ECOFIBRE

ANNUAL REPORT **2022**

About Ecofibre

Ecofibre is a diversified industrial hemp company located in the United States and Australia.

We operate three vertically integrated businesses focused on growth in natural health care, plant-based foods and sustainable product solutions.

Ananda Food owns one of the world's largest collections of hemp seed genetics and is a leading, low-cost manufacturer of high quality hemp food products in Australia, including oil, seed and proteins. See www.anandafood.com.

Ananda Health is a leading US manufacturer of hemp-based nutraceuticals for the professional market. We produce CBD products for human and pet consumption, as well as topical health and beauty products. Our focus on high quality, efficacious and safe products is supported by a commitment to clinical research in Australia and the USA, focused on conditions including sleep, pain, anxiety, endometriosis and women's cancers. See www.anandaprofessional.com.

Hemp Black is an industrial business focused on textiles and bioplastics, with specialist capabilities in yarn extrusion, knitting and polymer compounding. We are using innovative hemp-based composite technology to help de-carbonise consumer products and the supply chains for a range of industries. See www.hempblack.com.

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1. OVERVIEW

Our purpose

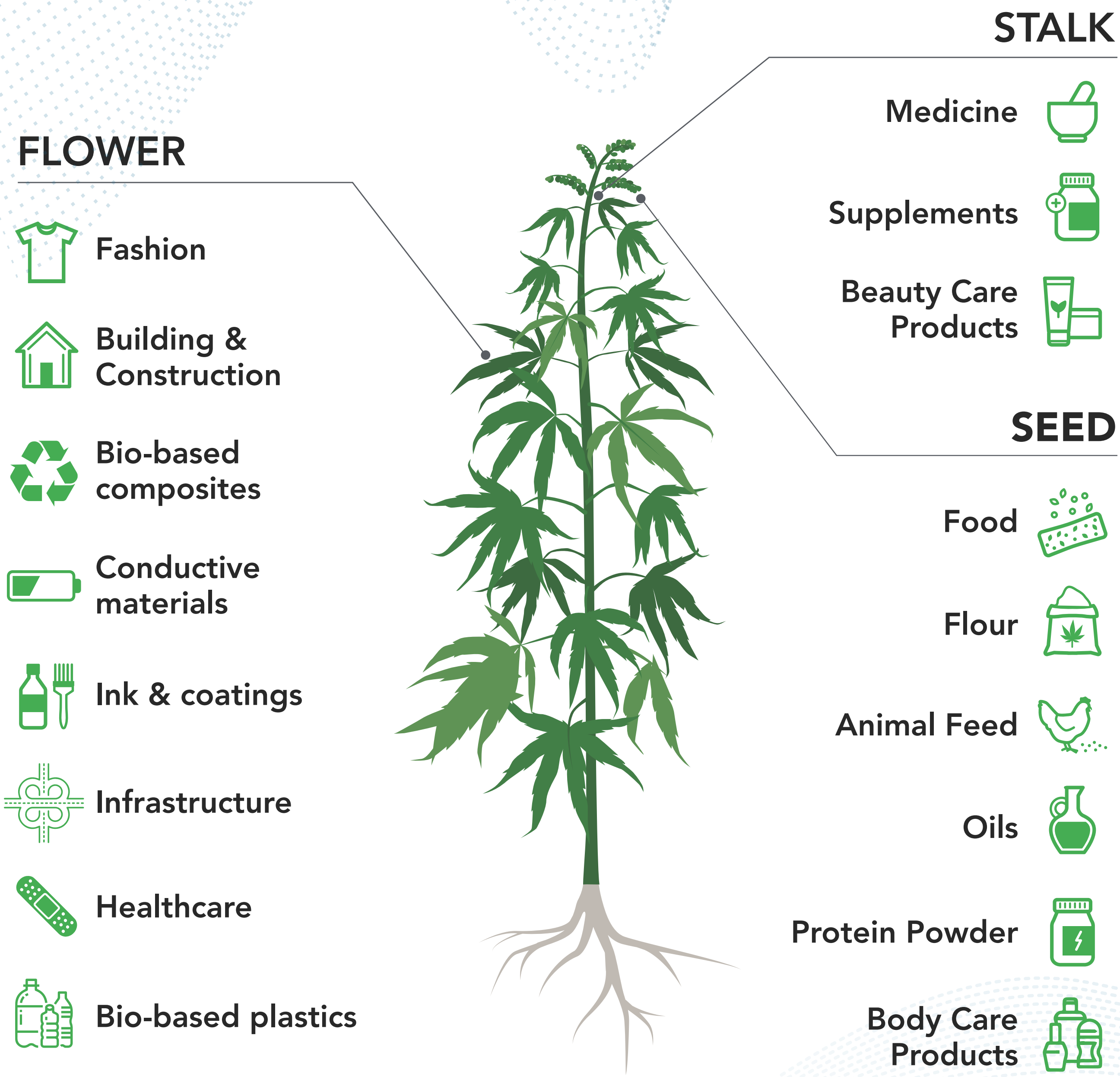
Seeding the solution

As a global leader in sustainable hemp solutions, Ecofibre, at its core, is an impact company.

Our focus is to be the global leader in sustainable solutions that address health issues and decarbonise a wide range of emission intensive industries around the world.

Principal activities

Ecofibre's hemp inputs, products and target industries



Group structure and priorities

anandahealth

Be the preferred provider to practitioners and pharmacy channels

HEMP BLACK

Be the recognized global leader in sustainable, high-tech hemp solutions

anandafood

Be the leading hemp food supplier in Australia

Our Brands

Our Customers

FY22 Key metrics

Revenue
up from $28.8m to
$30.2m

Other Income
down from $5.0m to
$2.1m

Gross Margin
down from 61% to
49%

Operating Costs
up from $31.4m to
$37.2m

NPAT
down from -$7.0m to
-$14.7m

Cash
$7.3m

R&D investment
$6.3m

Capital investment
$3.1m

Net Tangible Assets
per share
13.23 cps

Earnings
per Share
-4.41 cps

Chairman’s message

Dear Shareholders

As we look back on FY22 and reflect on how many factors came to bear on business in this period, it was indeed an extraordinary year.

Whilst the COVID pandemic restrictions on our everyday lives are subsiding, business leaders are still confronted with having to navigate particular challenges to their companies. Of note are: disrupted trading patterns and supply chain efficiencies; illness-related absenteeism; workplace flexibility and adjusting to new ways of working; resetting of business relationships including contracting terms; and removal of “covid crisis” government support.

In parallel, world economies are in the middle of multiple transitions, including; (1) macroeconomic reversal including a re-rating of markets (2) a shift from carbonising to decarbonising the world, (3) the continuing digital and data revolution, and (4) the changing global geo-political landscape.

Creating impact and shareholder value in this context is greatly aided by; clarity of purpose, maintaining a value creation focus balancing short and longer-term objectives, and a clear conviction on priority markets and the company's advantaged capabilities, coupled with retaining a strong reputation with all stakeholders.

Delivering on our purpose

Ecofibre is, at its core, an impact company.

Our Health, Food and Sustainable Industrial businesses are delivering positive impact on the health and wellbeing of society via our health products and nutritional food products, and in the environment via our decarbonising industrial hemp solutions. The impact is described in more detail in the Operating Review of this report and in the Sustainability Report, which I encourage you to read.

Notably this year,

- we have set a bold ambition of sequestering 1 billion kg of carbon within the next five years by disrupting the $17.5B petroleum-based carbon black market with our patented “/eco6”, a 100% bio-based carbon black.
- Katelyn's Gift, announced at the AGM in November 2021 in recognition of the retirement of Barry Lambert, continues to provide financial support to children across Australia by providing their families access to life-changing CBD.
- Ecofibre's ongoing CBD research and product development in women's health has made significant progress in this important area of need with the potential to impact a very large, under-served segment of the world's population.

Maintain shareholder value creation focus - balancing short and long term

With an after-tax operating loss of $ 14.7 million, FY22 was a difficult year. This result reflects a wide variety of factors impacting the three businesses with some real strengths evident and other areas still requiring adjustment.

Each business tightened its market focus over the last year with clear, operational Objectives and Key Results (OKR) plans. These priorities have been shared in the past two Shareholder Updates. Despite the pressure on margins and operating costs in the first part of FY22, there is a clear line of sight to profitability in each business.

Importantly, the result also reflects the Company's strong pre-disposition to make the necessary investments in our high-conviction markets of Food, Health and Sustainable Industrials.

The allocation of investments in each business built on the capability investments of prior years and focused on areas that have a strong commercial pathway over the next few years.

In Hemp Black (our Sustainable Industrials business), the investments focused on product R&D with near-term commercialisation leveraging the prior investment in advanced manufacturing capabilities. In Ananda Food the investments to acquire Soul Seeds and ECS Botanics build on prior investments to establish a scalable platform and differentiated seed genetics. The Ananda Health investments in a CBD beauty line and myEveryday product leverage prior investment in the professional pharmacy channels and in our Kentucky manufacturing facilities.

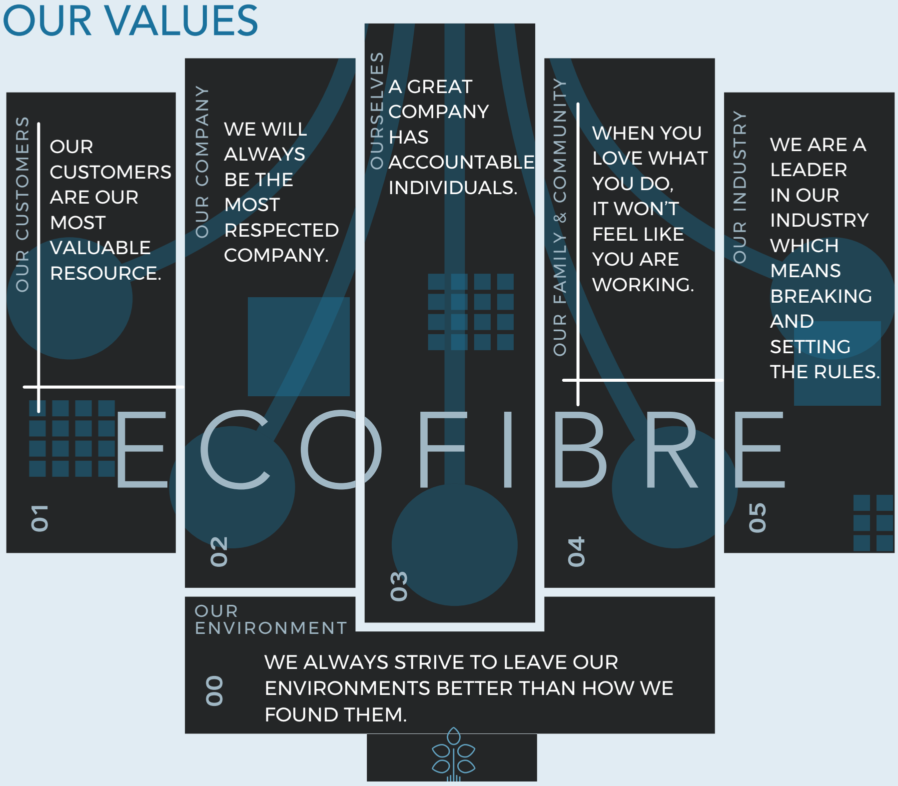
Ecofibre aims to build a long-term sustainable business model and the Board and management are working to deliver tangible social and environmental impact and create attractive shareholder value over time.

Strong reputation with stakeholders

Industrial Hemp is still maturing as an industry. Ecofibre is actively involved in influencing the setting of high standards in the industry; in the USA, via the Managing Director's role in the US Hemp Roundtable, and in Australia, building on the prior Chairman's drive to enable access to medicinal cannabis, and now working with the TGA to set the standard for over-the-counter product regulatory approval.

