hopefully that will soon end.

On behalf of the Board, I would also like to acknowledge and give special thanks to our CEO Eric Wang and his family who made the decision last year to relocate to the USA in order to best support the EOF business given the difficulty travelling in and out of Australia during the pandemic. Please accept our thanks and recognition for your significant contribution as our CEO and as a family.

Thank you for being an Ecofibre shareholder.

Barry Lambert
Chairman

MANAGING DIRECTOR'S LETTER

Dear Fellow Shareholders,

I would like to join Barry in thanking you for your continued support of Ecofibre.

FY21 was a disrupted, but highly transformational, year for our business. Whilst the pandemic and US social unrest disrupted our Ananda Health sales, we maintained our long-term focus to deliver on our strategy to build a sustainable and diversified growth company.

In FY21 we established a portfolio of businesses that are well-positioned in three growth markets in which we have high conviction: Natural health care, Plant-based foods and Sustainability. The conviction in our chosen markets meant that despite the disruption during FY21, we continued to invest in clinical trials, acquired core assets to establish Hemp Black and build operational capacity, and continued to innovate and develop new products.

Our businesses are well established with very strong operating models and manufacturing capabilities, but the operational focus is still to regain momentum in our core independent pharmacy channel. The pandemic made a highly competitive US CBD market more difficult to navigate, particularly given our focus on 'bricks and mortar' independent pharmacies. Our shift to a distributor-based model just before the pandemic gave it no opportunity to succeed, and travel restrictions meant we couldn't engage with pharmacies at tradeshows, education events and in-person which was a core part of our growth.

As the impacts of COVID look to be abating, we are starting to see our pharmacies re-engaging in their businesses and trying to find a more normal operating rhythm. In 4Q21 we invested into our online channels to include a new marketing and e-commerce capability built specifically for pharmacies.

Hemp Black was fully formed with the acquisition of TexInnovate in August 2020, and the early completion of our research relationship with Thomas Jefferson University in April 2021. We now have the operational know-how, production capacity and customer relationships to leverage our patents and to target attractive new markets.

Ananda Food continues to grow steadily. Our operational capabilities set us apart from competitors, and the opportunities in rapidly emerging markets in the USA for planting seed align with our key strengths in this business.

Whilst we carefully managed expenses during this disrupted period, we continued to invest for the long-term. This meant that we did not close businesses or furlough employees based on our strong conviction in our chosen markets, and our ability to serve those markets well. We enter FY22 well positioned to grow our revenues across each business.

Strong conviction in our core markets

Each of our businesses make products that improve the lives and well-being of people and the sustainability of our planet. As a management team and Board, our strong conviction in the market opportunity and our views on the attractiveness of our core markets have not changed.

anandahealth

Hemp-derived full spectrum extract helps people live a better life and will play an important role in natural health care.

HEMP BLACK

Environmental sustainability is non-negotiable – manufacturers must deliver sustainability with higher performance and safety as consumers will not settle for less.

anandafood

Plant-based diets will continue growing in prominence. Hemp seed is one of the highest quality, sustainable sources of plant-based protein.

Despite challenges and disappointing revenue results for Ananda Health in FY21, our business today is more diversified, has more growth opportunities, and stronger capabilities than it did 12 months ago.

The group completed most of its fixed infrastructure investment in FY20. In FY21, we acquired TexInnovate and undertook further investment to increase the productive capacity of the Hemp Black business, as well as Research and Development initiatives across all our three businesses which centered on clinical trials and new product development.

Our growth investment in FY21 totaled $4.7m (excluding the TexInnovate acquisition, marketing, and infrastructure investments).

Acquisition of TexInnovate completes the formation of Hemp Black

During the year we welcomed the TexInnovate team to the Ecofibre family. TexInnovate added significant technical depth and capacity to our Hemp Black supply chain and gave us a tremendous platform to leverage our Hemp Black technologies.

As president of Hemp Black, Jeff Bruner and his team have built a world-class high performance textiles capability in North Carolina, and together with our Chief Innovation & Sustainability Officer Mark Sunderland, have strongly positioned the business for future growth.

When we acquired the business, TexInnovate had two large, long-term clients for medical and artificial turf yarns. There was also tremendous opportunity to add new production capacity at a relatively low cost, and to engage new and existing customers with specialist product solutions.

Our progress during the year has been very encouraging:

- A new, commercial scale polymer compounding line was added in 4Q21, together with a new single-component yarn extrusion line and eleven 3D circular knitting machines for the next range of Hemp Black activewear and other items.
- Three additional high-performance yarn extrusion lines will be completed in FY22 which provide even greater technical capacity.

Together these investments raise the annual revenue potential of the business to $75m, and product development R&D and trials are well underway with customers across a range of industries and specialist applications.

A Sustainable Company and Industry

This year I am pleased to present Ecofibre's Sustainability Report. Whilst this is our first formal report, sustainability has been at the core of Ecofibre's DNA since the Company was founded.

Ecofibre’s objective is to provide the best returns for our shareholders. To achieve this objective, we have worked to build sustainable, commercial business models that not only serve our customers well, but also positively contribute to all environments that we operate within. We strongly believe that this combination leads to long-term returns for our shareholders.

In the United States, we are pursuing a bold strategy in conjunction with the US Hemp Roundtable and likeminded businesses to help realise hemp's potential to transform the sustainability of entire industries. This is an incredibly important undertaking and will underpin the acceleration of the development and application of industrial hemp more broadly.

Outlook

While we see encouraging signs in the US CBD market, our business will remain subject to the impacts of decisions made by governments on the handling of COVID and its variant strains. We are well positioned as markets begin to normalise, and expect that Ananda Health revenues, profitability and cashflows will increase in FY22.

Hemp Black will add long term clients in FY22 and continue to invest in growth and innovation to capture strategic opportunities.

Ananda Food's growth will continue in Australia and access to the attractive US hemp food and seed market will drive operational scale.

Thank you

My sincere thanks to all our customers, business partners and shareholders for your continued support of Ecofibre. We have a strong and committed team across the business and I want to acknowledge again the contribution that everyone has made in a year of constant disruption.

I would like to thank my fellow directors for their expertise and support during a very challenging year. Barry and Jon have provided guidance and continuity for the company for many years, and with the recent addition of Vanessa, Bruce and Kristi to the Board, the company is in good hands.

As you know, Barry will be retiring as Chairman at the 2021 AGM. This is a sad moment for myself personally as I have had the pleasure of knowing Barry and his family for over 15 years.

Many of us know Barry and the Lambert family for their business successes and philanthropic contributions. However, there is much beyond the successes and contributions that is read about in newspapers. I am sure Barry would not want me to share these things, but as this is the MD letter, I have editorial control.

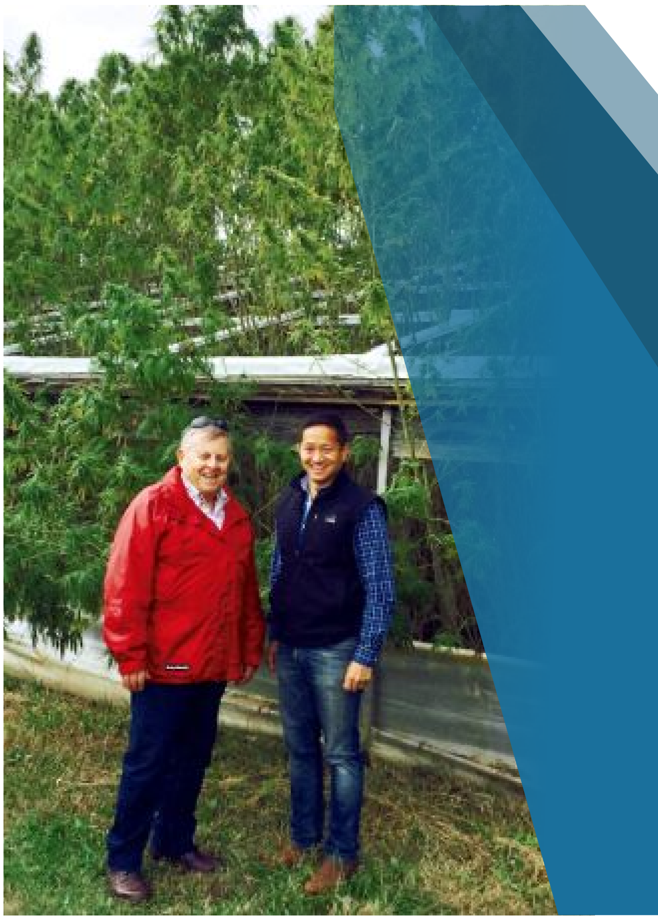
Barry's interest and involvement in the hemp and cannabis sector was not borne from a seeing a commercial opportunity, rather, it was a personal family tragedy involving his granddaughter Katelyn who suffered from severe epileptic seizures. After seeing a hemp derived extract literally save Katelyn's life, the Lamberts took it upon themselves to ensure the world understood the potential of hemp and made the single largest donation ever to research this incredible plant.

Several months after the Lambert Initiative was established, Barry approached me to help him investigate a company he had been introduced to called Ecofibre. His rationale was to solve a future problem of affordability and accessibility of hemp products to Australian patients in need. In the nearly six years since our initial trip to the US in October of 2015, it has been my honor to work with Barry in taking a founder's vision for hemp and turning it into a commercial reality that has had significant positive impact on the wellbeing of people suffering from a range of conditions. Today Ecofibre is one the leading global industrial hemp companies.

Whilst the mission for Ecofibre is to improve the lives of our customers, once we began to take investment beyond our own, Barry has been steadfast in his guidance to me – that shareholder's best interests over the short, medium and long term must always come first. Over my years of experience in public companies, the words shareholders best interests have often been used, but under Barry's leadership these are more than words.

Finally, I cannot thank Christy and my children Alex, Caroline and Max enough for all of their support and understanding over the many years that I have been away and for their continued support for the life changing work of Ecofibre.

Eric Wang
Managing Director



Barry Lambert & Eric Wang
- First visit to Kentucky, October 2015

OPERATING + FINANCIAL REVIEW

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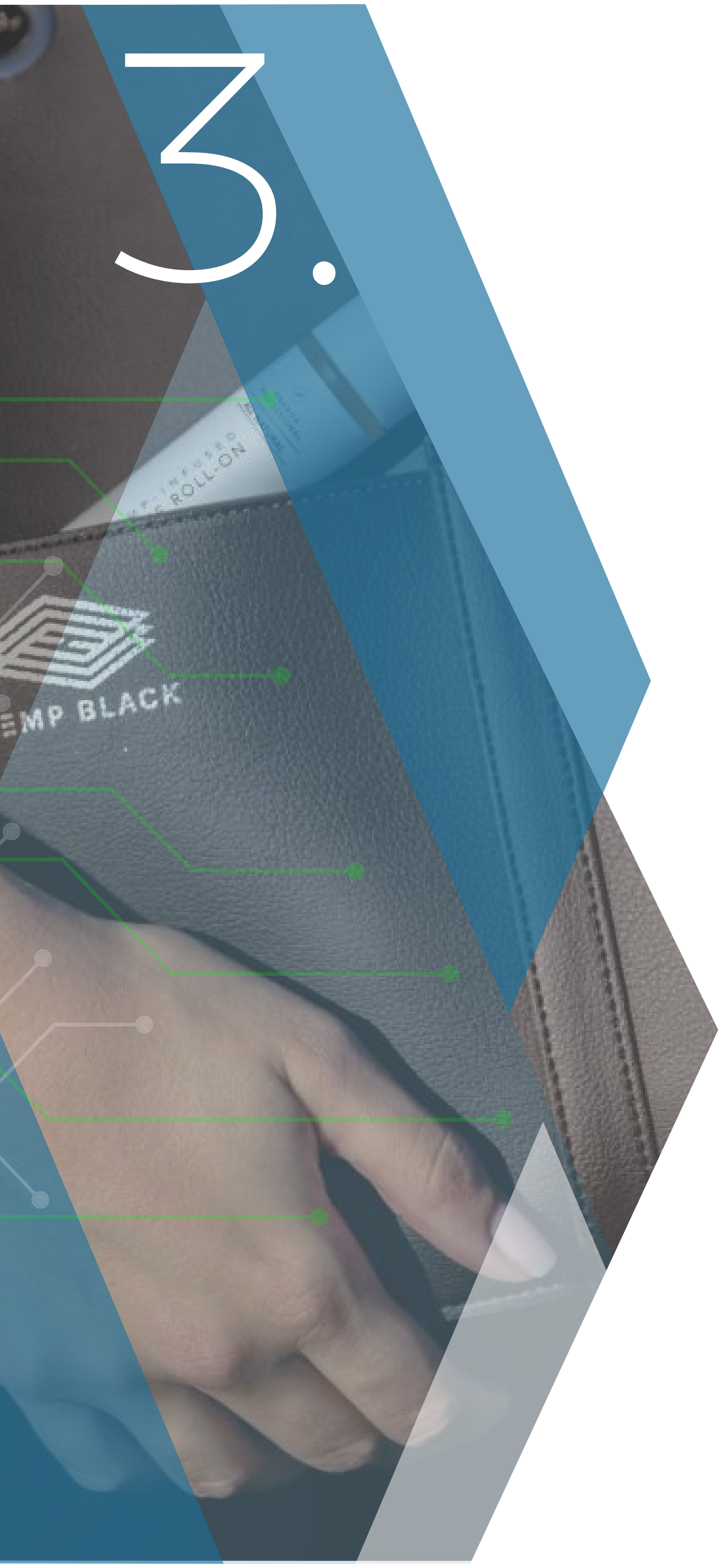


Financial Results

Ecofibre recorded a loss after tax of $7.0m in FY21, down from $13.2m profit after tax in FY20.

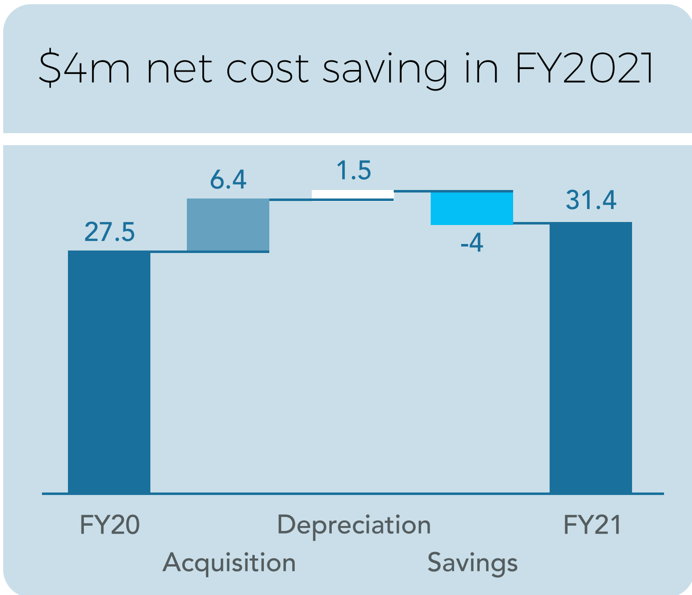
The result was primarily driven by lower revenue in our Ananda Health business (FY21: $14.3m; FY20: $46.8m).