In addition to playing our role as an industry leader, we also put a lot of credence on the way we do business. We consider our customers, suppliers, communities in which we operate and our team members in all decisions we make to create shareholder value.

OUR VALUES



In addition to being an industry leader, aiming to influence the standards and ensure the supply chain is established sustainably, we also put a lot of credence in the way we do business.

We consider our customers, suppliers, communities in which we operate and our team members in all decisions we make to create shareholder value.

The Board has also evolved in line with the business, with an independent Chairman, our first US-based non-executive director, Michele Anderson joining in March 2022, and Mark Bayliss joining in September 2022. Jon Meadmore has been Chair of the Audit and Risk Committee for the last 6 years and passed the role to Mark Bayliss on September 1, 2022. We also saw the retirement of Kristi Woolrych in May 2022 and wish her well in her new Executive role.

Thank you

In closing, I pay tribute to our dedicated team led by Eric Wang and thank them for their dedication and contributions in a year like no other. They responded well to the unique challenges and maintained a focus on building a sustainable growth business.

To our shareholders, thank you very much for your continuing support through this challenging period. We look forward to delivering sustainable impact and shareholder value in 2023 and beyond.

Vanessa Wallace
Chairmain

Managing Director's report

Dear Shareholders,

I want to join Vanessa in thanking you for your continued support of Ecofibre.

We entered FY22 with the challenging operating environment we experienced throughout FY21. Overall, the Group had revenue growth of 5% but was impacted by reduced operating margins because of supply chain challenges and business disruption that affected the first nine months of the financial year.

During the final quarter of FY22, we saw improved trading conditions as COVID-related issues ended in the US, and most major supply chain issues resolved themselves.

While inflationary pressures remain, we enter FY23 in a more favorable operating environment than in FY22.

We have always maintained high conviction in our business portfolio and the three growth markets we participate in: Natural health care, Plant-based foods, and Sustainability. As communicated last year, the conviction in our chosen markets meant that despite the disruption, we continued to invest in clinical trials, establish Hemp Black operational capacity, and innovate and develop new products.

I am pleased to report that during the last quarter of the year, as major disruptors subsided, we started to see the benefits of our investments across our portfolio, placing us in a good strategic position for FY23.

- Ananda Health revenues were down 9%, but revenue in our core independent pharmacy channel was up 13%. During the year, we consolidated our Ananda Hemp brand, which focused on health food stores, into our flagship Ananda Professional business. This consolidation helped to reduce costs and streamline operations to focus on the professional pharmacy and practitioner channels.

  To capture a more significant share of pharmacy shelf space, we launched myEveryday CBD in September this year. This product range helps our pharmacies serve their value-based consumers and allows us to compete effectively against other brands in this price segment.

  In Australia, our vision has always been to provide an over-the-counter CBD product that is accessible and affordable to serve those in need. During the year, we made significant progress in this initiative. In September, we will complete our clinical trial on sleep and then submit our TGA application to register an S3 (over-the-counter) CBD product before the end of this calendar year. We look to gain a first mover advantage in what we consider to be a very attractive market.

- Hemp Black revenues increased by 15% in FY22, but profitability was impacted for the first nine months by a prolonged increase in input costs due to supply chain issues. Input costs have since normalised, and the business recently brought on a very attractive long-term client in the core turf yarn business.

  There was mixed success in FY22 from new clients as trading conditions impacted their growth and, subsequently, our ability to have them become larger-scale clients. However, the business has a strong pipeline of a small number of quality clients we can serve with the capabilities we have invested in over the past several years.

- Ananda Food had revenue growth of 36%, with core Australian food sales increasing, new animal products launched, and our US planting seed business beginning to achieve scale.

  During the year, we made two small bolt-on acquisitions to provide Ananda Food with direct access to Woolworths, Coles, and health food stores with our retail brands. These platforms will allow us to expand product lines into large consumer channels.

  We expect our planting seed business, which we have been developing since FY19, to grow rapidly in FY23 as we have expanded supply to meet the significant demand for high-yielding planting seeds that work in North American latitudes. Ecofibre has been investing in its genetic resource for many years, and we are pleased to see the industrial fibre market grow in the US, which underpins the growth of this business line.

Environmental sustainability and social impact are core to our business model.

Ecofibre places positive impact and environmental sustainability at the core of how we operate and the markets in which we participate. Ecofibre has built commercial business models in three attractive markets that positively impact society and the environment: natural health care, plant-based foods, and environmentally sustainable industrial hemp-based products.

This year we set our bold vision to sequester one billion kilograms of carbon within the next five years to make a meaningful change in the world's carbon footprint. To achieve this goal, Ecofibre will need to support ~200,000 acres of hemp production and concurrently ensure an adequate hemp supply chain that delivers a commercial outcome for the Group.

This industrial hemp supply chain has been a core initiative in the United States since 2019 and is now in place. Our business focuses on disrupting the traditional petroleum-based carbon black market with our patented /eco6 technology. By using /eco6 in black plastics, inks, and coatings, we will be able to provide carbon-negative, bio-based solutions to help our clients achieve their net-zero carbon goals.

We are currently focussed on a high-volume durable bio-plastic item that has global usage, and will continue to update the market on this initiative.

In the healthcare industry, our staff are incredibly proud to be in a business committed to improving our customers' health and well-being via natural plant-based inputs. Specifically, we are deeply committed to addressing significant unmet needs in women's health.

Today 15-20% of women aged 15 to 50 suffer from chronic pelvic pain, which disrupts physical activity, sexual relations, sleep, work, and family life. Ecofibre has focused much of its research portfolio on addressing these issues. This year, we completed the FREE HER (Finding Relief from Endometriosis and Exclusion: Hemp Extract Research) post-market study, which was conducted with women suffering from pelvic pain using Ananda Health's EndoRelief Cream.

In this study, 254 women were asked to identify symptoms that our product improved. Over 90% responded that the product was helpful, and 60% noted an improvement in pain which was our primary endpoint. We look forward to publishing the full results of this study in the coming months.

We have also extended our research collaboration with the University of Newcastle following the filing of four provisional patent applications with the United States Patent and Trademark Office. This investment looks to develop IP to address gynecological cancers, endometriosis, and other non-malignant gynecological disorders. We have been very encouraged by the early data. We hope our continued discovery will provide critical solutions to urgent challenges with gynecological cancers to improve the health and well-being of women.

I would invite you to read our **Sustainability Report** to understand the impacts of your investment in Ecofibre, both socially and environmentally.

Outlook

We are confident in our strategies and the outlook for the industries and markets in which we participate.

We expect the macro-economic and geo-political environment to remain volatile making results difficult to forecast. At this time, we expect the Company to incur a smaller loss in FY23, with a clear pathway to profitability and positive cash flow in FY24.

Hemp Black will experience continued growth with new core clients, and we expect the business to be profitable in FY23 with the contribution from the execution of our /eco6 strategy.

Ananda Health will continue its recovery in the pharmacy channel, and myEverday CBD will provide solid growth. However, the business will not return to profitability in FY23. A key to profitability in FY24 will be the Australian over-the-counter market, where product registration is subject to TGA approval.

Ananda Food will continue to experience solid growth. Launching new animal-based products and expanding our fibre planting seed business will make this business profitable in FY23.

Thank you

I sincerely thank 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 the contribution that everyone has made in a year of constant disruption.

I want to thank my fellow directors for their expertise and support during a very challenging year and welcome new directors to the Board. Following Barry's retirement at last year's AGM, Vanessa assumed the role of our Chairman and has provided me with great support and guidance. Jon and Bruce have provided advice and continuity for the company, and I am delighted to welcome Michele and Mark to the Board.

Eric Wang
Managing Director

Leadership team

Eric Wang
Managing Director

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.

Jonathan Brown
Chief Financial Offer and Joint Company Secretary

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 Sheldon
General Counsel and Joint Company Secretary

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.

Dr Alex Capano
Chief Science Officer

Dr. Capano earned her DNP at Thomas Jefferson University in Philadelphia, Pennsylvania, where she graduated Summa Cum Laude and was awarded the Sandra Festa Ryan award for Outstanding Creativity and Innovation. She was the first doctoral candidate of any discipline who focused on cannabinoid science under the guidance of the Lambert Center for the Study of Medicinal Cannabis and Hemp. Dr. Capano also holds a BSN and an MSN from the University of Pennsylvania, and a BS in neuroscience from the University of Miami.

Jeff Bruner
President, Hemp Black

Jeff founded The Quantum Group, Inc. in 1985 later transitioned into Quantum Materials, LLC in 2017 and then founded TexInnovate, Inc. in 2017 which was later sold to Ecofibre. At Quantum Materials Jeff was responsible for the development and innovation of a wide range of high-performance textile applications across a range of industries to include office furniture, automotive seating, truck tires, road construction fabrics, filtration, composite yarns & fabrics, medical implants, outdoor furniture and many other highly engineered yarns and fabrics. Jeff is a leading textile engineer and inventor of solutions to meet industry needs for high specification applications.

Kieren Brown
Managing Director, Ananda Food

Kieren became the MD of Ananda Food in March 2018 with a remit to grow the newly established Australian food business. Kieren is an experienced executive with over 23 years' experience within the UK, Spanish and Australian food industries, specialising in the operational and technical disciplines in short shelf-life fresh produce. Kieren's last role was with Australia's largest supplier of pre-packaged salads. As the GM of National Operations, he oversaw several hundred staff across four sites in four states, with turnover of over $230 million per annum. Prior to that, Kieren worked overseas for Heinz and has deep experience with some of the largest retailers – including Woolworths, Coles and Marks and Spencer.Kieren holds a BSC (Hons) in Microbiology from University of Wales Aberystwyth.

Alex Nance
President, Ananda Health

Alex joined Ananda Health in September of 2017 and is responsible for the overall management and delivery of the Ananda product range. He helped to develop the current facility and is also responsible for all aspects of quality control and planning. Alex's background is in toxicology and chemical production. Prior to joining Ananda he worked at Ethos Laboratories as Laboratory Production Manager and Dubois Chemicals as a chemist. Alex holds a Bachelor of Science in Pharmaceutical Sciences from The Ohio State University.

2. OPERATING + FINANCIAL REVIEW

Group overview

GROUP RESULT

AUDm	FY22	FY21	%
Revenue	30.2	28.8	+5%
Gross Margin	49%	61%	-12%
Operating Costs	(37.2)	(31.4)	-18%
Profit (Loss) before Tax	(21.7)	(10.0)	-116%
Profit (Loss) after Tax	(14.7)	(7.0)	-110%
Investments:			
Research & Development	6.3	4.4	+41%
Capital Expenditure	3.1	28.8	-90%

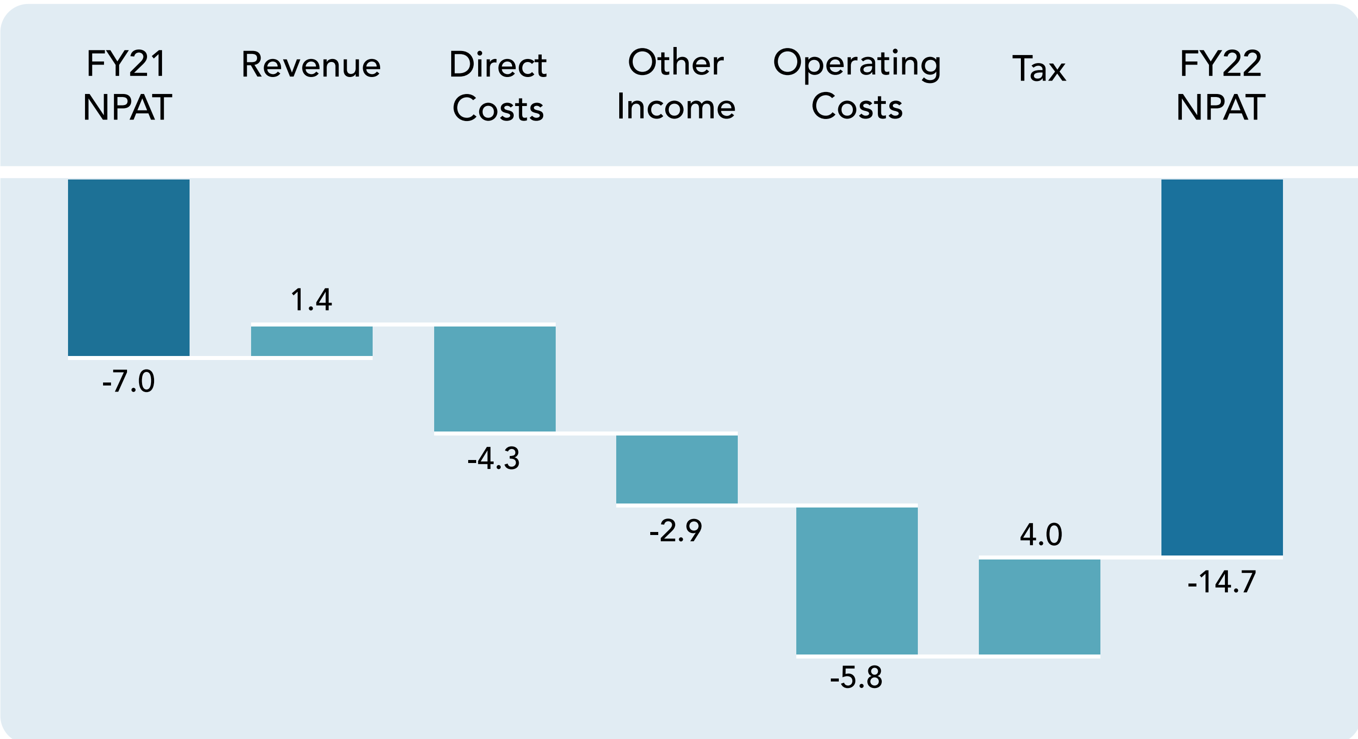
Overall Summary

Ecofibre had a loss after tax for FY22 of $14.7m (FY21 loss: $7.0m). The Group increased revenues by 5% from FY21 despite challenging trading conditions in the US CBD market. Our Hemp Black (+15%) and Ananda Food (+36%) businesses delivered ongoing revenue growth, partially offset by lower Ananda Health revenue (-9%).

In FY22 gross margins reduced by 12% resulting from some temporary and permanent changes during the year which included major supply chain disruption leading to polymer cost increases which have now subsided, inventory provisions for goods manufactured at pre-pandemic sales forecasts, and the full-year effects of our strategic price review in the Ananda Health business.

Operating costs increased by 18% as we continue to focus on investing across our businesses. 45% of this increase relates to investment in R&D and marketing, including clinical trials and new product development, as well as higher marketing costs. 33% related to increases related to prior period investments, including depreciation, property taxes, and the full-year impact of the TexInnovate acquisition.

The following table shows the key changes in the loss after tax compared with the prior year. Each of these items is discussed further below.



Revenue and Margin

Group revenue increased 5%, from $28.8m to $30.2m (+$1.4m):

- Hemp Black (FY22: $13.7m; FY21: $11.9m)

  Hemp Black grew revenue by 15% in FY22. This growth includes higher production and prices for core turf and biomedical yarn extrusion lines, as well as higher multi-filament, knitting, polymer and equipment sales.

The increase in revenue included the first full period of the TexInnovate acquisition in FY22 (+$1.7m benefit), offset by a reduction in facemask revenues from their peak in FY21 (-$1.9m lower revenues in FY22).

- Ananda Health (FY22: $12.9m; FY21: $14.3m)

  Ananda Health's revenue reduced by 9% in FY22, with improved sales in the professional channel (+13%) more than offset by lower sales in other channels (-40%). The business' distribution strategy continues to focus on the professional segment. US independent pharmacy and medical professional sales represented 72% of total segment revenue and were $1.0m (+13%) higher than FY21, mainly due to sales from the new Ananda professional.com pharmacy portal.

  This increase was offset by lower non-professional sales to the health food sector, mass e-commerce channels, and CVS (-$2.4m, -40%). Sales to CVS were down $0.5m compared with FY21, which had included the initial stocking of Ananda Health's BalansLabs brand across its pharmacy network. CVS continues to limit its CBD range to topical products as it awaits regulatory clarity from the FDA on CBD as a dietary supplement. During the year, CVS reduced their CBD supplier brands from 8 to 5, and BalansLabs has been retained.

- Ananda Food (FY22: $3.6m; FY21: $2.6m)

  Ananda Food increased revenue by 36% in FY22, with growth from various sources, including the sale of a record amount of planting seed ($0.5m), primarily to US farmers for fibre crops. Food sales increased steadily, mainly due to existing food products sold to new customers and new products such as Ananda Equine.

Gross margin for the overall Group fell from 61% to 49%. Excluding the impact of inventory impairments during the period, the gross margin would have been 55%. The reduction in margin also reflected a change in business mix, as the revenue contribution of Ananda Heath (Ecofibre's highest margin business) declined and Hemp Black and Ananda Food grew.

Within each business segment:

- Hemp Black margin was lower (FY22: 44%; FY21: 57%), reflecting higher polymer input costs due to temporary supply chain disruptions for the turf yarn business and a $0.7m provision for yarns used in the manufacture of facemasks that were not able to be re-purposed for other products.

- Ananda Health margin was lower (FY22: 61%; FY21: 74%) for two reasons.

  - The business implemented a strategic pricing review in November 2020, and prices for selected Ananda Professional product lines were reduced by c20%. FY22 results reflect the full-year impact of these lower prices.

  - Inventory provisions and write-offs totaled $0.8m in FY22, mainly for finished goods inventory that has a two-year shelf life and which were manufactured during pre-pandemic sales periods. The value of finished goods has reduced over the last 12 months, and ongoing production is aligned with current demand.

- Ananda Food's average margins improved (FY22: 20%; FY21: 11%) due to increased high-margin planting seed sales, continued increases in processing volumes and manufacturing economies of scale, and lower average seed costs due to improved yields from proprietary genetics. Inventory provisions and write-offs in the year totaled $0.3m.

Other Income

Other Income reduced by 57%, from $5.0m to $2.1m (-$2.9m):

- COVID-related government grants and tax incentives reduced from $5.3m in FY21 to $1.4m in FY22. FY22 COVID benefits are mainly related to US federal government relief programs, including the final US Government Employee Retention Credit ($1.4m) (ERC) derived in 1Q22. The US Federal Government ceased the ERC program effective 1 October 2021.

- A gain from the revaluation of financial assets held in currencies other than Australian dollars (up from a $0.5m loss in FY21 to a $0.5m gain).

Operating Expenses

Operating expenses increased by 18%, from $31.4m to $37.2m (+$5.8m), which was higher than the increase in revenue. The increase in operating expenses included higher investment in R&D and marketing and the embedded cost of prior period investments, including depreciation, property taxes, and the annualised impact of the TexInnovate acquisition that was completed in late August 2020.

By cost type, the change in operating costs included:

- Operating cost investment in R&D (+$1.8m, +32%)
  - Ananda Health R&D operating costs increased $1.8m to $3.5m, which mainly related to the increased cost of clinical studies (+$1.5m, mainly for the Southern Cross University (SCU) sleep study and the University of Newcastle cancer study). Other R&D costs include staff for clinical studies, product development, and operational trials and testing.
  - Hemp Black R&D operating costs increased from $2.0m to $2.5m. FY22 R&D costs mainly related to staff costs ($2.0m) and operational trials and testing ($0.5m)
  - Ananda Food R&D operating costs decreased from $0.5m to $0.1m for operational trials and testing.
  - Other R&D decreased from $0.3m to $0.2m, including genetics and plant science.
- Employee and Contractor costs (+$1.4m, +11%) included the full period impact of the TexInnovate acquisition in October 2022 (+$0.5m) and the impact of staffing mix and wage inflation, particularly in the Hemp Black business in North Carolina.
- Higher sales & marketing and travel as COVID-related restrictions abated, and the business was able to increase engagement with pharmacies at conferences and seminars (+$0.7m)
- Higher depreciation from capital investment in prior periods (+$0.8m).

The cost of share-based payments was flat year on year, noting that FY21 included a high level of one-off credits for lapsed or renegotiated share incentives ($1.0m comparative cost improvement in underlying costs in FY22 relative to FY21).

By business segment, higher operating costs were concentrated in Ananda Health (+$2.9m) and Hemp Black (+$2.4m), with smaller increases in Ananda Food ($0.2m) and Corporate (+$0.2m).

Across all cost categories, the total annualised impact of the TexInnovate acquisition was +$0.9m, mainly related to employee and contractor costs as described above, but also for depreciation, leases, maintenance, property taxes, and other costs.

Income Tax

Ecofibre recognised an income tax benefit of $7.1m during the period (FY21: $3.1), which was in line with the increase in the company's loss before income tax.

Cashflows and Balance Sheet

FY22 cash movements comprised

- $10.6m operating cash outflows, including $4.6m cash expenditure on R&D.
- $3.1m investing cash outflows, including $2.8m for plant and equipment and $0.3m for business acquisitions. By business segment:

  - Hemp Black ($2.2m) - work to progress the single, bi, and tri-component yarn extrusion lines. Part of the cost of the equipment and materials for the yarn extrusion lines was adjusted as part of the TexInnovate purchase price settlement (USD0.8m), and ongoing expenditure relates to final commissioning costs.

  - Ananda Health, Ananda Food and Corporate ($0.9m) - includes minor capital upgrades for operational efficiency initiatives and the acquisition of Soul Seed by Ananda Food.

- $12.5 financing cash inflows, including $8.7m loan funds received and $4.3m received following the exercise of a call option by Thomas Jefferson University, less $0.5m for repayment of lease liabilities.

At year-end, the Group had $23.7m available to fund its operations and ongoing investments, including:

- Cash on hand, $7.3m
- One-off receivables from the US Federal Government, $7.1m

  This relates to the outstanding balance of ERC receivable for both FY21 and FY22 ($3.1m) and a US federal tax refund due to a one-off measure to carry back current period losses into prior years ($4.0m).

  The Group received $0.9m ERC payments during FY22, and a further $0.8m was received in July 2022. The US's Internal Revenue Service continued economy-wide, processing delays mean the timing of the remaining ERC payments and the tax refund payment remains unknown.

- Undrawn loan receivable, $9.3m

As at 30 June 2022, the Group agreed to a USD10.0m secured loan facility with NuBridge Commercial Lending LLC (NuBridge). USD3.6m was received prior to year-end, and the balance, USD 6.4m, was received in July 2022.

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

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

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

These measures helped reduce the carrying value of Inventories and Biological Assets during the year from $17.8m to $16.3m. These balances also included a $1.1m foreign currency uplift and a $1.8m inventory write-down.

Trade Receivables reduced by $0.4m during the year.

Non-current assets increased from $102.5m to $112.9m, including the impact of 8% appreciation of the US dollar (USD) versus the Australian dollar (AUD), and the consequent impact on the AUD value of USD denominated assets.

Property, Plant and Equipment was steady over the period ($47.0m), as depreciation charges were offset by foreign exchange impacts.