Overall group revenue reduced from $50.7m to $28.8m, with the decline in revenue for Ananda Health partially offset by increased revenue for Hemp Black (FY21: $11.9m; FY20 $2.4m).

Ananda Food revenue increased from $1.5m to $2.6m.

The overall gross margin for the group reduced from 76% to 61%, which reflected the change in the business mix of the portfolio. Ananda Health margins remained strong year on year (FY21: 74%; FY20: 80%).

In recognition of the impact of the COVID-19 pandemic on our businesses, the group derived significant benefits under US federal government relief programs, including a second US Government Payroll Protection Program forgivable loan ($2.4m), a US Government Employee Retention Credit ($2.4m) (ERC), as well as benefits available under Australian federal and state government programs.



The group continued its focus on strong cost controls and efficiency in FY21.

Total operating expenses increased from $27.5m to $31.4m year on year, however after adjusting for new expenses from the TexInnovate acquisition, and additional depreciation from prior year investments in the Georgetown facility and other assets, the group achieved savings equal to 15% of its prior year cost base (net saving: $4.0m).

FY21 cashflows included operating cash outflows totalling $8.4m, and investing cash outflows ($28.7m) and financing cash inflows ($28.6m) which were matched during the period.

The group has substantial cash and other resources available to fund its operations, including $10.0m one-off receivables and other funds from the ERC ($2.4m), a US federal tax refund due to a one-off off measure to carry back current period losses into prior years ($3.3m) and $4.3m potentially receivable from Thomas Jefferson University in relation to options to purchase shares in the company which are exercisable by October 2021.

The group's net assets increased from $63.0m to $111.8m during the period, largely due to the acquisition of TexInnovate, which contributed $65.3m in net tangible and intangible assets.

Portfolio Overview

Ecofibre's operations are diversified by business line, geography and value chain.

- Ananda Health aims to be the preferred provider in the USA practitioner and pharmacy channels by providing federally legal, safe, high quality products.
- Ananda Food is focussed on the production and sale of hemp foods in Australia and the USA. The business aims to be the leading hemp food supplier in Australia and the USA by helping to supply the future demand for quality, safe plant-based foods.
- Hemp Black supplies sustainable and functional hemp materials, based on superior technical performance at a better price point delivered more sustainably. Our aim is to be the recognised leader in sustainable high-tech hemp applications.

Each business also has strong capabilities and depth through its value chain:

- Ananda Health's vertically integrated supply chain, respected brand and reputation for safety and quality is a point of difference in the retail pharmacy market;
- Ananda Food's gene bank, agronomic experience, vertically integrated business, specialist facility and fully traceable food supply chain experience is difficult for competitors to replicate; and
- Hemp Black's intellectual property and manufacturing know-how combine to produce unique products with attributes our customers value.

FY21 RESULT

Revenue: **$14.3m**

Profit before Tax: **$0.3m**

Ananda Health's profit before tax decreased during the year from $20.8m in FY20 to $0.3m in FY21.

Our key brands - Ananda Professional and Ananda Hemp - target the health and wellbeing segment, including customers seeking help with sleep, anxiety or pain. We focus on well-regulated and reputable distribution channels and invest in high quality research, training and advice.

Other key brands include Bliss and Ananda Pets, and the BalansLabs brand developed for CVS.

The vast majority of revenue originates from the US, which continues to be the world's largest market for hemp-derived CBD. [1]

We are also increasing our focus on the Australian market, with three new products launched and new distribution relationships beginning in early FY22.

US industry overview

Hemp-derived CBD products remain broardly available in the US, even though the product is not yet widely adopted within the US healthcare system.

The market remains oversupplied and competitive, with farmers growing a surplus after hemp production was federally legalised in December 2018, and product re-sellers and marketing companies have subsequently been competing on price rather than quality.

Many suppliers have exited the industry, but not in sufficient numbers to re-balance immediate supply with demand.

1 Grandview Research, Cannabidiol Market Size, Share & Trends Analysis Report, February 2021

Publicly available benchmark data showed a continued, significant decrease in hemp crop licensing and acreage for the northern 2021 summer growing season:

- Licences: 8,298 licences issued (down 8% from 9,066 counted in June 2020; down 58% from 19,799 ultimately documented for 2020); and
- Acres: 107,702 acres registered for outdoor production (down 55% compared to 236,732 acres documented in June 2020; down 75% from 429,300 ultimately documented for 2020).

'Due to a variety of factors – including low prices, a continuing glut of biomass and extracted CBD, extreme weather conditions, regulatory uncertainties, and the lure of better money to be made by farming mainstream crops – the amount of hemp being grown and processed this year is expected to be significantly lower than in 2020; and likely at its lowest level since the national legalization of hemp in 2018.' [2]

Notwithstanding growing market conditions, product sales in the US CBD market are forecast to continue growing according to a number of published industry reports.

Regulatory Environment

In the United States, hemp remains a federally legal agricultural commodity since enactment of the 2018 Farm Bill, and hemp and hemp products are no longer a controlled substance[3]. Hemp is regulated as an agricultural commodity by the US Department of Agriculture (Food & Drug Administration, FDA) rather than the US Justice Department (Drug Enforcement Agency, DEA).

The US Food and Drug Administration (FDA) has still only approved one cannabis-derived prescription medicine in the US for limited indications, namely seizures associated with two rare and severe forms of epilepsy, Lennox-Gastaut syndrome and Dravet syndrome.

For Ananda Health, the safety and compliance of our products remains a key priority. This is particularly important in the highly regulated pharmacy segment, which is regulated by state-based pharmacy boards, the FDA and also the DEA.

There are currently two items of proposed legislation that would make major changes to how hemp-derived CBD is regulated in the United States:

- H.R. 841: Hemp and Hemp-Derived CBD Consumer Protection and Market Stabilization Act of 2021[4]
- S.R. 1698: Hemp Access and Consumer Safety Act [5]

H.R. 841 would allow CBD to be marketed as a dietary supplement, something that the U.S. Food and Drug Administration currently prohibits.

H.R. 841 is scheduled to have a hearing in the House Energy and Commerce committee in September, which is when a mark-up of the bill would occur and amendments could be introduced.[6]

S.R. 1698 would also permit CBD to be marketed as a dietary supplement, but goes further than the House measure in allowing CBD to also be added to food and beverages.

2 https://www.hempbenchmarks.com/hemp-market-insider/2021-us-hemp-production-update/
3 US Controlled Substances Act
4 https://www.congress.gov/bill/117th-congress/housebill/841?q=%7B%22search%22%3A%5B%22841%22%5D%7D&r=3&s=2
5 https://www.congress.gov/bill/117th-congress/senate-bill/1698?r=7&s=1
6 https://www.hempbenchmarks.com/hemp-market-insider/hemp-cbd-legislation-status-in-congress/

In addition, on 14 July 2021, three senators published a "discussion draft" for a Cannabis Administration and Opportunity Act (CAOA).[7] This measure is meant to decriminalize and de-schedule cannabis (including marijuana), while expunging certain cannabis-related offences and providing for "reinvestment in certain persons adversely impacted by the War on Drugs." Additionally, one part of the draft legislation, Section 505, would establish a legal pathway for the marketing of hemp-derived CBD as a dietary supplement.

Ananda Health continues to focus on things the business can control - quality, costs, pricing - and investing in long term relationships with customers, distributors and scientific researchers.

Focus on direct relationships with independent pharmacies

In FY21 Ananda Health reported a significant decline in independent pharmacy sales, which was driven by three factors:

- Business disruption - CBD sales were negatively impacted due to store closures and social distancing mandates during the COVID-19 pandemic. CBD sales in the professional healthcare market still require advice, and the increased use of home delivery, drive through and curbside pickup limited the opportunity for interaction between pharmacists and their customers.

  As small businesses, many independent pharmacists were not enabled with on-line and e-commerce capabilities.

  As a result, Ananda Health implemented programs to help pharmacists re-engage their customers, including development of an on-line sales portal for pharmacies.

- Significant price / product competition - a large number of CBD brands are sold in the United States. Ananda is a premium priced product based on our product quality and research, however pharmacies added cheaper brands to their ranges and introduced product formats not sold by Ananda.

  Ananda Health repriced a number of its products in November 2020, with average prices reduced by 15% - 25%. New product formats were also introduced to meet pharmacy and customer demand.

- Distrbutor model underperformed - Ecofibre had previously announced Ananda Health's shift to the traditional 'distributor-led' model used by independent pharmacies to stock a wide range of products. This strategy was launched in 3Q20.

  Our subsequent experience was that distributors did not prioritise education and sales support on CBD for independent pharmacies, and in many cases their sales teams were unable to make face-to-face visits with pharmacies.

  As a consequence of the underperformance of the new strategy, it was progressively reversed in FY21 so that Ananda Health is again directly supporting its independent pharmacy customers.

CVS Pharmacy

CVS Pharmacy is the largest retail pharmacy in the US, with over 9,900 retail locations in 49 states.

Ananda Professional manufactures a range of 14 'BalansLabs' hemp-derived products for CVS for health, beauty and sleep. During the year Ecofibre also sold c120,000 face masks to CVS.

Health and beauty products are currently ranged in c3,000 stores, and 500 new stores for the sleep range are expected to be introduced in 1Q22.

CVS Pharmacy has also approved BalansLabs products for launch in 6 new US states, which is expected to increase the overall store count by c30% from 3Q22.

[7] https://www.democrats.senate.gov/imo/media/doc/Cannabis%20Administration%20and%20Opportunity%20Act.pdf

Other New Products

Multiple new products were launched to independent pharmacies, and in some cases on-line, in 3Q21 and 4Q21. These products were focused on new patient segments and formats, and in 4Q21 accounted for c20% of pharmacy sales.

The new product lines included:

- Women's health – two products focused on pelvic pain and vaginal health launched February 2021
- Diabetes – sock & foot care cream launched February 2021
- New formats - chewables range launched to independent pharmacies April 2021

Research Studies

Ecofibre and Ananda Health are continuing to focus on clinical research on CBD hemp-extracts to support our long term focus on the professional healthcare market.

Study focus	Research Institution	Patient Population	Location		Status
Opioid Reduction	Murphy Clinic	Chronic Opiod	Louisville, KY	Prospective cohort study	Complete - published 2019 in Journal Postgraduate Medicine
Pain (neuropathic)	Lankenau Institute for Medical Research	Breast, colon and ovarian cancer	Philadelphia, PA	Phase 2	Enrollment underway (FDA authorised - IND)
Sleep and anxiety	Eastern Virginia Medical School	Dementia	Norfolk, VA	Phase 2	Enrollment underway (FDA authorised - IND)
Sleep	Southern Cross University	Healthy population	Australia (4 sites)	Phase 2b	Enrollment underway
Pain (endometriosis)	University of Newcastle	Endometriosis	Newcastle, Australia	Avatar Study	Scheduled completion: 3Q22
Addiction [8]	University of Colorado	Alcohol use disorder	Boulder, CO	Phase 2	Enrollment underway (FDA authorised - IND)
Cognitive decline [9]	University of Colorado	Adults, no dementia	Boulder, CO	Phase 2	Pending FDA authorisation - IND (expected 1Q22)

The Sleep study with Southern Cross University will be used to support an application for Schedule 3 product registration by the Australian TGA.

8 Not funded by Ecofibre, but Ecofibre product used for study and input to study design
9 Not funded by Ecofibre, but Ecofibre product used for study and input to study design

Australia

Australia is a small but rapidly growing CBD market currently supplied by doctor prescription rather than over-the-counter sales.

Ecofibre has the necessary Schedule 4 and 8 licenses to import and supply a range of five prescription products. Three of these products were introduced to Australia in 4Q21, including the new and unique Endo relief cream.

Ananda Health is an education partner to two of Australia's largest pharmacy brands, TerryWhite Chemmart and Priceline Pharmacy.

The business launched a new digital portal in 4Q21 to support sales growth, including a practitioner login and ordering platform, and an education hub using material already developed for our US business.

Our focus in Australia is to build sales and brand ahead of the opportunity to supply S3 over-the-counter product.

Hemp Black

FY21 RESULT

Revenue: **$11.9m**

Loss before Tax: **$1.0m**

HEMP BLACK

Hemp Black's loss before tax was $1.0m for the year, compared with a breakeven result in FY20.

Hemp Black began commercial operations in the fourth quarter of FY20 when the business launched anti-microbial face masks in response to the COVID-19 pandemic.

Since mid-2017, Ecofibre worked with TJU to develop a platform of intellectual property to sustainably deliver products for a variety of industries. The TJU research contract was completed early in April 2021, and to date the business has been granted 9 patents and 23 pending. Several patents are under an exclusive commercial license to Ecofibre from Thomas Jefferson University.[10]

Our focus has now shifted to building brand, developing use cases for Hemp Black's technology, building production capacity and leveraging existing and new customer relationships.

TexInnovate

The acquisition of TexInnovate in August 2020 delivered deep technical and manufacturing capability to the Hemp Back business.

At the date of acquisition, TexInnovate had two key customers:

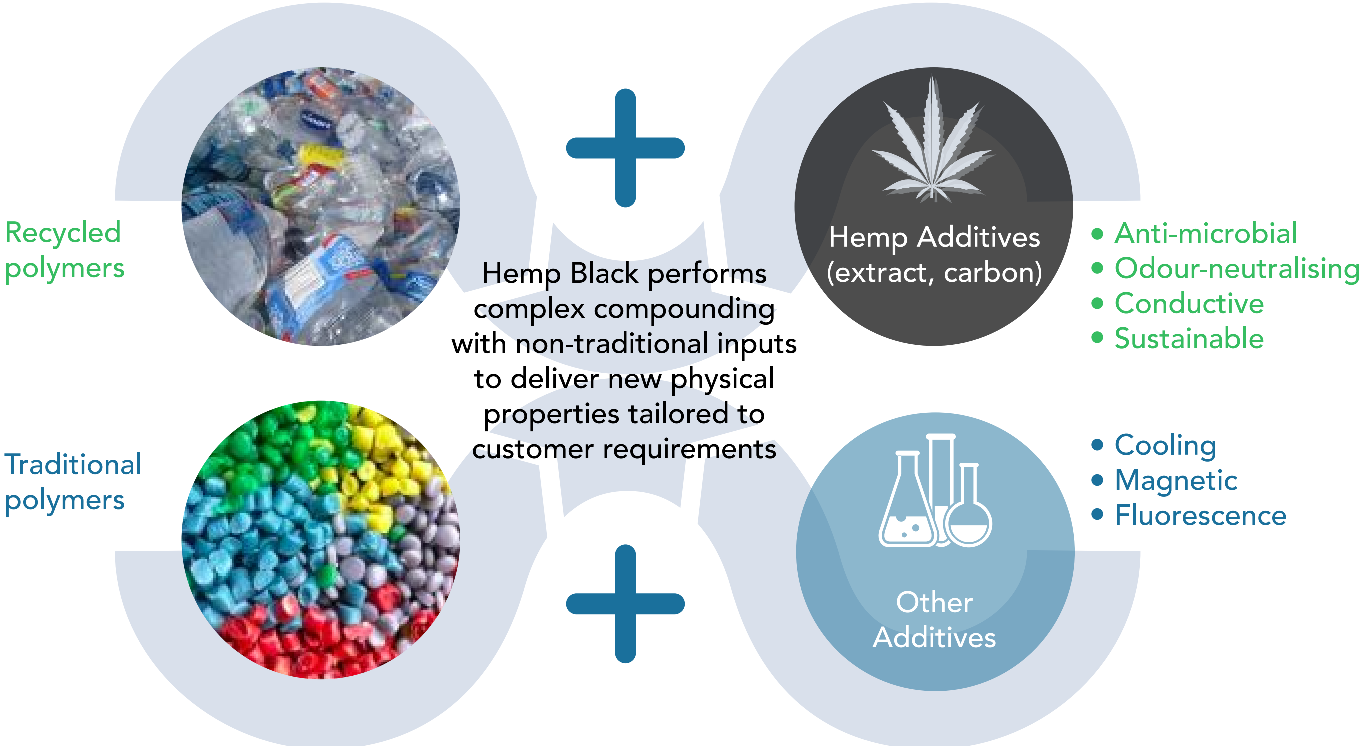
- Getinge, a global leader in healthcare and life sciences, for the supply of ISO 9001 medical implant yarn; and
- Controlled Products, a supplier of premium artificial turf

[10] Patents are filed and owned by Thomas Jefferson University, and Ecofibre has exclusive, global rights to commercialise these technologies

Polymer Compounding, Yarn and Knitting

Hemp Black has a differentiated capability to compound complex, sustainable inputs for yarns and fabrics, which is based on customised equipment, deep technical know-how and sustainable inputs.

Inputs include but are not limited to eco[6], reclaimed ocean plastics, hemp extract, and essential oils.



The polymer compound can be sold externally, or used internally to manufacture high performance yarns with customised properties. IP protection for these processes include highly customised equipment built in-house, deep technical know-how and process patents.

Yarns extruded from 'masterbatch' polymer compounds can be used for specialist applications such as the existing medical implants and outdoor turf, and also other applications including anti-microbial, conductive, fluorescent, cooling, IR reflective and others.

Fabrics and final products manufactured by Hemp Black using its own yarns or purchased yarns have the advantage of a highly sustainable US based supply chain and sustainable manufacturing processes. These processes are also based on deep technical know-how, and industrial applications include medical, automotive, office, safety, interiors, fashion, accessories and others.

Case Study: Hemp Black activewear

Hemp Black launched it's first line of activewear in November 2020, incorporating proprietary Hemp Black yarns which provide anti-microbial benefits in pockets, jacket sleeves and other parts of the clothing.

The clothing line was developed to help establish and promote the Hemp Black brand and showcase its technologies, and was launched for sale online (hempblack.com).

In 1Q22, Hemp Black launched its second range of activewear using seamless tubular knitting technology.

The new Ecofierce range features:

- sustainable inputs - hemp for anti-odour without the requirement for metal additives
- sustainable processes
  - yarns are solution dyed rather than using traditional piece dyed fabric techniques, which means no waste water and colours that do not bleed
  - 3D knitting technology which has minimal industrial waste compared with traditional 'cut-and-sew' textile industries
- US supply chains
  - product travels <1,000 miles -v- ~30,000 miles for most garments
  - rapid replenishment and small batch orders – lower inventory
  - no dependence on China and overseas supply – less risk

R&D, Innovation and Production Capacity

Since the acquisition of TexInnovate, Hemp Black has continued to invest in the business to add production capacity and develop specialist product solutions for US manufacturers and other cusomers.

The current program of investment is expected to be completed by 3Q22, delivering a combined total revenue capacity for the business of up to $75m at full production:

- commercial scale polymer compounding line (4Q21)
- single component yarn line #1 (4Q21)
- single component yarn line #2 (2Q22)
- bi and tri component yarn (3Q22)
- 3D circular knitting (11 machines) (4Q21)

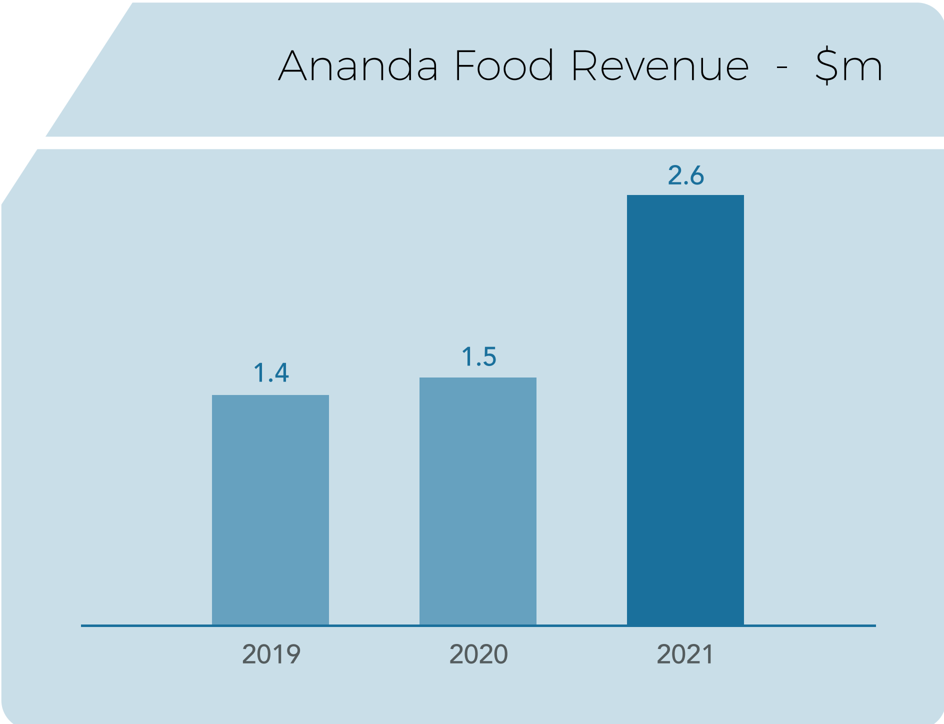
FY21 RESULT

Revenue: **$2.6m**

Loss before Tax: **$1.5m**

Ananda Food incurred a loss before tax of $1.5m in FY21 (FY20: $2.2m loss before tax).

Revenue growth has been steady over the last three years, driven by range expansion in Woolworths and Coles and increasing awareness of the health benefits of plant-based diets and hemp foods.



Growing

Ananda Food is well established as a leading hemp seed grower in Australia.

Underpinned by Ecofibre's unique and globally significant genetic resource, the Group's investment in genetics, agronomy and grower relationships delivers higher yields and profitability for growers and for Ananda Food's business.

The Group continued development of its genetic resource during the year at its pollen-secure indoor breeding facility and at 9 outdoor R&D sites across Australia.

In FY21 the business used its unique hemp varieties to expand commercial cropping from Tasmania into south-east and northern Queensland. This will enable multiple growing seasons each year, and result in smoother cashflow, reduced growing risk and better management of seed inventory.

Processing & Sales

Ananda Food supplies 100% Australian hemp seed products that are rich in digestible protein, fibre, iron, and a balance of omega 3 and omega 6 oils. The company's products are mainly sold to wholesalers and distributors, including bulk, white-label and branded products.

Production is certified under the British Retail Consortium Global Standard (BRCGS), which builds on Ananda Food's Hazard Analysis and Critical Control Points (HACCP) certification.

The business has a quality customer base, including:

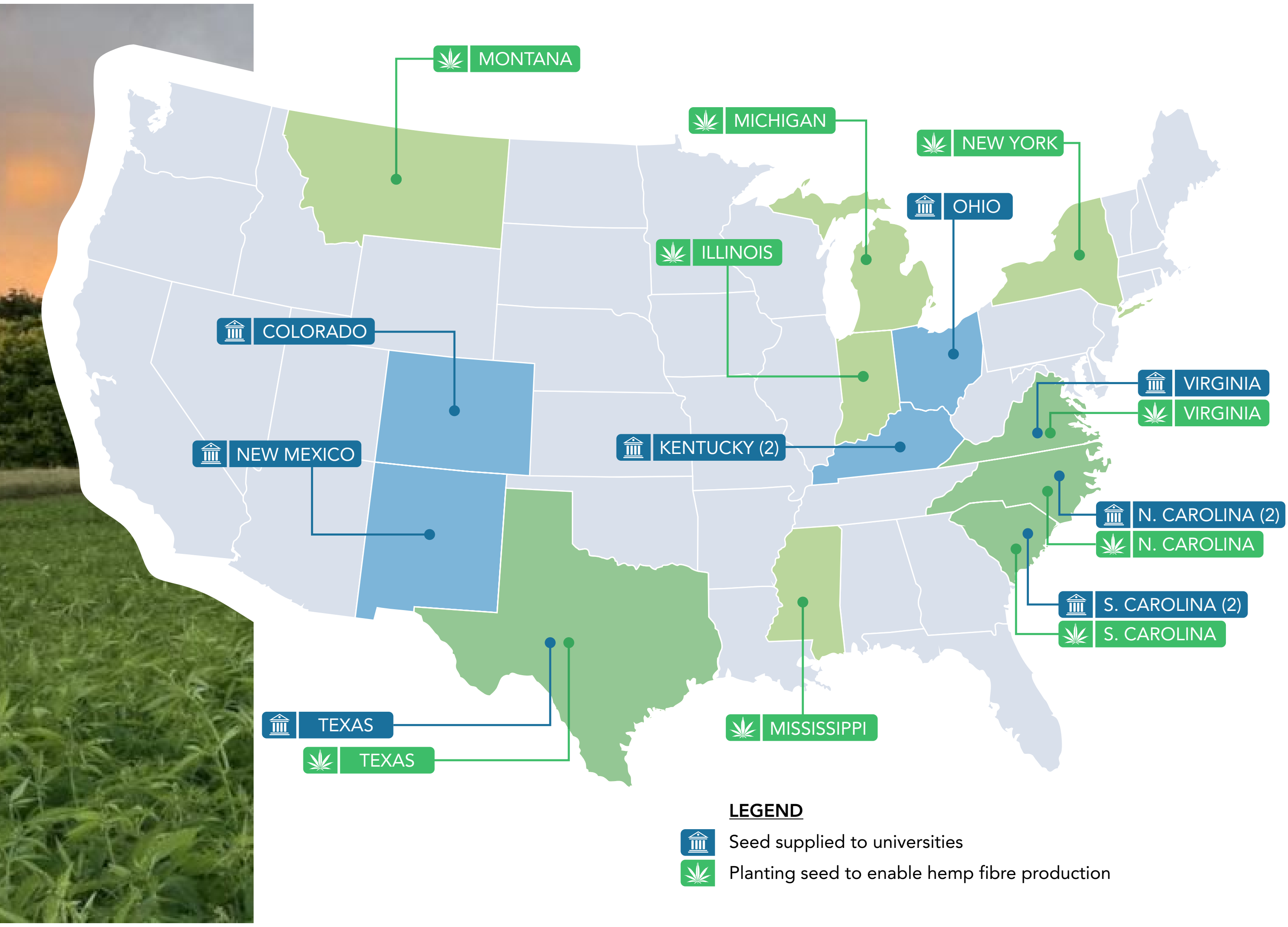
- Woolworths Macro brand - Ananda Food has supplied de-hulled hemp seeds and protein powder since August 2019, and began to supply hemp seed oil in 1Q21; and
- Coles - in 2Q21 Ananda Food began to supply hemp seed oil, protein powder and de-hulled seed to 'Soul Seeds', a supplier to Coles Supermarkets. The business will begin to supply hemp seed oil to ECS Botanics, a second Coles supplier, in 2Q22.

As a producer of ingestible products we remain focussed on product quality and safety, and delivering scale benefits from efficient utilisation of our productive capacity.

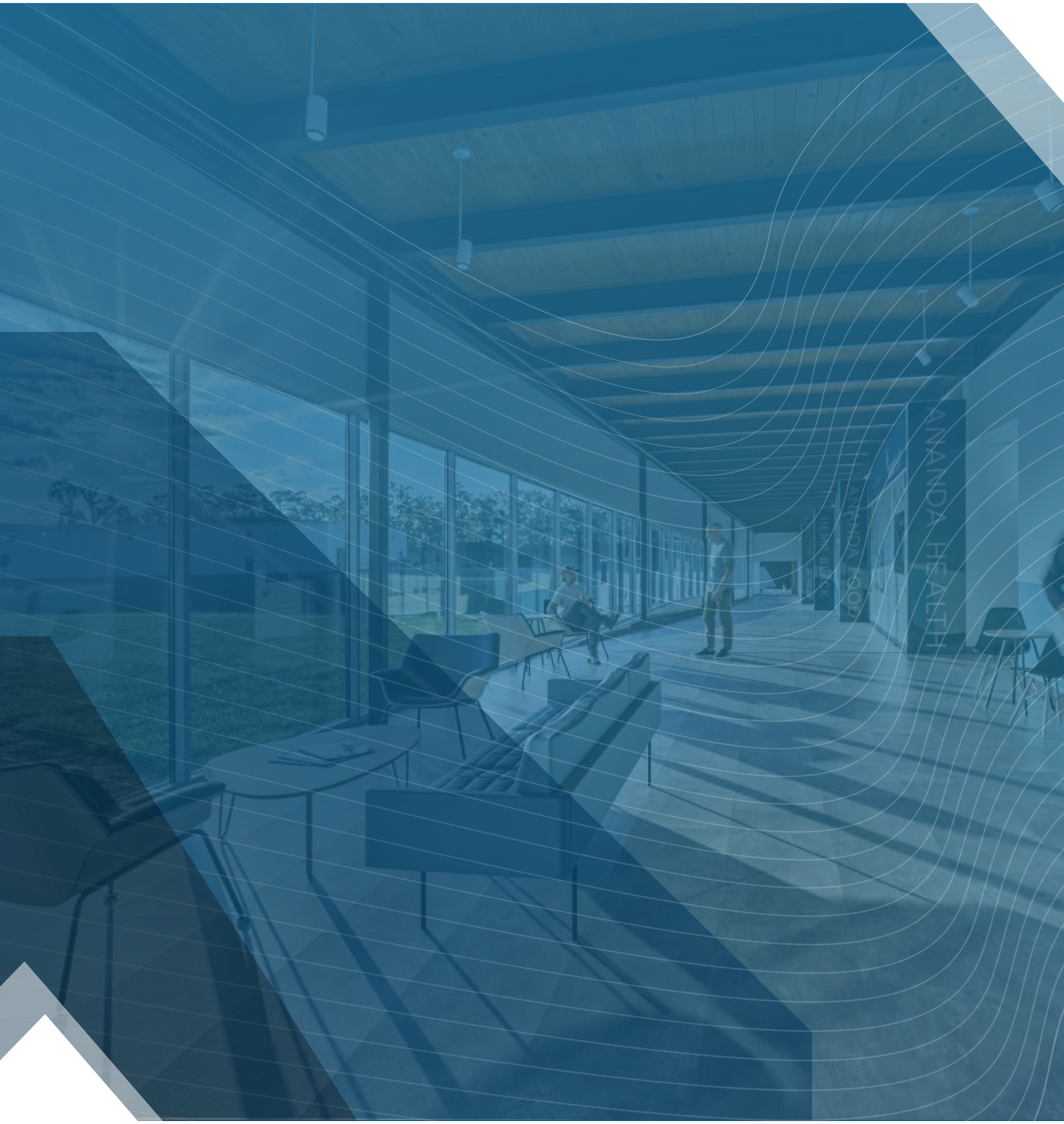
USA

In FY21 the group sold 18t of planting seed in the United States, enabling 650 acres of hemp fibre production across 9 states.