Intangible Assets include Goodwill recognized on the acquisition of the business and assets of TexInnovate in August 2020 ($51.1m) and the acquisition of Soul Seed and New Composite Partners in FY22 ($0.5m).

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

Current liabilities total $8.1m, including $2.0m payable to the James & Cordelia Thiele Trust Fund (J&CTTF) in July 2022 which reduced the total balance of that loan from $10.0m to $8.0m.

Non-current liabilities total $31.5m, including the non-current portion of the J&CTTF term loan ($8.0m), Lambert Super Fund loan ($3.5m), the drawn portion of the NuBridge loan ($5.2m), and TexInnovate Contingent Consideration ($14.0m).

Overall, the Group's net assets reduced from $111.8m at 30 June 2021 to $109.9m during the period, and the number of shares on issue increased from 326.7m to 335.5m, including 8.0m shares issued to Thomas Jefferson University following the exercise of an option, and 0.8m shares issued by the Employee Share Trust. At the end of the period the Net Tangible Assets per share was 13.23 cps (FY21: 17.64 cps).

The value of net assets, and the Consolidated Statement of Other Comprehensive Income, included a benefit of $6.9m in FY22 because of the strengthened USD and the consequent revaluation of the net assets of the group's US entities.

AUDm	FY22	FY21	%
Revenue	12.9	14.3	-9%
Gross Margin	61%	74%	-13%
Operating Costs	(16.8)	(13.9)	-21%
Profit (Loss) before Tax	(8.3)	0.3	
Investments:			
Research & Development	3.5	1.7	+102%
Capital Expenditure	0.3	0.6	-39%

Ananda Health aims to be the preferred provider of the highest quality CBD to US practitioner and pharmacy channels, and the Australian over the counter market. To achieve this outcome, the businesses key priorities are to:

- Be the #1 CBD brand for US pharmacies & healthcare professionals
- Ensure our CBD customers stay with us for life
- Be the #1 CBD brand in Australia
- Advance gynecological cancer research portfolio towards commercial opportunities

Performance Review

Ananda Health's loss before tax for FY22 was $8.3m (FY21: $0.3m profit).

Revenue declined 9% during the year, however the pharmacy segment grew by 13%, offset by lower revenue in non-professional channels:

4Q20 - full impact of COVID begins in United States

Nov 20 - first price reduction in three years implemented across selected products, commenced initial stocking of CVS Pharmacy

Apr 21 - launched CBD chews range, women's health products

May 21 - e-comm channel for pharmacy customers launched

1Q22 - Delta, Omicron variants predominant in the United States

AUDm	1H20	2H20	1H21	2H21	1H22	2H22
US Independent Pharmacies	21.8	15.3	4.2	4.0	4.3	4.9
Ananda Hemp / Health Food Stores	3.2	1.5	2.2	1.9	1.3	0.3
CVS	-	-	0.6	0.3	0.2	0.2
Australia	-	0.0	0.1	0.0	0.2	0.5
Other (bulk, whitelabel)	3.3	1.9	0.4	0.5	0.5	0.4
Total	**28.3**	**18.7**	**7.5**	**6.7**	**6.6**	**6.3**

2H22 - COVID related challenges ending for US pharmacies in 3Q22

- independent pharmacy and related online channels held steady
- closing Ananda Hemp as the non-professional channels continue to struggle as a oversupplied segment
- national chain channel limited movement without regulatory clarity

Gross margin was 61%, and as described above included the impact of $0.8m inventory provisions and the annual impact of prior period price reductions.

Higher operating costs included increased investment in clinical R&D (+$1.5m) and marketing / travel ($0.4m), and higher legal costs to successfully defend a 3rd party claim (+$0.8m).

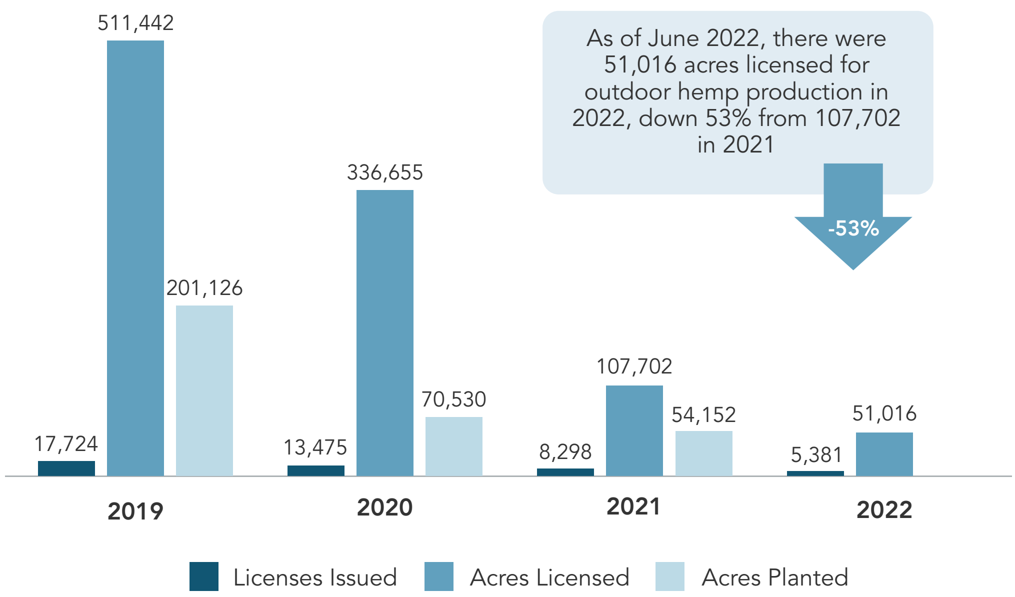
Be the #1 brand for US pharmacies & healthcare professionals

In FY22 we supported over 2,000 pharmacies in the United States with access to high quality, safe and federally legal hemp-derived CBD products in a wide variety of formats. We have an ongoing opportunity to expand the breadth of our offer to these pharmacies and to increase re-order rates by helping them better serve their customers.

The US continues to be the world's largest market for hemp-derived CBD[1], and accounts for most of Ananda Health's revenue ($12.2m, 95% of total segment sales).

Over the past two years the US CBD market has been challenging, but COVID related challenges for US independent pharmacies began abating in 3Q22, and industry supply also continues to consolidate and reduce. 2022 crop estimates showed a continued, significant decrease in hemp crop licensing and acreage for the northern summer growing season.

2019-2022 US Hemp Acreage



Source: https://newfrontierdata.com/cannabis-insights/midterm-review-a-2022-u-s-hemp-production-outlook/

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

Until regulations are clarified, large national clients, such as CVS Pharmacy, will continue to limit their CBD range to topical cosmetic products and not carry ingestible CBD products classified as dietary supplements.

[1] Grandview Research, Cannabidiol Market Size, Share & Trends Analysis Report, 2022

Ecofibre sits on the Executive Committee of the most significant lobbying organization for hemp in the US. The US Hemp Roundtable represents the industry in lobbying efforts across two federal bills that look to legislate CBD as a dietary supplement as soon as possible. Both bills have bi-partisan support, however, due to the challenging agenda of the current administration, we are waiting for these bills to be placed on the agenda.

The business has received third party certification for both dietary supplements and ISO22716 in preparation for any future regulatory changes.

As trading conditions improve Ananda Health has focussed on a number of key initiatives:

- *CBD value range:* to help pharmacies address the impact of inflation on their customers, and to capture additional shelf space in Ananda Health's pharmacy network, a second range of CBD products will be launched for price-sensitive consumers.

  The myEveryday CBD range launched in August 2022, and features a smaller and more affordable product range that leverages existing production capacity.

- *Extend range of outcome-based products:* the business has focused on product differentiation to address a hyper-competitive market and sustain margins.

  In addition to the Women's Health range launched in 2021, in 3Q22 Ananda Health launched a range of new products including an Ananda PM sleep product which incorporates the cannabinoid 'CBN', and products that capture the acid form of the CBD cannabinoid 'CBDa', which require specific genetics and processing methods to manufacture.

  In 4Q22, Ananda Health leveraged its experience in topical CBD products to develop and launch the 'Green to Gold" range of beauty products that can be sold through independent pharmacies and also professional beauty salons and spas.

- *Renew focus on industry conferences:* as COVID related travel restrictions reduced, the business has renewed its pre-pandemic focus on educational and speaking opportunities at independent pharmacy conferences.

- Continued investment in the professional market digital channel: the Ananda Professional direct-to-consumer offering was launched in late FY21 to help pharmacists re-engage their customers through COVID-19, and the business has continued to enhance the offering and opened the channel to physicians at the end of 1H22. This new channel has shown steady uptake by Pharmacists and customer sales results are positive.

- *Extend BalansLabs distribution:* CVS sales were disappointing during the year, especially given BalansLabs positioning as the home brand for CVS. In August 2022 CVS advised that it would be extending BalansLabs products into a further 5 US states.

Be the #1 CBD brand in Australia

Ananda Health generated $0.6m revenue in Australia from the existing Schedule 4 and 8 (S4 & S8) prescription market (5% of total revenue for Ananda Health in FY22, and up from $0.1m in FY21).

72% of this revenue was generated in 2H22 as the business added new distribution relationships and increased promotional activity in the market. Ananda Health imports CBD dominant (< 0.3% THC) products to Australia from its production facility in the US and does not participate in the high-THC or dried flower market segments.

Ecofibre is undertaking Phase 3 clinical research to support its commercial objective of being the first and leading provider of high-quality CBD for the over-the-counter market.

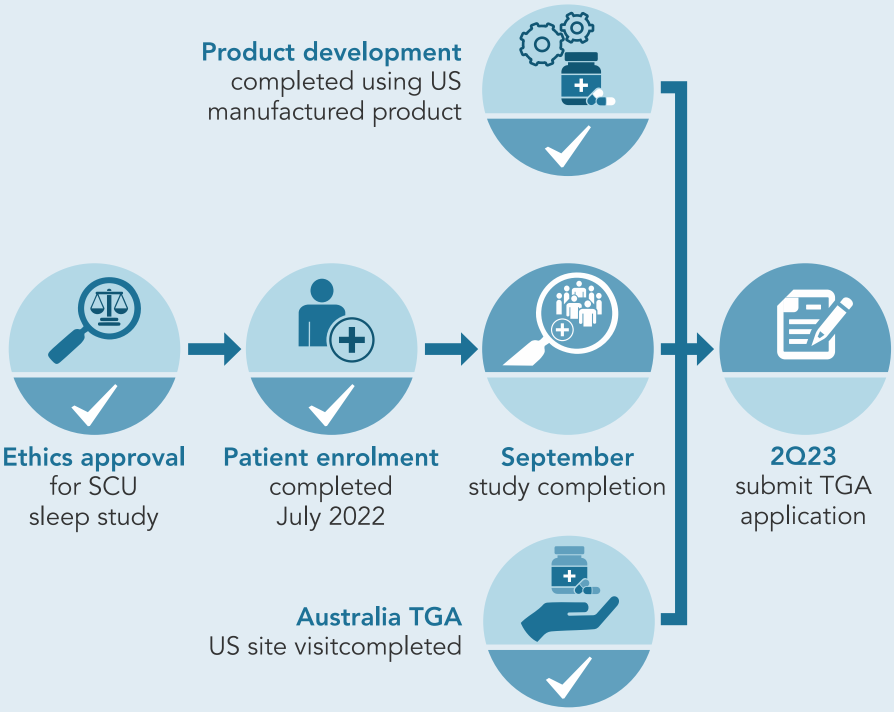
The Sleep Study (Phase III Double-Blind, Randomised Placebo-Controlled Clinical Trial) is being conducted to support our TGA S3 over the counter product registration. It is one of the largest CBD sleep studies ever conducted and following study completion a TGA application is expected to be submitted in 2Q22.

September completion of the largest ever CBD sleep trial to support a Schedule 3 (over-the-counter) registration

- AUD1.4m investment with Southern Cross University
- c.350 patients
- enrolment complete, final patients complete ten-week treatment period in September

S3 Registration on track for submission in 2Q23

- TGA review process up to one year
- Beginning to establish pharmacy distribution partnerships



The business will leverage its deep experience and leading position with US pharmacies, and its US manufacturing capacity, to work with pharmacy in the highly attractive Australian S3 market once TGA approval is received.

Ecofibre launched the Katelyn's Gift Compassionate Access Program in November 2021 to support affordable access to Ananda Hemp's Medicinal Cannabis range for children who could benefit from the product via doctor's prescription but may not be able to afford it.

Advance gynecological cancer research portfolio towards commercial opportunities

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

This research studies the effects of Ananda full spectrum extract on gynecological diseases. A clinical set-up study was concluded in 1H22 and based on the outcomes of the study, Ecofibre filed four patent applications with the US Patent and Trademark Office (USPTO) on 28 October 2021.

Ecofibre subsequently accelerated this program to develop clinical trials and to support and expand on its existing IP portfolio. The business is very encouraged by the ongoing progress of the study, which is a compelling opportunity to improve the lives of women globally.

Ananda Health is committed to developing CBD-based solutions to address a gap in the treatment of gynecological diseases and overall women's health.

Clinical set-up study undertaken by University of Newcastle in 2H21:

- Ananda proprietary formulation
- positive outcomes observed in a range of gynecological diseases
- Ecofibre filed four provisional patent applications with the USPTO in October 2021

Final patent submissions on track for October 2022 deadline

- research program expanded to support IP protection and commercialization pathway
- completing in vitro data collection
- support phase II studies
- staged investment based on research milestones - $1.1m invested to date

Overall portfolio of research studies to support efficacy data for professional health care channels

Ecofibre and Ananda Health continue to focus on clinical research for hemp-derived CBD to differentiate our brands and support our long-term focus on the professional healthcare market. In addition to the two Australian studies described above, Ecofibre also conducts clinical research in the United States to support this overall goal.

The slow adoption by the US FDA and the traditional US healthcare system is largely due to the lack of clinical data supporting the efficacy of CBD across a range of conditions.

Ananda Health was the first business to obtain an IND on full spectrum hemp extracts in the United States. As a result of this investment, institutions such as the University of Colorado are undertaking research using Ananda Professional products at no cost to Ananda Health.

Enrolment in a number of US studies remains ongoing due to COVID related delays. Successful completion of the clinical studies on the Ananda products, we will provide medical professionals with the only over-the-counter full and broad-spectrum CBD products with proven efficacy.

An overall summary of current studies is set out below:

Study focus	Research Institution	Patient Population	Location	Type/Phase	Status
US Research Program					
Opioid Reduction	Murphy Clinic	Chronic Opiod	Louisville, KY	Prospective cohort study	Complete - published 2019 in Journal Postgraduate Medicine
Free Her study	Ecofibre	Pelvic pain	Various	Post market	Complete
Pain (neuropathic)[a]	Lankenau Institute for Medical Research	Breast, colon and ovarian cancer	Philadelphia, PA	Phase 2	Enrollment underway
Sleep and anxiety[a]	Eastern Virginia Medical School	Dementia	Norfolk, VA	Phase 2	Enrollment underway
Addiction[a,c]	University of Colorado	Alcohol use disorder	Boulder, CO	Phase 2	Enrollment underway
Cognitive decline[a,c]	University of Colorado	Adults, no dementia	Boulder, CO	Phase 2	Enrollment underway
AUSTRALIAN Research Program					
Sleep[b]	Southern Cross University	Healthy population	Australia (4 sites)	Phase 3	Discussed above
Gynaecological cancers and endometriosis	University of Newcastle	Endometriosis	Newcastle, Australia	Avatar study	Discussed above

a FDA (USA) authorised IND
b TGA (Australia) authorised
c not funded by Ecofibre, but Ecofibre product used for study and input to study design

Outlook

Ananda Health expects to see continued recovery in the pharmacy channel and myEveryday CBD will provide solid growth. However, the business will not return to profitability in FY23. A key to profitability in FY24 will be the Australian over-the-counter market, where product registration is subject to TGA approval.

HEMP BLACK

AUDm	FY22	FY21	%
Revenue	13.7	11.9	+15%
Gross Margin	44%	57%	-13%
Operating Costs	(11.5)	(9.0)	-27%
Profit (Loss) before Tax	(4.5)	(1.0)	-266%
Investments:			
Research & Development	2.5	2.0	+27%
Capital Expenditure	2.2	1.7	+29%

Hemp Black aims to be the recognized global leader in environmentally sustainable, high-tech hemp solutions to target markets. The business' priorities are to:

- Fill manufacturing capacity with existing and new clients
- Establish new use cases for /eco6TM as a 100% bio-based carbon black

Performance Review

In FY22 Hemp Black incurred a loss before tax of $4.5m (FY21: $1.0m). As described above, FY22 revenue growth (+$1.8m, +15%) was concentrated in Hemp Black's core biomedical and turf yarn lines. All other parts of the business (excluding masks) also delivered solid revenue growth.

Gross margin was 44% and included the impact of $0.7m inventory provisions and higher polymer costs. Higher operating costs included the annualised impact of the TexInnovate acquisition (+$0.9m), and higher R&D and staff costs.

Fill manufacturing capacity with new and existing clients

Hemp Black businesses include polymer compounding, yarn extrusion and 2D and 3D knitting. These processes leverage advanced yarn manufacturing technology and are able to utilise Hemp Black inputs to create value-added properties such as anti-odor, anti-static, and conductivity.

The acquisition of TexInnovate, and ongoing investments in manufacturing capability and R&D for high-performance customer applications, provides a pathway to translate those investments into profitable growth drivers by matching production capability and capacity to Hemp Black's new client pipeline:

- *Turf yarn* - Hemp Black's turf yarn business increased production during the year and has been operating at near full capacity. A significant new turf yarn client was on-boarded in July 2022, and changes to optimise the existing production line and products are expected to deliver a c30% capacity increase from 1Q23.

  The R&D investment in this business has resulted in new yarns being developed for the market-leading provider of turf products in the United States, including different polymer types, colours and physical properties. Demand for turf yarn has been expanding in the US, and increased ongoing demand is evident beyond current purchase orders.

- *Client pipeline* - 'at scale' commercialization of other capabilities is taking longer than expected, with an ongoing focus on natural anti-odor yarn.
  - premium US department store - Hemp Black's knitting business made substantial progress on product development for a range of 'own label' activewear for a large, premiere US department store. Initial products are expected to ship in 2Q23.
  - global shoe manufacturer – the knitting business also made progress on a new seamless shoe design for a leading outdoor footwear manufacturer
  - Zoox – designs and product trials have been progressed for a range of interior fabrics for Zoox driverless electric vehicles, with at-scale production dependent on future vehicle roll-out
  - global furniture brand - final design phase of expanded product line

The Biomedical business operates a dedicated, ISO9001 production facility supplying yarn for vascular grafts to Intervascular SAS, part of the Getinge AB group. The business has the capacity to meet steady ongoing increases in orders from this customer.

Hemp Black has slowed the commissioning of new mono, bi and tri component yarn extrusion lines, which will be activated and tailored as needed to meet specific customer demand.

Establish new use cases for /eco6™ as a 100% bio-based carbon black

> Together with our customers, we will deliver
> sustainable bio-based materials
> that revolutionize industrial production
> while sequestering one billion kilograms of carbon by 2028

To achieve this vision, we will support ~200,000 acres of hemp production over the next 5 years underpinned by our /eco6™ supply chain.

/eco6TM is a direct replacement for petroleum-based carbon black and is certified by the United States Department of Agriculture's (USDA's) BioPreferred® program as a 100% biobased product:

- total market opportunity as a carbon black replacement is over $1B for our target segment of plastics and inks
- potential is significantly higher as a bio-based plastic
- carbon black usage as black pigment (c2%) vs /eco6TM usage as a bio-based input – c25%
- initial focus on shipping pallets, particularly for use in the food and pharmaceutical industries

In FY22 the business further established the required supply chain to be able to service the bio-based plastics market at scale.

With the expansion of our hemp fibre planting seed program and partnerships with farming groups across the US and polymer compounding capability, the business can begin to target the existing injection moulding supply chain in a seamless manner.

/eco6 supply chain established

a) Established high-yielding hemp genetics - ECO-MS77 will yield AUD$4-5M in sales for Ananda Food in FY23.

b) Built a strong farming network - in 2023, ECO_MS77 genetics will grow ~23,000 acres of hemp.

c) Established processing infrastructure and /eco6 patents ro value-add hemp into manufacturing inputs that fit existing supply chains

d) Identifying and developing attractive commercial markets and applications for /eco6.

sustainable growth cycle

Outlook

Hemp Black will experience continued growth with new core clients. We expect Hemp Black to be profitable in FY23 with the contribution from the execution of our /eco6 strategy.

AUDm	FY22	FY21	%
Revenue	3.6	2.6	+36%
Gross Margin	20%	11%	+9%
Operating Costs	(2.2)	(2.0)	-11%
Profit (Loss) before Tax	(1.6)	(1.6)	-3%
Investments:			
Research & Development	0.1	0.5	-78%
Capital Expenditure	0.2	0.1	+112%

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

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

Performance Review

In FY22 the combined business incurred a loss before tax of $1.6m (FY21: $1.6m). Revenue growth continued in FY22, up $0.9m (+36%) from FY21, including:

- $0.3m increase in seasonal, high margin seed sales (FY22: $0.5m; FY21: $0.2m); and
- ongoing steady growth in food product sales reflected increased supply to multiple white label and bulk customers in the hemp-food industry and increasing awareness of the benefits of plant-based diets and hemp foods.

Overall gross margins improved from 11% to 20%, and operating costs were in-line with FY21.

Overview

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

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

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

  The business operates a highly efficient BRCGS[2] and HACCP[3] rated food processing facility in Beresfield, Australia. This facility has the only processing capability in Australia that can produce all three major categories of hemp food: de-hulled seed, oil and protein / fibre.

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

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

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

Hemp foods

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

In FY22 the business continued to invest in automation and processing efficiency to strengthen its cost position.

The business also undertakes ongoing product innovation to expand market demand and share, including new hemp formats to improve usability and use of by-products in animal feed markets

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 hemp food industry in Australia is changing rapidly, and Ananda Food has invested to build scale, strengthen its direct relationship with key supermarket customers, establish a retail customer brand and broaden its product portfolio.

New product development has focused on new hemp formats to improve use of by-products, including the launch of Ananda Equine horse feed in 2H22. A number of other wholesale and retail products are also under development, including textured vegetable protein formats for use by food manufacturers.

During the year Ecofibre also had an opportunity to leverage and strengthen Ananda Food's vertically integrated capability by acquiring two complementary businesses.

In April 2022, Ecofibre purchased the 'Soul Seed' hemp food business for $0.24m, effectively bringing this white labelled manufacturing relationship inhouse. The acquisition of Soul Seed has removed costs from the supply chain, improved product margins and has enabled Ananda Food to enter the retail market with a modern brand. The business will leverage the brand and expand its use with additional Australian retailers and eventually to export 100% Australian grown retail product overseas.