In addition, seed was supplied to 11 universities in the US to assess regional suitability, production timing, planting density, nutrient requirements and other factors.



FINANCIAL REPORT 2021



Directors' Report

The directors 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 year ended 30 June 2021.

Directors

The following persons were directors of Ecofibre Limited during the whole of the financial year and up to the date of this report:

Barry Lambert
Jon Meadmore
Eric Wang
Kristi Woolrych (appointed on 20 October 2020)
Bruce Robinson (appointed on 4 March 2021)
Vanessa Wallace (appointed on 1 July 2021)

Principal activities

The principal continuing activities of the Group during the year were breeding, growing, manufacturing, marketing and selling hemp products.

Significant changes in the state of affairs

On 21 August 2020, the Group completed its acquisition of the business and assets of TexInnovate, a portfolio of five businesses with deep technical expertise and capability across a broad range of high-performance textile disciplines. Total consideration for the acquisition was USD48.7m.

Total potential consideration for the businesses and operating assets is USD42.0m:
- at completion Ecofibre settled 50% of the business acquisition (USD21.0m), comprising USD10.5m cash and the issue of 5,924,926 shares at a value of USD10.5m; and
- contingent consideration with a value up to USD21.0m is also payable subject to the acquired businesses delivering USD6.0m earnings before interest and tax (EBIT) for two consecutive annual periods within five years of completion. The earliest that any such consideration may become due is in 3 equal tranches of USD7.0m on the 3rd, 4th and 5th anniversaries after completion, payable in equal proportions of cash and shares.

Consideration for real estate assets used by the businesses totalled USD6.7m, as determined by independent market appraisal. Acquisition of the real estate assets was settled in cash at the completion date.

To fund the upfront cash component of the acquisition, Ecofibre conducted a placement under its Listing Rule 7.1 capacity to existing institutional shareholders to raise $29.5m. The placement was completed and 11,800,000 new shares issued on 4 August 2020.

Significant changes in the state of affairs (continued)

During the year, the Group also issued 1,646,116 new shares to Thomas Jefferson University (TJU) in settlement of the final costs of research services rendered pursuant to a Research and Share Subscription Agreement which concluded in April 2021. Additionally, as per the agreement, TJU have a six-month option to subscribe for an additional 7,964,581 shares in Ecofibre Limited at an exercise price of $0.537 per share which expires on 28 October 2021.

1,706,248 shares also vested during the year from the Employee Share Trust pursuant to the Group's Employee Share Scheme.

On 29 March 2021, a mandatory escrow restriction on 191,907,744 shares that had been required by the ASX for a period of 24 months following the initial public offering was released.

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

Review of operations and results

The loss from ordinary activities for the Group after providing for income tax amounted to $7.0m (30 June 2020: profit of $13.2m).

The net assets of the Group are $111.8m as at 30 June 2021 (2020: $63.0m).

Ecofibre's annual result was significantly impacted by the ongoing disruption and uncertainty caused by COVID-19, particularly in US markets.

Ananda Health

The Ananda Health business was most impacted by COVID-19 as the key independent pharmacy channel experienced temporary and permanent store closures, a shift in service models to include a higher proportion of home deliveries and drive through business, and a focus on vaccine rollouts.

At the beginning of the pandemic, Ananda Health had been in the process of changing its distribution model from direct-to-pharmacy to an intermediated wholesale model, which is the traditional procurement model used by independent pharmacies to source most of their products. The timing of this transition was difficult as sales representatives for wholesale distributors were unable to travel for much of the time, and ultimately their focus was spread across a large range of products.

Following a review in 2H21 it was decided to revert to the direct-to-pharmacy distribution model, which improved cashflow and re-established closer links between Ananda Health and its primary customers.

Ananda Health's sales to independent pharmacies began showing signs of recovery in the 4th quarter of the year.

Overall, the US CBD market remained highly competitive during the year, with rationalisation of suppliers continuing but at a slower pace than expected. Online distribution of CBD products re-emerged as an important growth channel for the industry, and Ananda Health also increased its investment in this area.

CVS Pharmacy and other large wholesale customers continue to be important for Ananda Health, and ongoing product development across all channels delivered a range of unique new products across all channels.

Review of operations and results (continued)

Hemp Black

FY21 was a transformational year for the Hemp Black business.

The acquisition of TexInnovate, Hemp Black's manufacturing partner, delivered operational expertise in advanced textiles, masterbatch formulation, machinery customisation and other capabilities. The two businesses were fully integrated in 1H21.

The research program with TJU was completed in April 2021, over 12 months early, and the focus has been on the ongoing development of innovative products and utilisation of existing production capacity.

Ananda Food

Ananda Food continued to grow its revenues, principally supplying whitelabel wholesale food markets in Australia. Key customers included suppliers to the two largest supermarket chains in Australia, Woolworths and Coles.

Revenue included the sale of planting seed for fibre crops in the US, and additional seed crops were planted to supply this market in FY22.

No dividend was paid during the year (2020: Nil).

Matters subsequent to the end of the financial year

No other matter or circumstance has arisen since 30 June 2021 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.

Likely developments and expected results of operations

Ananda Health will focus on continuing to build its support of US independent pharmacies, accelerating S4 and S8 CBD sales in Australia ahead of any future S3 product approval, progressing its program of clinical trials in the US and Australia, and ongoing product development across all channels.

Hemp Black will seek foundation customers for new and existing capacity, including 3D knitting production lines and completion of new bi and tri component yarn production lines.

Ananda Food will focus on making hemp food ingredients available to food manufacturers, and seek to expand its food business into the United States including the expansion of its fibre seed business.

Environmental regulation

The Group is subject to and compliant with all aspects of environmental regulations for its business activities. The directors are not aware of any environmental law that is not being complied with.

Directors

Name:	**Barry Lambert**
Title:	Non-Executive Chairman
Experience and expertise:	Barry founded ASX listed company, Count Limited, a financial services business, in 1980. Count was one of the largest independent advice providers in Australia and was acquired by Commonwealth Bank in 2011. Barry was also asked to serve as Chairman of Class Limited and subsequently took Class through to listing on the ASX. Barry also served as Chairman of ASX listed Count Plus. In 2017, Barry resigned as Chairman of Class Limited and Count Plus to focus on his role as Chairman of Ecofibre. In 2016 and 2017, Barry and Joy Lambert made significant donations to establish the Lambert Initiative at Sydney University and Lambert Center at Thomas Jefferson University, respectively. Both of these entities are focused on the research and education of medicinal cannabis and hemp.
Special responsibilities:	Chairman of the Remuneration and Nomination Committee effective 1 July 2021 Member of the Audit, Risk and Compliance Committee

Name:	**Eric Wang**
Title:	Chief Executive Officer and Managing Director
Experience and expertise:	Eric joined Ecofibre as CFO and Director in December 2015. He was appointed CEO and Managing Director in December 2017. Eric has over 25 years of leadership and executive management experience, both as an officer in the United States Army and as a financial services executive in Australia. Prior to joining Ecofibre, Eric served as Captain and Apache pilot in the US Army for eight years in a range of roles, including Troop Commander, Operations Officer, Executive Officer and Personnel Officer in the United States and Europe. After leaving the military, Eric moved to Australia to work for the global management consulting firm, Bain & Company, where he specialized in the financial services industry in Australia and Asia. He then served as the Chief Operating Officer of Perpetual Limited and Director of the APO for AMP Limited.
Special responsibilities:	Member of the Health and Government Relations Committee effective 1 July 2021

Name:	**Jon Meadmore**
Title:	Non-Executive Director
Experience and expertise:	Jon is a Brisbane-based partner of law firm, Colin Biggers & Paisley, where he is the joint leader of the corporate group. Jon has practiced law for over 25 years and holds a Bachelor of Business (Accounting) in addition to his law degree.
Special responsibilities:	Chairman of Audit, Risk and Compliance Committee

Name:	**Kristi Woolrych**
Title:	Non-Executive Director
Experience and expertise:	Kristi has over 20 years' experience in brand strategy, customer acquisition and retention, customer experience, eCommerce and retail marketing. She is currently the Chief Marketing Officer for KFC in Australia and New Zealand with accountability for sales growth, eCommerce and overall brand performance. Kristi holds a Bachelor of Business degree from the Queensland University of Technology, and has completed a range of postgraduate programs including the Harvard Business School Digital Masterclass, INSEAD CMO Academy and Australian Marketing Institute Advanced Strategic Planning.
Special responsibilities:	None

Directors (continued)

Name:	**Bruce Robinson**
Title:	Non-Executive Director
Experience and expertise:	Prof. Robinson has over 25 years leadership experience as a board director, academic physician and scientist across research, healthcare and medicine, and tertiary education. He has extensive experience covering academia, government, public and private health providers, research institutes and philanthropic organisations. He is currently a director of Cochlear, an ASX listed global hearing implants business; MaynePharma, an ASX listed pharmaceutical manufacturer; and QBiotics, a drug development company. Since 2015 Prof. Robinson has also chaired the Australian Government's National Health and Medical Research Council, and the Medical Benefits Schedule Review Task Force.
Special responsibilities:	Chairman of Health and Government Relations Committee effective 1 July 2021 Member of the Remuneration and Nomination Committee effective 1 July 2021

Name:	**Vanessa Wallace**
Title:	Non-Executive Deputy Chairman
Experience and expertise:	Vanessa has a long track record as a director of listed and non-listed companies including Wesfarmers Ltd, SEEK Ltd, Doctor Care Anywhere PLC and Palladium Holdings Pty Ltd. Her executive career includes almost 30 years as a strategy management consultant, where she focused on financial services, health and consumer product industries, including co-leading the Booz & Company business in Japan for 4 years. Earlier in her career she was a Portfolio Manager with Investment Bank Schroders. Vanessa is an early-stage investor in the health sector and the founding Chairman of Australian digital health & biotechnology business, Drop Bio Pty Ltd.
Special responsibilities:	Member of the Remuneration and Nomination Committee effective 1 July 2021 Member of the Audit, Risk and Compliance Committee effective 1 July 2021 Member of the Health and Government Relations Committee effective 1 July 2021

Company Secretaries

Jonathan Brown and Robin Sheldon are the joint company secretaries of the Company. Robin was appointed by the board as a General Counsel and Joint Company Secretary of the Company with effect from 22 January 2021 to act jointly with Jonathan who is the Company's Chief Financial Officer and has been the Company Secretary of the Company since 18 June 2019.

Jonathan is a Chartered Accountant with over 25 years commercial experience. Jonathan has a Bachelor of Business (Accounting), a Graduate Diploma in Advanced Accounting, and a Graduate Diploma in Finance and Investment. Prior to joining Ecofibre in 2016, Jonathan worked for AMP, the London Stock Exchange and Ferrier Hodgson in a variety of roles including corporate strategy, M&A, senior finance roles and insolvency & reconstruction.

Robin has over 25 years experience in corporate law. Prior to joining Ecofibre, Robin was employed by Thomas Jefferson University as Sr, VP of Jefferson Strategic Ventures, VP of its Innovation Pillar and Associate Counsel. Prior to Jefferson, Robin was a partner at Fox Rothschild, LP, where she specialized in mergers & acquisitions, private equity and intellectual property issues, especially in the biotech area. She was the General Counsel of Half.com, Inc. (acquired by eBay, Inc.), Associate Counsel for Sanchez Computers, and Counsel for SEI Investments. Robin has been an adjunct professor at Temple University's Beasley School of Law, and frequent lecturer on the ethics of Intellectual Property. She has served on the board of directors, and has been secretary of Global Links - a non-profit dedicated to putting US medical surplus to productive use around the world - for over 25 years.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2021, and the number of meetings attended by each director, were:

	Board		Audit, Risk and Compliance Committee	
Director	Attended	Held	Attended	Held
Barry Lambert	10	10	8	8
Eric Wang	10	10	8*	8*
Jon Meadmore	10	10	8	8
Kristi Woolrych	5	5	-	-
Bruce Robinson	3	3	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

* Attendance by invitation.

Remuneration report (audited)

The remuneration report details the key management personnel (KMP) remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations. It also details the Company's Employee Share Scheme (ESS) available to all employees in the Group.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors. Throughout this Remuneration report, the members of the executive KMP are collectively referred to as "executives".

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Additional disclosures relating to key management personnel
- Employee share scheme

Principles used to determine the nature and amount of remuneration

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives.

The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity.

The reward framework is designed to align executive reward to shareholders' interests by:
- having total shareholder return as a core component of plan design;
- focusing on sustained growth in shareholder wealth, particularly growth in share price; and
- attracting and retaining high calibre executives.

Remuneration for executive and non-executive directors is structured separately.

Remuneration report (continued)

Principles used to determine the nature and amount of remuneration (continued)

Non-executive director remuneration

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by the Company's members in general meeting. The most recent determination was at the Annual General Meeting held on 8 December 2017, where the shareholders approved a maximum annual aggregate remuneration of $500,000.

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Board. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. Non-executive directors do not currently receive share options or other incentives.

Executive remuneration

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework covers base pay, share-based payments, and other benefits such as superannuation and health care which may be country and person specific. The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed periodically by the Board based on individual and business performance, the overall performance of the consolidated entity and comparable market remuneration.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executives.

Long-term incentives (LTI) include share-based payments and any long service leave. Shares are awarded to executives from shares already held by the ESS in an Employee Share Trust (EST) once the executives meet time and performance based vesting hurdles.

Details of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the tables below.

The key management personnel of the consolidated entity consisted of the directors and CFO of Ecofibre Limited:
- Barry Lambert – Non-Executive Chairman
- Eric Wang – Managing Director and CEO
- Jon Meadmore – Non-Executive Director
- Kristi Woolrych – Non-Executive Director
- Bruce Robinson – Non-Executive Director
- Jonathan Brown – CFO and Joint Company Secretary

Remuneration report (continued)

Details of remuneration (continued)

	Short-term benefits	Post-employment benefits	Share-based payments	
2021	Cash salary and fees $	Super-annuation $	Equity-settled shares $	Total $
Non-Executive Directors:				
Barry Lambert (Chairman)	91,324	8,676	-	100,000
Jon Meadmore	90,000	-	-	90,000
Kristi Woolrych	51,986	-	-	51,986
Bruce Robinson	24,247	-	-	24,247
Executive Director:				
Eric Wang	284,012	7,327	792,768	1,084,107
Other Key Management Personnel:				
Jonathan Brown	200,000	20,000	179,244	399,244
	741,569	36,003	972,012	1,749,584
2020				
Non-Executive Directors:				
Barry Lambert (Chairman)	91,324	8,676	-	100,000
Jon Meadmore	90,000	-	-	90,000
Executive Director:				
Eric Wang	280,000	25,000	792,768	1,097,768
Other Key Management Personnel:				
Jonathan Brown	200,000	20,000	391,764	611,764
	661,324	53,676	1,184,532	1,899,532

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration		At risk - LTI	
Name	2021	2020	2021	2020
Non-Executive Directors:				
Barry Lambert (Chairman)	100%	100%	-	-
Jon Meadmore	100%	100%	-	-
Kristi Woolrych	100%	-	-	-
Bruce Robinson	100%	-	-	-
Executive Directors:				
Eric Wang	27%	28%	73%	72%
Other Key Management Personnel:				
Jonathan Brown	55%	36%	45%	64%

Remuneration report (continued)

Service agreements

Remuneration and other terms of employment for executives are formalised in service agreements. Details of these agreements are as follows:

Name:	**Eric Wang**
Title:	Managing Director and Chief Executive Officer
Agreement commenced:	8 December 2017
Term of agreement:	No fixed term
Details:	Base salary of US$220,000 per annum, to be reviewed every 12 months from the date of commencement. Either party may terminate the employment upon 6 months' written notice. No notice is required by the Company upon limited events akin to misconduct or incapacity. Eric is subject to a restraint of trade restricting competition with the company for up to 24 months from termination of his employment.
LTI:	7,200,000 shares are held by the ESS Trustee as potential LTI under the ESS and will vest in tranches upon satisfaction of the following share price hurdles and earliest vesting dates for each tranche:

Share tranches	Share Price Hurdle	Earliest Vesting Date
2,400,000	Share price on ASX of at least $1.50 based on a rolling 30 day volume weighted average price (VWAP) during the period between 1 January 2022 and 31 December 2024	30 June 2022
2,400,000	Share price on ASX of at least $1.83 based on a rolling 30 day VWAP during the period between 1 January 2023 and 31 December 2024	30 June 2023
2,400,000	Share price on ASX of at least $2.17 based on a rolling 30 day VWAP during the period between 1 January 2024 and 31 December 2024	30 June 2024

Remuneration report (continued)

Service agreements (continued)

Name:	**Jonathan Brown**
Title:	CFO and Joint Company Secretary
Agreement commenced:	8 December 2017
Term of agreement:	No fixed term
Details:	Base salary of $200,000 per annum plus superannuation, to be reviewed every 12 months from the date of commencement. Either party may terminate the employment upon 3 months' written notice. No notice is required by the Company upon limited events akin to misconduct or incapacity. Jonathan is subject to a restraint of trade restricting competition with the company for up to 24 months from termination of his employment.
LTI:	799,998 shares were issued on 31 July 2020 upon satisfaction of a share price vesting hurdle. A further 1,600,002 shares are held by the ESS Trustee as potential LTI under the ESS and will vest in tranches upon satisfaction of the following share price hurdles and earliest vesting dates for each tranche

Share tranches	Share Price Hurdle	Earliest Vesting Date
800,001	Share price on ASX of at least $1.83 based on a rolling 30 day VWAP during the period between 1 January 2022 and 31 December 2024	31 July 2022
800,001	Share price on ASX of at least $2.17 based on a rolling 30 day VWAP during the period between 1 January 2024 and 31 December 2024	31 July 2024

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Details of shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2021 are set out below:

Name	Date	No. of shares	Issue price	$
Jonathan Brown	31 July 2020	799,998	$0.537	429,332

Remuneration report (continued)

Additional information

The earnings of the consolidated entity for the five years to 30 June 2021 are summarised below:

	2021 $'000	2020 $'000	2019 $'000	2018 $'000	2017 $'000
Sales revenue	28,793	50,717	35,605	5,749	575
EBITDA	(4,580)	19,187	5,766	(7,338)	(7,692)
EBIT	(8,870)	17,138	4,808	(7,682)	(8,067)
(Loss) / Profit after income tax	(6,986)	13,156	6,000	(8,627)	(8,649)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2021	2020	2019	2018	2017
Share price at financial year end ($)	0.68	2.22	2.10	n/a*	n/a*
Total dividends declared (cents per share)	-	-	-	-	-
Basic earnings per share (cents per share)	(2.16)	4.43	2.28	(3.17)	(4.01)

* Ecofibre was listed on ASX in March 2019.

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Additions	Disposals	Balance at the end of the year
Ordinary shares				
Barry Lambert	76,005,959	-	(51,204)	75,954,755
Jon Meadmore	538,000	-	-	538,000
Kristi Woolrych	-	-	-	-
Bruce Robinson	-	-	-	-
Eric Wang	13,301,253	350,000	-	13,651,253
Jonathan Brown	2,297,246	799,998	(580,000)	2,517,244
	92,142,458	1,149,998	(631,204)	92,661,252

Remuneration report (continued)

Employee share scheme

The Board believes that employees should be given the opportunity to become shareholders in our business, and that the share scheme helps engage, retain and motivate employees over the long term, and to encourage alignment with the performance of the Group.

The employee share scheme is an LTI designed to help the Group attract and retain the best staff as we deliver our long-term strategy. These shares will be issued to employees from shares already held by the (EST) if employees meet time-based, performance based or time and performance based, vesting hurdles. The time-based hurdles are 1, 2, 3 or 4 years, typically depending on the seniority of the employee.

Key terms of the ESS are:

How is it paid?	Employees are eligible to receive shares if they meet certain time-based, performance-based or time and performance-based vesting hurdles.
How can employees earn and how is performance measured?	Different vesting conditions are offered to various employees. The conditions include: a. Share price hurdles – earned when share price exceeds a certain level on a 30 days volume weighted average price (VWAP) basis within a certain period. b. Profit-based hurdles – earned when Group or business unit profitability achieve target levels. c. Sales target hurdle– earned when achieving certain sales, gross margin or volume targets. d. Time-based hurdles – earned when employee remains with the Group within 1 to 4 years.
When is performance measured?	The performance measures are tested at the date specific in each offer document.
What happens if an employee leaves?	If an employee resigns or is terminated for cause, any unvested LTI under the ESS are typically forfeited, unless otherwise determined by the Board. If an employee ceases employment during the performance period by reason of redundancy, ill health, death, or other circumstances approved by the Board, the employee may receive a pro-rata number of unvested shares based on achievement of the vesting conditions over the performance period up to the date of ceasing employment (subject to Board discretion).

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Ecofibre Limited under option at the date of this report are as follows:

Option holder	Grant date	Expiry date	Exercise price	Number under option
Thomas Jefferson University	1 July 2017	28 October 2021	$0.537	7,964,581

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Due to early completion of the TJU research agreement, all options granted are exercisable as at 30 June 2021. No options have been exercised during the 2021 financial year and up to the date of this report.

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the full details of the cover and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

The company was not party to any such proceedings during the year.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 21 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 21 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants (including Independence Standards) issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Rounding of amounts

In accordance with ASIC Corporations (Rounding in Financials/ Directors' Report) Instrument 2016/191, the amounts in this report are rounded off 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 43 of the annual report.

Auditor

William Buck (Qld) continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Barry Lambert	Eric Wang
Director	Director
19 August 2021	19 August 2021
Sydney	Lexington

William Buck

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF ECOFIBRE LIMITED

I declare that, to the best of my knowledge and belief during the year ended 30 June 2021 there have been:

— no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

— no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck

William Buck (Qld)
ABN 21 559 713 106

Junaide Latif
Director

Brisbane: 19 August 2021

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Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Barry Lambert
Director

19 August 2021
Sydney

Consolidated Statement of Profit or Loss

For the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Revenue	4(a)	28,793	50,717
Direct costs	5(a)	(11,169)	(12,255)
Gross profit		17,624	38,462
Other income	4(b)	4,951	6,482
Other operating expenses	5(b)	(31,417)	(27,549)
Interest expense		(1,201)	(144)
(Loss) / profit before income tax		(10,043)	17,251
Income tax benefit / (expense)	6	3,057	(4,095)
(Loss) / profit after income tax attributable to the members of the company		(6,986)	13,156
Earnings per share:			
Basic (loss) / earnings per share - cents		(2.16)	4.43
Diluted (loss) / earnings per share - cents		(2.16)	4.34

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 year ended 30 June 2021

	Note	2021 $'000	2020 $'000
(Loss) / profit after income tax attributable to the members of the company		(6,986)	13,156
Other comprehensive loss for the year:			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign controlled entities	33	(4,922)	(425)
Total comprehensive (loss) / income for the year attributable to the members of the company		(11,908)	12,731

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

Consolidated Statement of Financial Position

As at 30 June 2021

	Note	2021 $'000	2020 $'000
CURRENT ASSETS			
Cash and cash equivalents	7	8,620	18,252
Trade and other receivables	8	4,480	9,442
Inventories	9	16,413	10,014
Biological assets	10	1,350	2,321
Other current assets	11	4,986	5,434
Tax recoverable		3,357	-
TOTAL CURRENT ASSETS		39,206	45,463
NON-CURRENT ASSETS			
Intangible assets	12	50,642	659
Right-of-use assets	13	911	1,047
Property, plant and equipment	14	47,080	34,634
Deferred tax assets	15	3,906	2,492
TOTAL NON-CURRENT ASSETS		102,539	38,832
TOTAL ASSETS		141,745	84,295
CURRENT LIABILITIES			
Trade and other payables	16	5,162	9,381
Lease liabilities	13	491	491
Tax payable		65	829
TOTAL CURRENT LIABILITIES		5,718	10,701
NON-CURRENT LIABILITIES			
Lease liabilities	13	474	593
Related party loans	17	10,000	10,000
Contingent consideration	32	12,414	-
Deferred tax liabilities	18	1,278	-
Borrowing		64	-
TOTAL NON-CURRENT LIABILITIES		24,230	10,593
TOTAL LIABILITIES		29,948	21,294
NET ASSETS		111,797	63,001
EQUITY			
Issued capital	20	108,132	62,376
Foreign currency translation reserve	33	(5,097)	(175)
Accumulated losses		(11,334)	(4,348)
Share capital reserve	32	14,300	-
Share-based payment reserve	29	5,796	5,148
TOTAL EQUITY		111,797	63,001

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

Consolidated	Note	Issued capital $'000	Share-based payment reserve $'000	Convertible loan reserve $'000	Share capital reserve $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Total $'000
Balance 30 June 2019		56,189	3,229	139	-	250	(17,504)	42,303
Total comprehensive income for the year		-	-	-	-	(425)	13,156	12,731
Shares issued	20	3,836	-	-	-	-	-	3,836
Share-based payments	20	918	1,919	-	-	-	-	2,837
Convertible loan conversion to shares	20	1,433	-	(139)	-	-	-	1,294
Balance 30 June 2020		62,376	5,148	-	-	(175)	(4,348)	63,001
Total comprehensive income for the year		-	-	-	-	(4,922)	(6,986)	(11,908)
Shares issued	20	44,975	-	-	-	-	-	44,975
Share-based payments	20	1,125	648	-	-	-	-	1,773
Contingent consideration to TexInnovate	32	-	-	-	14,300	-	-	14,300
Share issue cost	20	(344)	-	-	-	-	-	(344)
Balance 30 June 2021		108,132	5,796	-	14,300	(5,097)	(11,334)	111,797

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Receipts from customers		32,866	42,954
Government grants		3,126	1,691
Payments to suppliers and employees		(42,161)	(34,917)
Interest received		24	274
Interest paid		(874)	(189)
Income tax paid		(1,339)	(4,004)
Net cash flows (used in) / generated from operating activities	24	(8,358)	5,809
Cash flows from investing activities			
Payments for property, plant and equipment		(5,780)	(22,605)
Payments for business acquisition	32	(22,729)	-
Payments for other intangible assets		(325)	-
Receipt from sale of property, plant and equipment		33	203
Other		63	(126)
Net cash flows used in investing activities		(28,738)	(22,528)
Cash flows from financing activities			
Proceeds from borrowings		-	10,000
Repayment of lease liabilities		(534)	(598)
Proceeds from issue of shares	20	29,500	-
Transaction costs related to issues of shares		(392)	-
Net cash flows generated from financing activities		28,574	9,402
Net decrease in cash and cash equivalents held		(8,522)	(7,317)
Cash and cash equivalents at the beginning of the financial year		18,252	25,740
Effect of movement in exchange rates on cash held		(1,110)	(171)
Cash and cash equivalents at the end of the financial year	7	8,620	18,252

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

Ecofibre Limited ('the Company' or 'Ecofibre') is a for profit company limited by shares incorporated in Australia. The nature of the operations and principal activities of the Group are described in the Directors' Report.

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.

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

Basis of preparation

The financial statements are general purpose financial statements which have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets, financial liabilities and biological assets for which fair value basis of accounting has been applied.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars in accordance with ASIC Corporation Instrument 2016/191 unless otherwise stated.

a) Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 28.

1. Summary of significant accounting policies (continued)

b) Principles of consolidation

The consolidated financial statements incorporate the results and assets and liabilities of all entities controlled by Ecofibre Limited ("parent entity") as at 30 June 2021 and results of all controlled entities for the year then ended. The parent entity and its controlled entities together are referred to in the financial statements as "the consolidated entity" or "the Group". Subsidiaries are all those entities over which the parent entity has control. The parent entity controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through the power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the parent entity.

Where controlled entities have entered the group during the year, the financial performance of those entities is included only for the period of the year that they were controlled.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

c) Foreign currency translation

The financial statements are presented in Australian dollars, which is Ecofibre's functional and presentation currency.

Foreign currency transactions and balances
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair value was determined.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of profit or loss or statement of other comprehensive income.

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss if the foreign operation or net investment is disposed.

1. Summary of significant accounting policies (continued)

d) Revenue recognition

The consolidated entity recognised revenue as follows:

Revenue from contracts with customers
Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Sale of goods
Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales rebates, returns and trade discounts.

Bill-and-hold arrangements
Bill-and-hold arrangements occur when there is a sale to a customer and the customer requests the consolidated entity to warehouse its products for a period of time until it can accept delivery or arrange transfer of the products to third parties. Revenue from bill-and-hold arrangements is recognised when the customer obtains title and acknowledges control of a product.

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Government grants
Government grants relating to costs are recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

1. Summary of significant accounting policies (continued)

e) Income Tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

A charge for current income tax expense is recognised based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted throughout the reporting period.

Deferred tax is accounted for using the liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the company and consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

f) Business combination

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

1. Summary of significant accounting policies (continued)

f) Business combination (continued)

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

g) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

g) Summary of significant accounting policies (continued)

h) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 60 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

i) Inventories

Inventories and agricultural produce are valued at the lower of cost and net realisable value on a standard cost basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

j) Biological assets

Biological assets are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell.

k) Impairment of assets

At the end of each reporting period, the company and consolidated entity review the carrying values of their tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

l) Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

1. Summary of significant accounting policies (continued)

m) Property, plant and equipment

Plant and equipment
Plant and equipment is measured on the cost basis less accumulated depreciation and impairment losses.

The carrying value of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their net present values in determining recoverable amounts.