In July 2022, Ananda Food agreed to purchase the hemp food and wellness business of ECS Botanics for $0.25m plus a small amount of stock at valuation. Contract completion subsequently occurred on 19 August 2022. Ananda Food had also been a white label supplier to ECS for some time. The acquisition extends the benefits of the Soul Seed transaction, including further strengthening Ananda Food's supply relationship with Coles and Woolworths. It also delivers new customer relationships, including health food distribution opportunities, and an expanded product range, including hemp terpene wellness products.

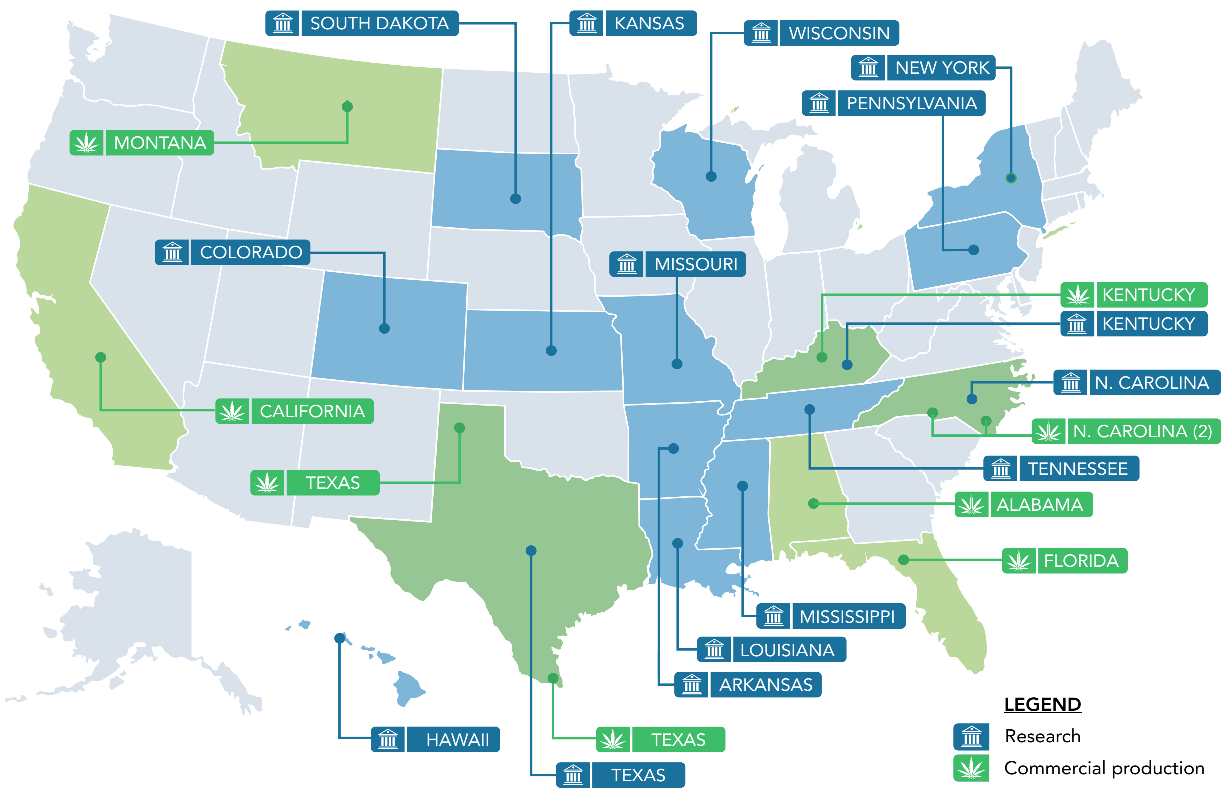
Fibre Planting Seed

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

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

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

Since 2016, Ecofibre has conducted growing trials across 18 States and 15 Universities to validate and market our genetics.



Ananda Food has also expanded capability in seed propagation, extending growing areas to include North Queensland and beginning to propagate seed in the US to reduce transport costs and supply chain risks

Following strong sales growth in FY22, seed sales are forecast to increase to $4-5m in FY23 subject to yields.

- In FY22 Ananda Food exported 46t of seed to the United States for hemp fibre production in the 2022 summer growing season. This was a significant increase on FY21, when the group sold 18t of planting seed in the United States to enable 650 acres of hemp fibre production across 9 states.

  The business uses a portion of available seed to propagate for next season to ensure it can support the growing demand of fibre planting seed both in the US and Australia.

- In FY22, the business planted 575 acres of fibre seed crops in Queensland and is planning to plant up 1,000 acres in Texas in October / November 2022. Depending on final yield and customer sales, this crop has the potential to deliver over $5.0m revenue in FY23.

This business supports Hemp Black's /eco6 strategy to ensure supply of hemp feedstock through relationships with fibre growers.

Outlook

Ananda Food will continue to experience solid growth. The launch of new animal-based products and the expansion of the fibre planting seed business will make this business profitable in FY23.

Material Business Risks

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

- Managing working capital, including timing of receipt of ERC and income tax refunds in the United States, inventory management initiatives, and improving operating profits and cashflows across each of the Group's businesses
- Improving profitability and managing working capital to re-pay Group loans on agreed timeframes
- Implementing strategy to restore Ananda Health revenue growth, including the focus on professional healthcare and independent pharmacies and responding to ongoing oversupply and heightened competition in the US CBD market
- US FDA position on CBD as a dietary supplement, and managing ongoing regulatory change
- Hemp Black ongoing growth strategy and implementation, including commissioning and filling new production capacity in new market and product segments, and growing the /eco6™ business
- Ananda Food ongoing growth strategy and implementation, including significant expansion of the fibre seed business (including associated agricultural and yield risk), and balancing the production and sale of different outputs from seed processing
- Delivering a commercial return on the Group's investment in research and development, including Ananda Health's clinical research program
- Managing the impact of inflation on Group margins and operating costs
- Key person risk and retention of critical staff
- Global instability, including impacts on major customer strategies, supply chains and foreign exchange rates

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

3. DIRECTORS' REPORT


ECOFIBRE
WE ARE A LEADER IN OUR INDUSTRY WHICH MEANS BREAKING AND SETTING THE RULES.
WHEN YOU LOVE WHAT YOU DO, IT WON'T FEEL LIKE YOU ARE WORKING.
A GREAT COMPANY HAS ACCOUNTABLE INDIVIDUALS.
WE ALWAYS STRIVE TO LEAVE OUR ENVIRONMENTS BETTER THAN HOW WE FOUND THEM.
02
03
04
05
ANANDA HEALTH
ANANDA FOOD
HEMP BLACK

Board of Directors

Your Board of Directors, as at the date of this report, is profiled below.

Vanessa Wallace
Independent 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 Global Holdings Inc. 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.

Board Committee Memberships

Chairman of the Board
Chair of the People and Nomination Committee
Member of the Audit, Risk and Compliance Committee
Member of the Health and Government Relations Committee

Qualifications

BCom (UNSW), MBA (IMD, Switzerland)

Eric Wang
Managing Director & CEO

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.

Board Committee Memberships

Member of the Health and Government Relations Committee

Qualifications

BS Engineering (WestPoint)
MBA (Dartmouth)

Jon Meadmore
Independent
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.

Board Committee Memberships

Chairman of the Audit, Risk and Compliance Committee

Qualifications

LLB (QUT)
BBus (Acc) (QUT)

Professor Bruce Robinson
Independent
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.

Board Committee Memberships

Chairman of Health and Government Relations Committee
Member of the Audit, Risk and Compliance Committee
(from 1 July 2022)
Member of the People and Nominations Committee

Qualifications

MD (USyd), MSc (USyd), FRACP, FAAHMS, FAIRCD

Michele Anderson
Independent
Non-Executive Director

Experience and expertise:

Michele's executive career spans 30 years as an operating business executive, independent director and founder working across the technology, wine and professional services sectors. Her leadership contributions and passion lie in developing and implementing growth strategy, scaling brands and businesses, driving digital growth and transformation, and supporting positive environmental impact and de-carbonisation. She began her career in Australia as a management consultant with Booz Allen and Hamilton and then spent most of her career to date working in the US, including running Shutterfly's US$1B revenue consumer ecommerce business in Silicon Valley and Staples' Print and Marketing Services business across 1,200 US stores. Michele holds bachelor's degrees in Commerce and Law from UNSW, an MBA from Wharton, and a Master of Wine.

Board Committee Memberships

Member of the Audit, Risk and Compliance Committee
(from 1 July 2022)
Member of the People and Nominations Committee

Qualifications

BCom (UNSW), LLB (UNSW), MBA (Wharton, University of Pennsylvania, USA)

Mark Bayliss
Independent
Non-Executive Director

Experience and expertise:

Mark is a director and senior executive with extensive experience in a variety of roles across listed and private companies, management buyouts, private equity and turnarounds in Australia, NZ, UK and US.

He has been the CEO of three listed companies and one private company and the Chairman of 3 companies and 2 not-for-profits. His industry experience is broad including eCommerce, Technology, Credit Finance, Retail, FMCG, Media & Publishing, Advertising & Marketing Services and Manufacturing.

Board Committee Memberships

Member of the Audit, Risk and Compliance Committee
(from 1 September 2022)

Qualifications

BSc Economics (LSE), ACA, MAICD

Directors' report

Your directors present their report, together with the financial statements, on the consolidated entity consisting of Ecofibre Limited (referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the year ended 30 June 2022.

Board of Directors

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

Barry Lambert, outgoing Chairman (retired on 19 November 2021)
Vanessa Wallace, incoming Chairman (appointed to the Board on 1 July 2021, Chairman since 19 November 2021)
Eric Wang, Managing Director
Jon Meadmore
Kristi Woolrych (retired on 31 May 2022)
Prof. Bruce Robinson
Michele Anderson (appointed to the Board on 14 March 2022)
Mark Bayliss (appointed to the Board on 1 September 2022)

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.

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 in FY22

On 1 July 2021, Vanessa Wallace was appointed as Deputy Chairman of the Board.

On 28 October 2021, Ecofibre filed four patent applications with the US Patent and Trademark Office (USPTO) following the results of a clinical set-up study being conducted with the University of Newcastle. The study used organoids derived from 31 patients, and diseased cells of varying gynaecological diseases were eradicated upon treatment with Ananda's proprietary CBD formulation. This unexpectedly positive, but early finding will support continued investment into this clinical research, which by its very nature is uncertain in its outcome.

On 28 October 2021, Thomas Jefferson University (TJU) has exercised an option over 7,964,581 shares at $0.537 per share pursuant to a Research and Share Subscription Agreement.

On 19 November 2021, Barry Lambert retired as Ecofibre's Chairman of the Board at the AGM. Vanessa Wallace became Chairman at the end of the AGM on 19 November 2021.

Significant changes in the state of affairs in FY22 (continued)

On 31 December 2021, Ecofibre renegotiated a $10m term loan which was due to be repaid on 15 July 2022 as follows:

- $2.0m due to be repaid on 15 July 2022, and the remaining balance of $8.0m is repayable on 15 July 2023; and
- at the Company's option, the amount repayable on 15 July 2023 can also be reduced to $2.0m, and the remaining balance of $6.0m will then become repayable on 15 July 2024.

On 14 March 2022, Director Michele Anderson, based in the USA, was appointed to the Board.

On 25 March 2022, Ecofibre received a $3.5m loan from the Lambert Superannuation Fund. The interest rate on the loan is 10% p.a, and the loan is repayable on 15 July 2023.

On 31 May 2022, Director Kristi Woolrych retired.

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

During the year 849,500 shares vested from the Employee Share Trust pursuant to the Group's Employee Share Scheme.

During the year two small acquisitions were undertaken, and a third acquisition completed subsequent to the end of the financial year. Ananda Food acquired Soul Seed (April 2022) and ECS Botanics's Food and Wellness business (August 2022), and Hemp Black acquired New Composite Partners (April 2022).

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

Matters subsequent to the end of the financial year

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

On 1 September 2022, Director Mark Bayliss joined the Board of the Company as an independent, non-executive director. Mr Bayliss will transition into the role of Chair of the Audit, Risk & Compliance Committee after a brief handover period with Director Jon Meadmore.

On 19 August 2022 the Group completed the acquisition of ECS Botanics' Food and Wellness business for a total purchase consideration of $250,000.

No other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

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.

Ecofibre takes its ESG responsibilities seriously. At its core the business aims to have a positive impact on society and on the environment, including via Ecofibre's /eco6™ industrial hemp based decarbonising solutions.

Any current risk from climate change is not considered material, however 'random' high impact weather events such as tornados or floods in the United States could cause significant damage in a short period. The Group's agricultural risk is considered low, as it has a highly diversified growing strategy and maintains sufficient inventory to protect against shortages of hemp inputs in each business.

Ecofibre published its most recent Governance Report on the same date as this annual report and a separate Sustainability Report published on 19 September 2022.

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 2022, and the number of meetings attended by each director, were:

Director	Board		ARCC		HGRC		PNC (RNC)	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Barry Lambert (until 19 Nov 2021)	3	3	4	4	-	-	-	-
Vanessa Wallace	8	8	8	8	2	2	3	3
Eric Wang	8	8	-	-	2	2	-	-
Jon Meadmore	8	8	8	8	-	-	-	-
Kristi Woolrych (until 31 May 2022)	7	7	-	-	-	-	-	-
Bruce Robinson	8	8	-	-	2	2	3	3
Michele Anderson (since 14 Mar 2022)	4	4	-	-	-	-	-	-

ARCC – Audit, Risk and Compliance Committee
HGRC – Health & Government Relations Committee
PNC – People and Nominations Committee (formerly known as Remuneration & Nomination Committee (RNC))

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

Shares issued on the exercise of options

The following ordinary shares of the Company were issued during the year ended 30 June 2022 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
1 July 2017	$0.537	7,964,581

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 22 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 22 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.

Dividend

No dividend was declared or paid during the year (FY21: Nil).

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.

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 key management personnel of the consolidated entity in the period consisted of the directors, including the managing Director, and the CFO of Ecofibre Limited:

- Barry Lambert – former Chairman
- Vanessa Wallace – Non Executive Director & incoming Chairman
- Eric Wang – Managing Director and CEO
- Jon Meadmore – Non-Executive Director
- Kristi Woolrych – former Non-Executive Director
- Prof. Bruce Robinson – Non-Executive Director
- Michele Anderson – Non-Executive Director
- Jonathan Brown – CFO and Joint Company Secretary

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.

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

Use of remuneration consultants
During the financial period ended 30 June 2022, the Company consulted Godfrey Remuneration Group Pty Limited to provide high level advice on the grant of options to Non-Executive Directors. Fees paid for this review totalled $3,000.

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. 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. Any changes to directors fees in FY22 are noted in the Details of Remuneration table on page 43.

Shareholders approved a maximum annual aggregate fee pool of $500,000 at the AGM in December 2017. No increase in this pool has been sought since then.

Shareholders approved the issue of 3 years options over shares for directors at the AGM in November 2021 pursuant to Listing Rule 10.14. The value of options over ordinary shares granted, exercised and lapsed for directors as part of compensation during the year ended 30 June 2022 are set out below:

Option holder	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed during the year $
Vanessa Wallace	109,586	-	-
Jon Meadmore	49,313	-	-
Bruce Robinson	41,095	-	-
Kristi Woolrych	41,095	-	41,095

Post Ms Woolrych's retirement on 31 May 2022, her 144,750 options lapsed. At the 2022 Annual General Meeting the Company will seek shareholder approval to grant options to all directors who have joined the Board since the last AGM.

The terms and conditions of each grant of options over ordinary shares to directors in this financial year of future reporting years are as follows:

Option holder	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
Vanessa Wallace	386,001	1 Dec 2021	1 Oct 2024	7 Oct 2024	$0.83	$0.2839
Jon Meadmore	173,700	1 Dec 2021	1 Oct 2024	7 Oct 2024	$0.83	$0.2839
Bruce Robinson	144,750	1 Dec 2021	1 Oct 2024	7 Oct 2024	$0.83	$0.2839
Kristi Woolrych	144,750	1 Dec 2021	1 Oct 2024	7 Oct 2024	$0.83	$0.2839

All options were granted over unissued fully paid ordinary shares in the company. Options granted carry no dividend or voting rights. Options vest based on the provision of service over the vesting period whereby the executive becomes beneficially entitled to the option on vesting date. Options are exercisable by the holder as from the vesting date. There has not been any alteration to the terms or conditions of the grant since the grant date. There are no amounts paid or payable by the recipient in relation to the granting of such options other than on their potential exercise

Executive remuneration

The company 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, is 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.

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

	Fixed remuneration		At risk - LTI	
	2022	2021	2022	2021
Managing Director & CEO:				
Eric Wang	28%	27%	72%	73%
CFO:				
Jonathan Brown	55%	55%	45%	45%

Details of remuneration

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

	Short-term benefits	Post-employment benefits		Share-based payments		
	Cash salary and fees $	Super-annuation $	Long service leave	Equity-settled shares $	Equity-settled options $	Total $
2022						
Non-Executive Directors:						
Chairman:						
Barry Lambert (retired 19 Nov 21)	35,101	3,510	-	-	-	38,611
Vanessa Wallace (Deputy Chair 1 Jul 21, Chair as of 19 Nov 21)	131,944	-	-	-	22,410	154,354
Directors:						
Jon Meadmore	76,875	-	-	-	10,084	86,959
Kristi Woolrych (retired 31 May 22)	59,375	-	-	-	-	59,375
Bruce Robinson	63,438	-	-	-	8,404	71,842
Michele Anderson (as of March 22)	24,512	2,451	-	-	-	26,963
Managing Director & CEO:						
Eric Wang	305,071	-	-	792,768	-	1,097,839
CFO:						
Jonathan Brown	200,000	20,000	15,324	179,244	-	414,568
	896,316	25,961	15,324	972,012	40,898	1,950,511
2021						
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
Managing Director & CEO:						
Eric Wang	284,012	7,327	-	792,768	-	1,084,107
CFO:						
Jonathan Brown	200,000	20,000	-	179,244	-	399,244
	741,569	36,003	-	972,012	-	1,749,584

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

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:	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	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.

Additional disclosures relating to key management personnel

The Board believes that all Directors and KMP should think and act as owners of the business. As such we promote the long-term ownership and accumulation of shares.

Directors' interests in shares and options

As at 30 June 2022, the directors and other KMP held the following interests in shares and options:

Additional disclosures relating to key management personnel (continued)

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/ other	Balance at the end of the year^
Ordinary shares				
Barry Lambert*	75,954,755	-	-	75,954,755
Jon Meadmore	538,000	-	-	538,000
Bruce Robinson	-	30,000	-	30,000
Eric Wang	13,651,253	1,012,000	-	14,663,253
Vanessa Wallace	250,000	250,000	-	500,000
Jonathan Brown	2,517,244	-	-	2,517,244
	92,911,252	1,292,000	-	94,203,252

^ Where a director ceased to be a director throughout the year, "Balance at the end of the year" reflects the balance of shares as at the date they ceased to be a director.
* Barry Lambert retired from the Board and ceased to be a member of the KMP, effective 19 November 2021.
No shares were received as remuneration by the directors.

Option holding
The number of options over ordinary 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 financial year	Granted	Expired/forfeited	Balance at the end of the financial year
Options over ordinary shares				
Vanessa Wallace	-	386,001	-	386,001
Jon Meadmore	-	173,700	-	173,700
Kristi Woolrych	-	144,750	(144,750)	-
Bruce Robinson	-	144,750	-	144,750
Michele Anderson *	-	-	-	-
	-	849,201	(144,750)	704,451

* Approval will be sought from shareholders at the 2022 annual general meeting for options to be granted to directors who joined the Board after the 2021 annual general meeting.

Details of these options are as follows:

Grant date	Expiry date	Exercise price	Balance at the end of the year
1 Dec 2021	7 Oct 2024	$0.83	704,451

There were no other options over unissued ordinary shares apart from the 704,451 held by directors. 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.

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.

The auditor's independence declaration has been received and can be found on page 49 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

Vanessa Wallace
Director

27 September 2022
Sydney

Eric Wang
Director

27 September 2022
Lexington

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 2022 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

M. Monaghan

M J Monaghan
Director

Brisbane: 27 September 2022

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4. FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss
For the year ended 30 June 2022

	Note	2022 $'000	2021 $'000
Revenue	4(a)	30,220	28,793
Direct costs	5(a)	(15,526)	(11,169)
Gross profit		14,694	17,624
Other income	4(b)	2,144	4,951
Other operating expenses	5(b)	(37,206)	(31,417)
Interest expense		(1,380)	(1,201)
Profit (Loss) before income tax		(21,748)	(10,043)
Income tax benefit	6	7,078	3,057
Profit (Loss) after income tax attributable to the members of the company		(14,670)	(6,986)
Earnings (Loss) per share:			
Basic earnings (loss) per share - cents		(4.41)	(2.16)
Diluted earnings (loss) per share - cents		(4.41)	(2.16)

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 2022

		2022 $'000	2021 $'000
Profit (loss) after income tax attributable to the members of the company		(14,670)	(6,986)
Other comprehensive profit (loss) for the year:			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign controlled entities	35	6,907	(4,922)
Total comprehensive profit (loss) for the year attributable to the members of the company		(7,763)	(11,908)

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 2022

	Note	2022 $'000	2021 $'000
CURRENT ASSETS			
Cash and cash equivalents	7	7,251	8,620
Trade and other receivables	8	4,126	4,480
Inventories	9	15,702	16,413
Biological assets	10	579	1,350
Other current assets	11	5,086	4,986
Tax recoverable		3,943	3,357
TOTAL CURRENT ASSETS		36,687	39,206
NON-CURRENT ASSETS			
Intangible assets	12	55,368	50,642
Right-of-use assets	13	838	911
Property, plant and equipment	14	46,991	47,080
Deferred tax assets	15	9,670	3,906
TOTAL NON-CURRENT ASSETS		112,867	102,539
TOTAL ASSETS		149,554	141,745
CURRENT LIABILITIES			
Trade and other payables	16	5,560	5,162
Lease liabilities	13	467	491
Tax payable		31	65
Borrowing	18	2,012	-
TOTAL CURRENT LIABILITIES		8,070	5,718
NON-CURRENT LIABILITIES			
Lease liabilities	13	463	474
Related party loans	17	-	10,000
Contingent consideration	33	13,996	12,414
Deferred tax liabilities	19	318	1,278
Borrowing	18	16,765	64
TOTAL NON-CURRENT LIABILITIES		31,542	24,230
TOTAL LIABILITIES		39,612	29,948
NET ASSETS		109,942	111,797
EQUITY			
Issued capital	21	115,347	108,132
Foreign currency translation reserve	35	1,810	(5,097)
Accumulated losses		(26,004)	(11,334)
Share capital reserve		14,300	14,300
Share-based payment reserve	30	4,489	5,796
TOTAL EQUITY		109,942	111,797