Depreciation
Depreciation is calculated on the basis of writing off the net cost of each item of property, plant and equipment over its expected useful life to the entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives vary from 3 to 40 years.

n) Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

o) Intangible assets

Goodwill
Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

p) Financial instruments

Recognition
Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below:

1. Summary of significant accounting policies (continued)

p) Financial instruments (continued)

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities
Non-derivative financial liabilities are recognised at amortised cost, comprising original debt, less principal repayments and amortisation.

Impairment
At the end of each reporting period, the consolidated entity recognises a loss allowance for expected credit losses on financial assets measured at amortised cost. The measurement of the loss allowance depends upon the consolidated entity’s assessment at the end of each reporting period as to whether the financial instruments’ credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain. Impairment losses are recognised in the statement of profit or loss.

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q) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

r) Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

1. Summary of significant accounting policies (continued)

s) Employee entitlements

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave, expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured on the basis of when the benefit is expected to be settled.

Share-based payments
Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:
- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

1. Summary of significant accounting policies (continued)

s) Employee entitlements (continued)

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

t) Cash and cash equivalents

For purposes of the statement of cash flows, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

u) Goods and services tax, sales and use tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) and sales and use tax (SUT) except where the amount of GST or SUT incurred is not recoverable. In these circumstances the GST or SUT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST or SUT included. The net amount of GST or SUT recoverable or payable is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST or SUT components of cash flows arising from investing and financing activities which are recoverable or payable are classified as operating cash flows.

v) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and assumes that the transaction will take place either in the principal market or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

1. Summary of significant accounting policies (continued)

w) Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Ecofibre Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

x) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2021. The consolidated entity has assessed the impact of any new or amended Accounting Standards and Interpretations, and concluded that they would not have any material impact.

2. Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial and Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of inventories
The provision for impairment of inventories requires a degree of estimation and judgement. The level of the provision is assessed by taking into account recent and expected future sales experience, production requirements, the age of inventories and other factors that affect inventory obsolescence.

Taxation
There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities or receivables for anticipated tax issues based on estimates of whether additional taxes will be due or refundable. Where the final tax outcome of these matters is different from the amounts that were actually recorded, such differences will impact the current and deferred tax positions in the period in which such determination is made.

Biological assets
Biological assets, in the form of planted hemp crops, are accounted for under AASB 141 Agriculture, which requires that the assets be measured at fair value less costs to sell. Fair value is determined using a range of judgemental assumptions including cost per area (acre or hectare), total area planted and percentage of maturity of the crops based on estimated harvest dates.

Goodwill
The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

3. 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, food and fibre.

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 research and development and corporate headquarter activities of the consolidated entity.

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 focused on the United States
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 United States
Ecofibre Corporate	Research and development and group corporate functions

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.

3. Operating segments (continued)

Operating segment information

a) Segment performance

Consolidated - 2021	Ananda Health $'000	Hemp Black $'000	Ananda Food $'000	Ecofibre Corporate $'000	Total $'000
Revenue					
Sales to external customers	14,276	11,900	2,617	-	28,793
Intersegment sales	-	-	177	-	177
Total sales revenue	14,276	11,900	2,794	-	28,970
Government grant	3,688	1,116	133	323	5,260
Foreign exchange gain / (loss)	22	(4)	(3)	(493)	(478)
Interest income	1	-	-	27	28
Other income	(18)	94	15	50	141
Total revenue and other income	17,969	13,106	2,939	(93)	33,921
Total expenses	(17,680)	(14,116)	(4,355)	(7,636)	(43,787)
Intersegment purchases	-	-	(80)	-	(80)
Segment profit/ (loss) before income tax	289	(1,010)	(1,496)	(7,729)	(9,946)
Intersegment eliminations					(97)
Loss before income tax					(10,043)

Consolidated - 2020	Ananda Health $'000	Hemp Black $'000	Ananda Food $'000	Ecofibre Corporate $'000	Total $'000
Revenue					
Sales to external customers	46,819	2,429	1,469	-	50,717
Intersegment sales	213	-	327	-	540
Total sales revenue	47,032	2,429	1,796	-	51,257
Interest income	22	-	-	235	257
Other income	1,824	-	371	4,030	6,225
Total revenue and other income	48,878	2,429	2,167	4,265	57,739
Total expenses	(27,950)	(2,420)	(4,225)	(5,353)	(39,948)
Intersegment purchases	(100)	-	(141)	-	(241)
Segment profit/ (loss) before income tax	20,828	9	(2,199)	(1,088)	17,550
Intersegment eliminations					(299)
Profit before income tax					17,251

3. Operating segments (continued)

b) Segment assets and liabilities

Consolidated - 2021	Ananda Health $'000	Hemp Black $'000	Ananda Food $'000	Ecofibre Corporate $'000	Total $'000
Assets					
Segment assets	20,411	70,319	6,583	35,812	133,125
Unallocated assets:					
Cash and cash equivalents					8,620
Total assets					141,745
Liabilities					
Segment liabilities	3,019	13,695	1,833	1,401	19,948
Unallocated liabilities:					
Related party loans and borrowings					10,000
Total liabilities					29,948

Consolidated - 2020	Ananda Health $'000	Hemp Black $'000	Ananda Food $'000	Ecofibre Corporate $'000	Total $'000
Assets					
Segment assets	25,205	6,229	7,767	26,842	66,043
Unallocated assets:					
Cash and cash equivalents					18,252
Total assets					84,295
Liabilities					
Segment liabilities	6,949	311	2,600	1,434	11,294
Unallocated liabilities:					
Related party loans and borrowings					10,000
Total liabilities					21,294

4. Revenue and other income

	2021 $'000	2020 $'000
a) Revenue		
Sales	28,793	50,717
b) Other income		
Government grant and tax incentives ^	5,260	1,876
Foreign exchange (loss) / gain *	(478)	3,925
Interest	28	257
Other income	141	424
	4,951	6,482

^ Current year income includes receipt of a US Paycheck Protection Program (PPP) forgivable loan of $2.4m (2020: $1.6m), accrued Employment Retention Credit $2.4m (2020: nil) and other government grants due to COVID-19.

* (Loss) / gain from revaluation of financial assets held in currencies other than Australian dollars.

5. Expenses

	2021 $'000	2020 $'000
a) Direct costs		
Costs of goods sold	10,844	12,009
Write down of inventory	325	368
Reversal of inventory provision	-	(122)
	11,169	12,255

	2021 $'000	2020 $'000
b) Other operating expenses		
Employees and contractors	14,445	12,008
Share based payments (note 29)	1,773	2,705
Sales and marketing	1,896	2,874
Travel and accommodation	360	676
Equipment modification and maintenance	890	360
Short-term and low value lease payments	217	266
Legal fees and compliance	1,437	959
Accounting and audit	394	391
Depreciation and amortisation	4,290	2,049
Research and trials	2,648	2,296
Bad and doubtful debts	27	1,049
Other	3,040	1,916
	31,417	27,549

6. Income tax

a) The aggregated amount of income tax attributable to the financial year differs from the prima facie amount calculated on the operating profit. The difference is reconciled as follows:

Profit/ (loss) before income tax	(10,043)	17,251
Prima facie tax (benefit) / tax on (loss) / profit from ordinary activities before income tax at 30% (2020: 30%)	(3,013)	5,175
Adjustment for foreign tax rates	(58)	(546)
Tax effect of permanent differences:		
- Share based payments	256	(1)
- Research and development expenses	120	159
- COVID-19 government assistance	(755)	(15)
- Know-how amortisation	(328)	-
- Foreign witholding taxes	370	28
- Contingent consideration	85	-
- Other	85	76
Change in opening deferred taxes resulting from change in tax rate	275	(230)
R & D tax rebate received	(314)	(205)
Currency conversion differences upon consolidation	(10)	(98)
Tax over provided in prior period	(118)	(248)
Current year losses for which no DTA is recognised	348	-
Income tax (benefit)/ expense	(3,057)	4,095

6. Income tax (continued)

b) Income tax expense

	2021 $'000	2020 $'000
Current tax	(2,888)	4,562
Deferred tax - origination and reversal of temporary differences	(51)	(219)
Under/(over) provision from previous years		
- Current tax	(33)	383
- Deferred tax	(85)	(631)
Aggregate income tax expense	(3,057)	(4,095)

c) Tax losses

	2021 $'000	2020 $'000
Tax losses available in Australia – AU$	6,888	-
Tax losses available in USA – US$	7,837	-

d) Franking credits

Franking credits available for the subsequent financial year amount to $nil (2020 - $nil). This represents the balance of the franking account as at the end of the financial year adjusted for franking credits that will arise from the payment of any income tax payable as at the end of the year.

7. Cash and cash equivalents

	2021 $'000	2020 $'000
Cash at bank	4,339	4,117
Call deposits	-	2,912
Term deposits and other cash equivalents	4,281	11,223
	8,620	18,252

8. Trade and other receivables

	2021 $'000	2020 $'000
Trade debtors	4,509	9,610
Allowance for expected credit losses	(148)	(355)
GST receivable	119	187
	4,480	9,442

Allowance for expected credit losses

The consolidated entity has recognised a gain of $23,000 (2020: loss of $1,049,000) in the profit or loss in respect of the expected credit losses for the year.

The consolidated entity has continued to monitor debt recovery for any increased probability of customers delaying payment or being unable to pay, due to the Coronavirus (COVID-19) pandemic.

Movement in the allowance for expected credit losses are as follows:

	2021 $'000	2020 $'000
Opening balance	355	152
Additional provisions recognised	267	1,049
Receivables written off during the year as uncollectable	(184)	(846)
Unused amounts reversed	(290)	-
Closing balance	148	355

9. Inventories

	2021 $'000	2020 $'000
Finished goods	2,397	1,278
Work in progress	9,246	5,788
Raw materials	4,770	2,948
	16,413	10,014

10. Biological assets

	2021 $'000	2020 $'000
Crops planted	1,350	2,321

The risk of crop failure due to weather conditions is managed through planting at different locations and times.
Reconciliation of biological assets:

	$'000	$'000
Crops planted at 1 July	2,321	2,405
Harvested and transferred to raw material inventory	(2,321)	(2,405)
Crops planted	1,350	2,825
Harvested and transferred to raw material inventory	-	(504)
Balance at 30 June	1,350	2,321

11. Other current assets

	2021 $'000	2020 $'000
Prepayments	2,200	4,845
Other ^	2,786	589
	4,986	5,434

^ Includes accrued Employee Retention Credit grant of $2.4m at 30 June 2021.

12. Intangible assets

	2021 $'000	2020 $'000
Goodwill – at cost (Note 32)	46,766	-
Patents and trademarks – at cost	3,253	501
Less: Accumulated amortisation	(6)	(2)
	3,247	499
Software – at cost	282	209
Less: Accumulated amortisation	(148)	(57)
	134	152
Website development – at cost	557	-
Less: Accumulated amortisation	(92)	-
	465	-
Work in progress – at cost	30	8
Total intangible assets	50,888	718
Less: accumulated amortisation	(246)	(59)
	50,642	659

Reconciliations

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

	Work in progress $'000	Goodwill $'000	Patents and trademarks $'000	Software $'000	Website development $'000	Total $'000
Balance at 1 July 2019	-	-	340	-	-	340
Additions	8	-	161	209	-	378
Amortisation	-	-	(2)	(57)	-	(59)
Balance at 1 July 2020	8	-	499	152	-	659
Transfer	(8)	-	-	8	-	-
Additions	30	48,814	2,794	65	557	52,260
Amortisation	-	-	(4)	(91)	(92)	(187)
Write off	-	-	(42)	-	-	(42)
Exchange difference	-	(2,048)	-	-	-	(2,048)
Balance at 30 June 2021	30	46,766	3,247	134	465	50,642

Goodwill impairment testing

Goodwill acquired through business combinations have been allocated to the following cash-generating units:

	2021 $'000	2020 $'000
Hemp Black (acquired business)	46,766	-

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model based on a 5 year projection period and a terminal value.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model:
- 10.9% as the discount rate; and
- 30% - 60% per annum projected revenue growth rate over the projected cash flow periods.

The discount rate of 10.9% has been set using the estimated weighted average cost of capital to equate the present value of future cashflows against the current carrying value of fixed and intangible assets.

Management believes the projected revenue growth rate is prudent and justified.

Management's estimation of increase in operating costs is based on estimated inflation rate and also an effort by the consolidated entity to contain costs.

There were no other key assumptions.

Based on the above, the recoverable amount of Hemp Black (acquired business) exceeded the carrying amount.

Sensitivity
As disclosed in note 2, the directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill carrying amount may decrease. The sensitivities are as follows:
- Revenue would need to decrease by more than 50% before goodwill would need to be impaired, with all assumptions remaining constant.
- The discount rate would be required to increase by 350% before goodwill would need to be impaired, with all assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of goodwill is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

13. Leases

The Group leases warehouse, factory and administrative facilities. The leases typically run for a period of 3 to 4 years with some leases having the option to renew the lease after that date. Lease terms are renegotiated upon expiry of each lease to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group leases office equipment with contract terms of 5 years. These leases are for low-value items, and the Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

The weighted average incremental borrowing rate applied to lease liabilities at the date of initial application was 7.5%.

Information about leases for which the Group is a lessee is presented below.

i. Right-of-use assets

Right-of-use assets relate to leased properties that do not meet the definition of investment property and are presented as below:

	Buildings	Farming and processing equipment	Total
2021	$'000	$'000	$'000
Balance at 1 July 2020	1,028	19	1,047
Additions to right-of-use assets	449	-	449
Depreciation charge for the year	(544)	(8)	(552)
Exchange difference	(33)	-	(33)
Balance at 30 June 2021	900	11	911
2020			
Balance at 1 July 2019	1,440	-	1,440
Additions to right-of-use assets	194	24	218
Depreciation charge for the year	(635)	(5)	(640)
Exchange difference	29	-	29
Balance at 30 June 2020	1,028	19	1,047

13. Leases (continued)

ii) Lease liabilities

The lease liabilities are presented as below:

	2021 $'000	2020 $'000
Balance at 1 July	1,084	1,440
New leases during the period	449	218
Payments	(609)	(689)
Interest charges during the period	74	91
Exchange difference	(33)	24
Balance at 30 June	965	1,084
Lease liability recognised as at 30 June of which are:		
Current lease liabilities	491	491
Non-current lease liabilities	474	593
	965	1,084

iii) Amounts recognised in profit or loss

Interest on lease liabilities	75	91
Depreciation charge	552	640

iv) Amounts recognised in statement of cash flows

Cash outflow for leases:		
Financing cash outflow	534	598
Operating cash outflow	75	91

v) Extension options

Some property leases contain extension options exercisable by the Group up to 2 years before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses where it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

14. Property, plant and equipment

	2021 $'000	2020 $'000
Capital work in progress	4,904	3,729
Land	2,680	297
Building	31,226	24,318
Less: accumulated depreciation	(814)	(51)
	30,412	24,267
Motor vehicles	498	514
Less: accumulated depreciation	(133)	(87)
	365	427
Office equipment	1,369	1,293
Less: accumulated depreciation	(649)	(217)
	720	1,076
Plant and machinery	12,500	7,141
Less: accumulated depreciation	(4,501)	(2,303)
	7,999	4,838
Total property, plant and equipment	53,177	37,292
Less: accumulated depreciation	(6,097)	(2,658)
	47,080	34,634

	Capital WIP $'000	Land $'000	Building $'000	Motor vehicles $'000	Office equipment $'000	Plant and machinery $'000	Total $'000
2021 Movement Schedule							
Carrying value 1 July 2020	3,729	297	24,267	427	1,076	4,838	34,634
Additions	2,549	2,383	6,907	59	171	4,618	16,687
Transfer	(1,138)	-	-	-	-	1,138	-
Disposals	-	-	-	(21)	-	(36)	(57)
Depreciation	-	-	(763)	(65)	(432)	(2,291)	(3,551)
Exchange difference	(236)	-	1	(35)	(95)	(268)	(633)
Carrying value 30 June 2021	4,904	2,680	30,412	365	720	7,999	47,080
2020 Movement Schedule							
Carrying value 1 July 2019	2,795	-	-	80	20	3,760	6,655
Additions	1,844	297	23,715	370	1,172	1,996	29,394
Transfer	(903)	-	603	31	-	269	-
Disposals		-	-	(19)	-	(97)	(116)
Depreciation		-	(51)	(39)	(113)	(1,147)	(1,350)
Exchange difference	(7)	-	-	4	(3)	57	51
Carrying value 30 June 2020	3,729	297	24,267	427	1,076	4,838	34,634

15. Deferred tax assets

	2021 $'000	2020 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	(255)	(1,058)
Inventory	-	(28)
Accrued expenses	181	2,340
Allowance for expected credit losses	4	49
Blackhole expenditure	187	211
Employee share transactions	887	1,134
Prepayments	(4)	(90)
R&D non-refundable offsets	779	-
Carried forward losses	2,066	-
Other	12	(66)
	3,857	2,492
Amounts recognised in equity:		
Transaction costs on share issue	49	-
Deferred tax asset	3,906	2,492
Movements:		
Opening balance	2,492	2,034
Credited to profit or loss	1,365	458
Credited to equity	49	-
Closing balance	3,906	2,492

16. Trade and other payables

	2021 $'000	2020 $'000
Trade creditors	2,074	1,029
Employee entitlements	699	487
Other creditors and accruals	2,389	7,865
	5,162	9,381

17. Related party loans

	2021 $'000	2020 $'000
Non-current		
Term loan ^	10,000,000	10,000,000

^ The term loan has been provided by a trust related to the Company's non-executive Chairman, Mr Barry Lambert. Mr Lambert is the appointor of the trust, but neither he nor his descendents are beneficiaries. Mr Lambert is not a director or shareholder of the trustee company. The terms of the term loan are as follows:

Agreement date : 23 June 2020
Principal balance : $10,000,000
Interest rate : 8.0% per annum
Repayment date : 15 July 2022

18. Deferred tax liabilities

	2021 $'000	2020 $'000
Deferred tax liability comprises temporary difference attributable to:		
Amounts recognized in profit or loss:		
Property, plant and equipment	4,173	-
Accrued expenses	(349)	-
Employee share transactions	(192)	-
Prepayments	94	-
R&D non-refundable offsets	(159)	-
Carried forward losses	(2,403)	-
Others	114	-
Deferred tax liabilities	1,278	-
Movements:		
Opening balance	-	392
(Credited) / debited to profit or loss	1,278	(392)
Closing balance	1,278	-

19. Employee share trust

On 29 June 2018, the Company entered into an Employee Securities Trust Deed with Pacific Custodians Pty Limited (PCPL) to set up an employee share trust (EST). PCPL is the trustee for the EST.

In August 2018 and September 2018, Ecofibre Limited issued a total of 7,355,659 shares into the EST as part of Ecofibre's employee share scheme (ESS).

The movement of Ecofibre's shares held in the EST are as follows:

	Number of shares
Opening balance as at 30 June 2018	-
Shares issued by the Company to the EST	7,355,659
Shares issued by the EST to employees as part of the ESS – pre split	(1,356,449)
Balance pre share split	5,999,210
Share split – 3:1	11,998,420
Shares issued by the EST to employees as part of the ESS – post split	(599,957)
Balance as at 30 June 2019	17,397,673
Shares issued by the EST to employees as part of the ESS	(1,372,139)
Balance as at 30 June 2020	16,025,534
Shares issued by the EST to employees as part of the ESS	(1,706,248)
Balance as at 30 June 2021	14,319,286

20. Issued Capital

	2021 $'000	2020 $'000	2021 Quantity	2020 Quantity
Ordinary shares	108,152	62,376	326,696,691	305,619,401
Movement in ordinary shares				
Opening balance 1 July	62,376	56,189	305,619,401	291,951,478
Shares issued at $0.537 per share	883	3,836	1,646,116	7,147,561
Shares issued at $2.50 per share	29,500	-	11,800,000	-
TexInnovate acquisition shares (note 32)	14,592	-	5,924,926	-
Conversion of convertible loan	-	1,433	-	5,148,223
Shares issued by the EST	1,125	918	1,706,248	1,372,139
Share issue cost	(344)	-	-	-
Closing balance 30 June	108,132	62,376	326,696,691	305,619,401

341,015,977 total shares are on issue by the parent entity, which includes 326,696,691 consolidated shares on issue plus shares held by the EST (14,319,286) which have been issued by the parent entity and are eliminated on consolidation.

Reconciliation to the Consolidated Statement of Changes in Equity:

	$'000
Balance at 30 June 2019	56,189
Shares issued	3,836
Share based payment: shares issued as part of the ESS	918
Convertible loan conversion to shares	1,433
Balance at 30 June 2020	62,376
Shares issued	44,975
Share based payment: shares issued as part of the ESS	1,125
Share issue cost	(344)
Balance at 30 June 2021	108,132

21. Remuneration of auditors

	2021 $	2020 $
Amount received or due and receivable by the auditors of the company in respect of services to the group:		
- Annual audit	134,952	110,000
- Half year review	32,566	25,000
Audit and review of financial statements	167,518	135,000
- Tax advisory	45,745	52,270
- Accounting assistance	18,500	13,843
Other services	64,245	66,113
Amount received or due and receivable by other William Buck offices:		
- Tax advisory	14,800	-

22. Contingent liabilities and commitments

i) Contingent liability

The Group has sought declaratory judgments regarding a previous agreement in the United States. As part of the litigation, defendants have asserted various counter claims against the Group. As the matter is still before the courts, no further information has been disclosed as this may prejudice the position of the Group.

ii) Commitment for non-cancellable leases are as follows:

	2021 $'000	2020 $'000
Less than one year	113	34
Between one and five years	4	9
	117	43
Capital expenditure commitments not provided for in the financial statements	-	69

23. 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 Interpretations 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 2021 %	2020 %
Ecofibre Services Pty Ltd (ES)	Australia	100%	100%
Ananda Food Pty Ltd (AF)	Australia	100%	100%
Ecofibre Asia Pacific Pty Ltd (EAP) (formerly Ecofibre Holdings Pty Ltd)	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%	-
Hemp Black Polymer, LLC (HBP)	United States of America	100%	-
EOF Distribution Inc. (EOFD)	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.
EAPs 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. HBB was formed on 31 July 2020.
HBP's principal activity is to provide performance masterbatch and custom compounding to the plastics industry for technical textiles. HBP was formed on 31 July 2020.
EOFD is a special purpose sales and marketing entity for the Ananda Health business in the United States.
EU is a dormant entity.

24. Reconciliation of profit after income tax to net cash flows from operating activities

	2021 $'000	2020 $'000
Net profit/ (loss) after income tax	(6,986)	13,156
Depreciation and amortisation	4,290	2,049
(Gain)/ Loss from disposal of fixed assets	26	(85)
Provision for expected credit losses	(23)	203
Share-based payments	1,773	2,705
Transaction costs from business acquisition	318	-
Fair value adjustments for convertible loan	-	(45)
Movement in foreign exchange	(4,922)	(425)
Unrealised foreign exchange loss / (gain)	57	(152)
Change in operating assets and liabilities		
Decrease (increase) in assets		
Trade and other debtors	5,169	(6,837)
Prepayments	371	(4,341)
Inventories	(6,399)	(3,441)
Biological assets	971	84
Deferred tax assets	(1,414)	(458)
Tax recoverable	(3,357)	251
Increase (decrease) in liabilities		
Trade creditors	1,045	373
Other creditors and accruals	(3)	2,250
Tax payable	(764)	829
Employee entitlements	212	85
Deferred tax liabilities	1,278	(392)
Net cash flows from operating activities	(8,358)	5,809

25. Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables, convertible loans and cash and cash equivalents.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, foreign exchange risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring the levels of exposure to foreign exchange and interest rates and assessments of market forecasts for foreign exchange and interest rates.

25. Financial risk management objectives and policies (continued)

Risk exposures and responses

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's maximum exposures to credit risk at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position. The Group minimises concentrations of credit risk in relation to trade receivables by having payment terms of 60 days and receivable balances are monitored on an ongoing basis.

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's funds held on term deposits. All interest-bearing liabilities are at fixed interest rates. At the end of the reporting period the Group had the following financial assets exposed to interest rate risk.

	2021 $'000	2020 $'000
Financial Assets		
Cash and cash equivalents	8,620	18,252

The Group's policy is to place funds in interest-bearing accounts and term deposit where the funds are surplus to immediate requirements. The Group's interest rate exposure is reviewed near the maturity date of term deposits, to assess whether more attractive rates are available without increasing risk.

The following sensitivity analysis is based on the interest rate exposures in existence at the end of the reporting period. At 30 June 2021, if interest rates had moved, as illustrated in the table below, with all other variables held constant, profit after tax and equity would have been affected as follows:

	Profit after tax higher/ (lower)		Equity higher/ (lower)	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Consolidated				
+ 1% (100 basis points)	86	183	86	183
- 0.5 % (50 points)	(43)	(91)	(43)	(91)

The movements in profits is due to higher/ (lower) interest income from cash balances. There is no impact on equity other than impact on accumulated losses.

25. Financial risk management objectives and policies (continued)

Liquidity risk

The Group's objective is to maintain sufficient funds to finance its current operations and additional funds to ensure its long-term survival. The Group will rely on increasing sales and operating cashflows to finance ongoing operations, together with government incentives. Liquidity risk is monitored through rolling cash flow forecasts that are tabled and reviewed by the Board. Total liabilities are payable as follows:

	2021 $'000	2020 $'000
Less than one year	5,718	10,701
Between one and five years	24,230	10,593
Later than five years	-	-
	29,948	21,294

Foreign currency risk

The Group is exposed to fluctuations in foreign currencies on product sales and purchases of goods and services in currencies other than the Group's functional currency. The group manages this risk by monitoring the level of exposure to foreign currency transactions and forecasting currency requirements through rolling cash flow forecasts.

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		Liabilities	
Consolidated	2021 $'000	2020 $'000	2021 $'000	2020 $'000
US dollars	1,397	17,114	-	21

The consolidated entity had net assets denominated in foreign currencies of US$1,397,000 (assets of US$1,397,000 less liabilities of nil) as at 30 June 2021 (2020: US$17,093,000). Based on this exposure, had the Australian dollar weakened by 5%/strengthened by 5% (2020: weakened by 5%/strengthened by 5%) against these foreign currencies with all other variables held constant, the consolidated entity's profit before tax for the year would have been $93,000 higher/$93,000 lower (2020: $1,246,000 higher/$1,246,000 lower). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 30 June 2021 was $478,000 (2020: gain of $3.9m).

Fair value

The carrying amount of all other recognised financial assets and financial liabilities are considered a reasonable approximation of their fair value due to their short-term nature.

26. Key management personnel disclosures

Compensation
The aggregated compensation made to the key management personnel of the parent entity is set out below:

	2021 $	2020 $
Short-term employee benefits and directors fees	741,569	661,324
Share based payments	972,012	1,184,532
Post-employment benefits	36,003	53,676
	1,749,584	1,899,532

See also Note 27 for other related party transactions

27. Related party transactions

Transactions with related parties
The following transactions occurred with related parties:

	2021 $	2020 $
Interest expense for convertible loan with Lambert Superannuation Fund	-	35,237
Interest expense for term loan (see note 17)	800,000	17,534
	800,000	52,771

Receivable and payable to related parties
The receivables from and payables to related parties are disclosed in note 17.

28. Parent entity information

Set out below is the supplementary information about the parent entity.

	2021 $'000	2020 restated $'000
Profit/ (Loss) after income tax	1,982	8,890
Total comprehensive income	1,982	8,890
Statement of financial position		
Total current assets	4,343	13,570
Total assets	125,130	62,718
Total current liabilities	169	686
Total liabilities	10,412	10,686
Equity		
Issued capital	108,132	62,376
Share based payment reserve	5,796	5,148
Share capital reserve	14,300	-
Accumulated losses	(13,510)	(15,492)
Total equity	114,718	52,032

29. Share-based payments

Shares issued in-lieu of research services

Ecofibre has entered into an agreement with Thomas Jefferson University (TJU) to provide research services to Ecofibre over 5 years, commencing 1 July 2017. Due to early research success and opportunities for commercialisation, the research program was accelerated and has now been completed in April 2021, 15 months ahead of schedule. In accordance with the Research and Share Subscription Agreement signed between both parties, 1,646,116 new shares were issued to TJU in settlement of the final costs of the research in the current year for $883,000 worth of research services. Of the total research services, $754,000 was recognised as part of the research expenses in the current year as disclosed in note 5(b)).

29. Share-based payments (continued)

Share options

Ecofibre has granted TJU an option to subscribe for fully paid ordinary shares within 6 months of the end of the research.

Set out below are summaries of options granted under the plan:

Grant date	Expiry date	Exercise price	Balance at the start of the year	No of options granted	Exercised	Balance at the end of the year
1 Jul 2017	28 Oct 2021	$0.537	7,964,581	-	-	7,964,581

Due to early completion of the research agreement, all options granted are exercisable as at 30 June 2021.

For the options granted, the valuation model inputs used to determine the fair value at the grant date are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
1 Jul 2017	31 Dec 2022	$0.537	$0.537	54%	-	2.21%	$0.26

	2021 $'000	2020 $'000
Expenses recognised during the year for share options granted in prior years	827	(24)

Employee shares

Employment agreements were signed with key employees who have an impact on the Group's performance. The agreements include clauses which entitled the employees to payment in shares of the Company if certain performance conditions are met.

The expenses recognised for employee services received during the year as part of the employee share scheme are as follows:

	2021 $'000	2020 $'000
Expenses from equity-settled share-based payment transactions	946	2,729

29. Share-based payments (continued)

Share-based payment reserve

	2021 $'000	2020 $'000
Share options	2,067	1,240
Employee shares	3,729	3,908
Total share-based payment reserve	5,796	5,148

The share-based payment reserve is used to record the cost of equity-settled transactions over the vesting period.

Share-based payment expense

	2021 $'000	2020 $'000
Share options	827	(24)
Employee shares	946	2,729
Total share-based payment expense	1,773	2,705

30. Earnings per share (EPS)

	2021 $'000	2020 $'000
(Loss) / earnings used in the calculation of basic and diluted EPS ($'000)	(6,986)	13,156
Weighted average number of shares* outstanding during the period used in the calculation of basic and diluted EPS:		
Basic	322,746,559	296,929,432
Diluted**	322,746,559	303,165,688

* Weighted average number of shares exclude Treasury shares held in the EST.
** 7,964,581 options granted to TJU has not been included in the 2021 diluted weighted average number of shares because they are antidilutive.

31. 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
Consolidated - 2021				
Assets				
Biological assets	-	1,350	-	1,350
Liabilities				
Contingent consideration	-	12,414	-	12,414
Consolidated - 2020				
Assets				
Biological assets	-	2,321	-	2,321
Liabilities				
Contingent consideration	-	-	-	-

There were no transfers between levels during the financial year.

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.

32. Business combinations

On 21 August 2020, the Group completed the acquisition of TexInnovate, a portfolio of five businesses with deep technical expertise and capabilities across a broad range of high-performance textile disciplines. TexInnovate was acquired to complete a key part of its supply chain for Hemp Black, accelerate commercialisation of the business and underpin the future growth and success of Hemp Black.

Total potential consideration for the businesses and operating assets is USD42.0m:

- at completion Ecofibre settled 50% of the business acquisition (USD21.0m), comprising USD10.5m cash and the issue of 5,924,926 shares at a value of USD10.5m; and
- contingent consideration with a value up to USD21.0m is also payable subject to the acquired businesses delivering USD6.0m earnings before interest and tax (EBIT) for two consecutive annual periods within five years of completion. The earliest that any such consideration may become due is in 3 equal tranches of USD7.0m on the 3rd, 4th and 5th anniversaries after completion, payable in equal proportions of cash and shares. 5,924,925 shares will be issued if the performance targets are met.

Consideration for real estate assets used by the businesses totalled USD6.7m, as determined by independent market appraisal. Acquisition of the real estate assets was settled in cash at the completion date.

The value of goodwill recognised on acquisition (AUD $48.8m) represents the proprietary capability, know-how and highly skilled workforce and expected growth synergies from combining this business with Hemp Black. The acquired business contributed revenues of $9.7m and profit before tax of $387,000 to the consolidated entity for the period from 21 August 2020 to 30 June 2021. The values identified in relation to the acquisition of TexInnovate are final as at 30 June 2021 other than impacts of foreign currency translation. It is impracticable to disclose the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for the business combination that occurred during the year had been as of the beginning of the annual reporting period as this is an assets and business acquisition and not an acquisition of a subsidiary.

Details of the acquisition are as follows:

	$'000
Inventory	1,080
Plant and equipment	6,201
Land and buildings	9,249
Net assets acquired	16,530
Goodwill *	48,814
Acquisition-date fair value of the total consideration transferred	65,344
Representing:	
Cash paid or payable	23,841
Shares issued to TexInnovate	14,592
Contingent consideration payable in cash subject to the acquired business achieving EBIT target ^	12,611
Contingent consideration payable in shares subject to the acquired business achieving EBIT target	14,300
	65,344
Acquisition costs expensed to profit or loss	354
Cash used to acquire business:	
Acquisition-date fair value of the total consideration transferred	22,729
Net cash used	22,729

32. Business combinations (continued)

* Reconciliation of goodwill at acquisition date to the balance at 30 June 2021:

	$'000
Goodwill at acquisition date	48,814
Foreign currency impact	(2,048)
Balance at 30 June 2021	46,766

^ Reconciliation of acquisition date contingent consideration payable in cash, which is subject to the acquired business achieving the EBIT target, to the balance at 30 June 2021:

	$'000
Acquisition-date fair value of the contingent consideration payable in cash ^^	12,611
Fair value movement on contingent consideration during the period	325
Foreign currency impact	(522)
Balance at 30 June 2021	12,414

^^ The fair value of the contingent consideration is determined based on the probability weighted cash flow projections discounted at the incremental borrowing rate. The inputs used in the valuation falls under level 2 of the fair value hierarchy (inputs other than quoted prices that are observable for the asset of liability, either directly or indirectly).

33. Foreign currency translation reserve

Foreign currency translation reserve consists of exchange differences arising from translation of foreign subsidiary's financial statements, where the subsidiaries reporting currency differs from that of the consolidated entity's currency. The balance sheet is translated either at historical spot rates or the closing rate at the end of the period. Profit and loss is translated at average rates.

The foreign currency translation reserve as at 30 June 2021 consists of the following exchange differences:

Balance sheet component	Rate Rate used for translation	$'000
Investment in subsidiaries	Historical spot rate	(3,522)
Retained earnings	Average rate	(1,575)
Total		(5,097)

Movement in the foreign currency translation reserve:	$'000
Balance at 30 June 2020	(175)
Exchange differences on translation of foreign controlled entities	(4,922)
Balance at 30 June 2021	(5,097)

34. Events after the reporting period

No other matter or circumstance has arisen since 30 June 2021 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 report to the members

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Ecofibre Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and 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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matters (continued)

<table>
<tr><th colspan="2">Share-based Payments</th></tr>
<tr><th>Refer also to Remuneration Report, note 1(s) and 29</th><th>How our audit addressed it</th></tr>
<tr><td>The Group issued share options to a major supplier who provides research services to the Group.

The Group also signed employment agreements with key employees which entitled them to shares in the Company if certain performance or service conditions are met.

The valuation of share-based payment arrangements required significant judgement and estimation by management, including the following:
- The evaluation of the grant date of the arrangements, and the evaluation of the fair value of the share-based payment arrangement as at the grant dates;
- The evaluation of the share-based payment expenses taken to the profit or loss in respect of the accrual of service and performance conditions attached to the share-based payments; and
- The evaluation of key inputs into the valuation model.</td><td>Our audit procedures included:
— In determining the grant date, we evaluated what was the most appropriate date based on the terms and conditions of the share-based payment arrangements;
— Evaluating the fair value of the share-based payment arrangement by agreeing assumptions to third party evidence;
— In evaluating the progress of the vesting of share-based payments with performance milestones, we evaluated the directors' assessment of the likely success or failure of achieving those milestones;
— In assessing the vesting of service conditions, we considered the expensing of each share-based payment tranche granted to the arrangement's beneficiary;
— For specific application of the Black-Scholes Model in the valuation of share options, we retested some of the assumptions used in the model and recalculated those fair values using the skill and know-how of our in-house specialists. We considered that the forecast volatility applied in the model to be appropriately reasonable and within industry norms; and
— We also reconciled the vesting of share-based payment arrangement to disclosures made in the Remuneration Report and financial statements.
— Assessing the adequacy of disclosures in the notes to the financial statements.</td></tr>
</table>

Key Audit Matters (continued)

Valuation of Inventories and Biological Assets	
Refer also to note 1(i), 1(j), 9 and 10	**How our audit addressed it**
The Group held biological assets of $1.4 million at 30 June 2021. The Group's biological assets consist of planted hemp crop. The biological assets are measured at fair value less costs to sell or, in the absence of a fair value, at cost less impairment. The valuation uses a range of judgemental assumptions. Key assumptions include: - Total number of acres or hectares planted; - Percentage of maturity of the plant based on estimated harvest date; and - Costs per acre, hectare or yield paid or payable to the farmers. Upon harvest, the value of biological assets are transferred to inventory. Its fair value forms part of the standard cost for inventory valuation. The group's inventory of $16 million is significant to the financial statements and has increased by $6 million from prior year.	Our audit procedures included: — Attending stock counts at multiple locations; — Considering the valuation methodology against the relevant Australian Accounting Standard; — Testing the mathematical accuracy of the calculation; — Testing the assumptions used based on farming contracts; — Assessing management's standard costing model and inputs; — Evaluating management's judgement and assumptions used in determining the inventory provision; and — Assessing the adequacy of disclosures in the notes to the financial statements.

Business Acquisition	
Refer also to note 32	**How our audit addressed it**
The Group acquired Texinnovate on 21 August 2020 for a total consideration of USD$42 million, inclusive of USD$21 million of contingent consideration. Accounting for this transaction is complex and required significant judgements and estimates by management on the initial entries recorded, specifically: - to determine the fair value of assets and liabilities acquired in the context of Australian Accounting Standards; and - to determine the fair value of the contingent consideration. As such this matter has been determined as a key area of focus for our audit.	Our audit procedures included: — Assessing that the acquisition target meets the definition of a business under *AASB 3 – Business Combinations;* — Reviewing the sale and purchase agreement to understand the key terms and conditions of the acquisition, including the date that control passed to Ecofibre; — Assessing the Group's determination of fair values of assets acquired; and — Testing the appropriateness of the contingent consideration that was recorded on acquisition date and at 30 June 2021. We assessed the adequacy of the Group's disclosures in respect of the acquisition in the financial report.

Key Audit Matters (continued)

Impairment Assessment of Intangible Assets Including Goodwill	
Refer also to note 1(o), note 12 and note 32	**How our audit addressed it**
Included in the statement of financial position is an intangible asset balance of $50.6 million as at 30 June 2021, which includes goodwill of $46.8 million. In accordance with *AASB 136 – Impairment of assets* the consolidated entity is required to, at least annually, perform an impairment assessment of goodwill and intangible assets that have an indefinite useful life. For intangible assets with useful lives, the consolidated entity is required to review these for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable, and at least annually, review whether there is any change in their expected useful lives. All intangible assets including goodwill have been allocated to cash generating units ("CGUs"). The recoverable amount of the underlying CGUs are supported by value-in-use calculations which are based on future discounted cash flows.	Our audit procedures included: — a detailed evaluation of the consolidated entity's budgeting procedures upon which the forecast is based and testing the principles and integrity of the discounted future cash flow models; — testing the accuracy of the calculation derived from the forecast model and assessing key inputs to the calculations such as revenue growth, discount rates and working capital assumptions; and — reviewing the sensitivity analysis of the calculations. We also considered the adequacy of the consolidated entity's disclosures in the notes to the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2021, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of these financial statements is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our independent auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Ecofibre Limited, for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

William Buck

William Buck (Qld)
ABN 21 559 713 106

Junaide Latif
Director

Brisbane: 19 August 2021

Shareholder Information

The shareholder information set out below was applicable as at 5 August 2021.

Number of securityholders

There are 5,524 holders of ordinary shares, 1 holder of options (unquoted) over ordinary shares, 27 holders of employee share rights (unquoted) and 1 holder of performance rights (unquoted). There were no other classes of equity securities on issue.

Fully paid ordinary shares

Distribution of ordinary shares

Size of shareholding	Number of shareholders	Number of shares	% of shares on issue
1 to 1,000	2,336	1,172,078	0.34%
1,001 to 5,000	1,760	4,496,577	1.32%
5,001 to 10,000	561	4,385,300	1.29%
10,001 to 100,000	744	21,645,352	6.35%
100,001 and over	123	309,316,670	90.70%
Total	**5,524**	**341,015,977**	**100.00%**
Holding less than a marketable parcel	1,691	594,170	

Twenty largest holders of quoted ordinary shares

The names of the twenty largest holders of quoted ordinary shares are listed below:

Name	Number	% of quoted ordinary shares
Barjoy Pty Ltd	37,688,454	11.05%
Barry Martin Lambert & Joy Wilma Lillian Lambert	34,497,242	10.12%
Phil Warner Pty Ltd	32,481,381	9.52%
HSBC Custody Nominees (Australia) Limited	25,820,376	7.57%
Freshwater Superannuation Fund Pty Limited	20,089,149	5.89%
Kylie Warner Pty Ltd	16,340,072	4.79%
Thomas Jefferson University	12,178,259	3.57%
Eric Wang	8,644,158	2.53%
Citicorp Nominees Pty Limited	7,664,587	2.25%
Pacific Custodians Pty Limited (Employee Securities TST Unallocated A/C)	7,200,000	2.11%
Pacific Custodians Pty Limited (Employee Securities TST A/C)	6,909,286	2.03%
Wow Corporate Pty Ltd	6,648,700	1.95%
Texsymmetry Inc	6,595,959	1.93%
Jeffrey Bruner	5,400,148	1.58%
John Ryan	5,311,786	1.56%
Manderrah Pty Limited	5,243,369	1.54%
Walling Pty Limited	4,850,181	1.42%
National Nominees Limited	3,163,706	0.93%
Yarrawonga Holdings Pty Limited <Yarrawonga Super Fund A/C>	3,048,553	0.89%
Troncell Pty Ltd	2,922,078	0.86%
Total	**252,697,444**	**74.09%**

Substantial holders

Substantial holders in the Company as disclosed in substantial holding notices given to the Company were as follows:

Name of substantial holder	Number of shares over which interest is held	% of issued capital
Barry Martin Lambert	74,236,900	23.57%
Philip Warner	53,109,243	17.17%
James William Vicars	30,841,174	9.97%

Unquoted Options

There were 7,964,581 unquoted options over ordinary shares as follows:

Unquoted options – description	Number of options	Number of holders
Thomas Jefferson University options expiring 28 October 2021 exercisable @ AU$0.537 per share	7,964,581	1
Total	**7,964,581**	**1**

Unquoted Employee Share Rights

Distribution of Employee Share Rights

There are 11,499,302 unquoted performance rights on issue held by 27 holders as follows:

Size of holding	Number of holders	Number of Rights	% of Rights on issue
1-1,000	1	300	0.0026%
1,001 – 5,000	6	12,500	0.1087%
5,001 – 10,000	3	24,000	0.2087%
10,001 – 100,000	9	422,500	3.6741%
100,001 and above	8	11,040,002	96.0058%
Total	**27**	**11,499,302**	**100.0000%**

Unquoted Performance Rights

There are 5,924,925 unquoted performance rights on issue as follows:

Unquoted performance rights – description	Number of rights	Number of holders
TexInnovate performance rights – contingent consideration expiring 21 August 2025	5,924,925	1
Total	**5,924,925**	**1**

Voting Rights

Ordinary shares carry voting rights on a one for one basis. Unquoted options, employee share rights and performance rights do not carry voting rights.

Other ASX required information

During the period between admission to the Official List of ASX and the end of the reporting period, the Company used the cash, and assets in a form readily convertible to cash, that it had at the time of admission to the ASX, in a way consistent with its business objectives. This statement is made pursuant to ASX Listing Rule 4.10.19.

CORPORATE DIRECTORY

Directors
Barry Lambert
Jon Meadmore
Bruce Robinson
Kristi Woolrych
Vanessa Wallace
Eric Wang

Company secretary
Jonathan Brown

Registered Office
Level 12, 680 George Street
Sydney NSW 2000

Principal place of business
Level 12, 680 George Street
Sydney NSW 2000

Share Registry
Link Market Services
Level 21
10 Eagle Street
Brisbane QLD 4000

Auditor
William Buck (Qld)
Level 21, 307 Queen Street,
Brisbane QLD 4000

Solicitor
Colin Biggers & Paisley Lawyers
Level 35, 1 Eagle Street
Brisbane QLD 4000
www.cbp.com.au

Banker
Commonwealth Bank of Australia
240 Queen Street
Brisbane QLD 4000

Stock exchange listing
Ecofibre Limited shares are listed on the
Australian Securities Exchange (ASX code: EOF)

Corporate Governance Statement
ecofibre.com/investors/corporate/

www.ecofibre.com

ECOFIBRE

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