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 2022

Consolidated	Note	Issued capital $'000	Share-based payment reserve $'000	Share capital reserve $'000	Foreign currency translation reserve $'000	Accumulated gains (losses) $'000	Total $'000
Balance 30 June 2020		62,376	5,148	-	(175)	(4,348)	63,001
Total comprehensive income for the year		-	-	-	(4,922)	(6,986)	(11,908)
Shares issued	21	44,975	-	-	-	-	44,975
Share-based payments	21	1,125	648	-	-	-	1,773
Contingent consideration to TexInnovate	21	-	-	14,300	-	-	14,300
Share issue cost		(344)	-	-	-	-	(344)
Balance 30 June 2021		108,132	5,796	14,300	(5,097)	(11,334)	111,797
Total comprehensive income for the year		-	-	-	6,907	(14,670)	(7,763)
Share Options exercised	21	6,344	(2,067)	-	-	-	4,277
Share-based payments	21	911	760	-	-	-	1,671
Share issue cost	21	(40)	-	-	-	-	(40)
Balance 30 June 2022		115,347	4,489	14,300	1,810	(26,004)	109,942

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 2022

	Note	2022 $'000	2021 $'000
Cash flows from operating activities			
Receipts from customers		31,386	32,866
Government grants		919	3,126
Payments to suppliers and employees		(41,957)	(42,161)
Interest received		4	24
Interest paid		(966)	(874)
Income tax paid		19	(1,339)
Net cash flows used in from operating activities	25	(10,595)	(8,358)
Cash flows from investing activities			
Payments for property, plant and equipment		(2,792)	(5,780)
Payments for business acquisition	34	(314)	(22,729)
Payments for other intangible assets		-	(325)
Receipt from sale of property, plant and equipment		119	33
Other		(9)	63
Net cash flows used in investing activities		(2,996)	(28,738)
Cash flows from financing activities			
Proceeds from borrowings	18	8,725	-
Repayment of lease liabilities		(546)	(534)
Proceeds from issue of shares	21	4,277	29,500
Transaction costs related to issues of shares		-	(392)
Net cash flows generated from financing activities		12,456	28,574
Net decrease in cash and cash equivalents held		(1,135)	(8,522)
Cash and cash equivalents at the beginning of the financial year		8,620	18,252
Effect of movement in exchange rates on cash held		(234)	(1,110)
Cash and cash equivalents at the end of the financial year	7	7,251	8,620

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

Notes to the 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 29.

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 2022 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 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)

l) 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.

m) 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.

n) 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.

o) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

1. Summary of significant accounting policies (continued)

p) 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.

q) 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.

r) 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.

1. Summary of significant accounting policies (continued)

r) Employee entitlements (continued)

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.

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.

1. Summary of significant accounting policies (continued)

s) 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.

t) 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.

u) 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.

v) 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.

1. Summary of significant accounting policies (continued)

w) 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 2022. 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 or 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.

Deferred tax assets are recognised for deductible temporary differences and carried forward tax losses where the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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.

2. Critical accounting estimates and judgements (continued)

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 (Ananda Health), food (Ananda Food) and fibre (Hemp Black).

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

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

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

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

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

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

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

3. Operating segments (continued)

Operating segment information

a) Segment performance

Consolidated - 2022	Ananda Health $'000	Hemp Black $'000	Ananda Food $'000	Ecofibre Corporate $'000	Total $'000
Revenue					
Sales to external customers	12,922	13,744	3,554	-	30,220
Intersegment sales	-	-	78	-	78
Total sales revenue	12,922	13,744	3,632	-	30,298
Government grant	498	867	10	-	1,375
Foreign exchange gain (loss)	(16)	(7)	(6)	568	539
Interest income	-	-	-	1	1
Other income	73	29	6	121	229
Total revenue and other income	13,477	14,633	3,642	690	32,442
Total expenses	(21,778)	(19,170)	(5,115)	(8,049)	(54,112)
Intersegment purchases	-	-	(49)	-	(49)
Segment profit (loss) before income tax	(8,301)	(4,537)	(1,522)	(7,359)	(21,719)
Intersegment eliminations					(29)
Profit (Loss) before income tax					(21,748)

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)
Profit (Loss) before income tax					(10,043)

3. Operating segments (continued)

b) Segment assets and liabilities

Consolidated - 2022	Ananda Health $'000	Hemp Black $'000	Ananda Food $'000	Ecofibre Corporate $'000	Total $'000
Assets					
Segment assets	16,824	82,296	5,374	37,809	142,303
Unallocated assets:					
Cash and cash equivalents					7,251
Total assets					149,554
Liabilities					
Segment liabilities	1,509	15,560	1,331	2,487	20,887
Unallocated liabilities:					
Borrowings					18,725
Total liabilities					39,612
Consolidated - 2021					
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

4. Revenue and other income

	2022 $'000	2021 $'000
a) Revenue		
Sales	30,220	28,793
b) Other income		
Government grant and tax incentives ^	1,375	5,260
Foreign exchange gain (loss) *	539	(478)
Interest	1	28
Other income	229	141
	2,144	4,951

^ Current year income predominantly relates to accrued US Employment Retention Credit (2022: $1.4m, 2021: $2.4m). The ERC was made available under the US federal government relief programs in recognition of the impact of the COVID-19 pandemic.

In 2021 the Group also derived significant benefits from the US Government Payroll Protection Program forgivable loan of $2.4m.

* Gain (loss) from revaluation of financial assets held in currencies other than Australian dollars.

5. Expenses

	2022 $'000	2021 $'000
a) Direct costs		
Costs of goods sold	13,688	10,844
Write down of inventory	1,838	325
	15,526	11,169

	2022 $'000	2021 $'000
b) Other operating expenses		
Employees and contractors *	14,095	12,651
Share based payments (note 30)	1,671	1,773
Sales and marketing	2,260	1,896
Travel and accommodation	742	360
Equipment modification and maintenance	982	890
Short-term and low value lease payments	235	217
Legal fees and compliance	1,790	1,437
Accounting and audit	437	394
Depreciation and amortisation	5,073	4,290
Research and development *	6,285	4,442
Bad and doubtful debts	67	27
Other	3,569	3,040
	37,206	31,417

* In 2022, employee and contractor expenses related to research and development work are classified as research and development, and 2021 costs have been restated accordingly.

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:

	2022	2021
Profit/ (loss) before income tax	(21,748)	(10,043)
Prima facie tax (benefit) / tax on (loss) / profit from ordinary activities before income tax at 30% (2021: 30%)	(6,524)	(3,013)
Adjustment for foreign tax rates	510	(58)
Tax effect of permanent differences:		
- Share based payments	16	256
- Research and development expenses	537	120
- COVID-19 government assistance	(24)	(755)
- Know-how amortisation	(345)	(328)
- Foreign witholding taxes	34	370
- Contingent consideration	98	85
- Other	(174)	85
Change in opening deferred taxes resulting from change in tax rate	-	275
R & D tax rebate received	(759)	(314)
Currency conversion differences upon consolidation	-	(10)
Tax over provided in prior period	(454)	(118)
Current year losses for which no DTA is recognised	7	348
Income tax (benefit)/ expense	(7,078)	(3,057)

6. Income tax (continued)

b) Income tax expense

	2022 $'000	2021 $'000
Current tax	(80)	(2,888)
Deferred tax - origination and reversal of temporary differences	(6,544)	(51)
Under/(over) provision from previous years		
- Current tax	(463)	(33)
- Deferred tax	9	(85)
Aggregate income tax expense	(7,078)	(3,057)

c) Franking credits

Franking credits available for the subsequent financial year amount to $nil (2021 - $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

	2022 $'000	2021 $'000
Cash at bank	7,046	4,339
Term deposits and other cash equivalents	205	4,281
	7,251	8,620

8. Trade and other receivables

Trade debtors	4,111	4,509
Allowance for expected credit losses	(119)	(148)
GST receivable	134	119
	4,126	4,480

Allowance for expected credit losses
The consolidated entity has recognised a loss of $64,000 (2021: gain of $23,000) 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:

	2022 $'000	2021 $'000
Opening balance	148	355
Additional provisions recognised	115	267
Receivables written off during the year as uncollectable	(93)	(184)
Unused amounts reversed	(51)	(290)
Closing balance	119	148

9. Inventories

Finished goods	2,048	2,397
Work in progress	9,050	9,246
Raw materials	5,219	4,770
Provision for impairment	(615)	-
	15,702	16,413

Provision for impairment was recognised to reduce some inventories to their net realisable value.

10. Biological assets

Crops planted	579	1,350

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

	2022 $'000	2021 $'000
Crops planted at 1 July	1,350	2,321
Harvested and transferred to raw material inventory	(1,350)	(2,321)
Crops planted	579	1,350
Balance at 30 June	579	1,350

11. Other current assets

	2022 $'000	2021 $'000
Prepayments	1,451	2,200
Other ^	3,635	2,786
	5,086	4,986

^ Includes accrued Employee Retention Credit grant of $3.1m at 30 June 2022 (30 June 2021: $2.4m).

12. Intangible assets

	2022 $'000	2021 $'000
Goodwill at 1 July / acquisition date	46,766	48,814
Foreign currency impact	4,327	(2,048)
Balance at 30 June 2022	51,093	46,766
Patents, customer list and trademarks – at cost	3,789	3,253
Less: Accumulated amortisation	(146)	(6)
	3,643	3,247
Software – at cost	320	282
Less: Accumulated amortisation	(238)	(148)
	82	134
Website development – at cost	905	557
Less: Accumulated amortisation	(355)	(92)
	550	465
Work in progress – at cost	-	30
Total intangible assets	56,107	50,888
Less: accumulated amortisation	(739)	(246)
	55,368	50,642

12. Intangible assets (continued)

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, customer list and trademarks $'000	Software $'000	Website development $'000	Total $'000
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 1 July 2021	30	46,766	3,247	134	465	50,642
Transfer	(30)	-	-	30	-	-
Additions	-	-	536*	8	348	892
Amortisation	-	-	(139)	(90)	(243)	(472)
Exchange difference	-	4,327	(1)	-	(20)	4,306
Balance at 30 June 2022	-	51,093	3,643	82	550	55,368

* See Note 34

Goodwill impairment testing

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

	2022 $'000	2021 $'000
Hemp Black (acquired business)	51,093	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.

12. Intangible assets (continued)

Goodwill impairment testing (continued)

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:
- 9.8% post tax discount rate (FY21: 10.9%)
- 2.5% growth rate beyond the five year forecast period
- 40% - 100% per annum projected revenue growth rate over the projected cash flow period to fill $75m annual production capacity by the FY26 financial year
- mono, bi and tri component yarn extrusion capacity activated as required to match customer demand
- Hemp Black is progressing a number of opportunities to fill its production capacity and grow revenue, including working with a strong pipeline of existing and new clients, including a global leader in outdoor turf yarn, a premium US department store, a global shoe manufacturer and electric vehicle manufacturers. Hemp Black can offer customised, high performance solutions to these clients because of its vertically integrated capabilities in polymer masterbatch and compounding, yarn extrusion and knitting.

The post-tax discount rate of 9.8% 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 increased operating costs is based on estimated cost inflation 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 other assumptions remaining constant.
- The discount rate would be required to increase by more than double before goodwill would need to be impaired, with all other 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 2 to 3 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 10% (2021: 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
2022	$'000	$'000	$'000
Balance at 1 July 2021	900	11	911
Additions to right-of-use assets	505	-	505
Depreciation charge for the year	(576)	(8)	(584)
Exchange difference	6	-	6
Balance at 30 June 2022	835	3	838
2021			
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

13. Leases (continued)

ii) Lease liabilities

The lease liabilities are presented as below:

	2022 $'000	2021 $'000
Balance at 1 July	965	1,084
New leases during the period	505	449
Payments	(621)	(609)
Interest charges during the period	65	74
Exchange difference	16	(33)
Balance at 30 June	930	965
Lease liability recognised as at 30 June of which are:		
Current lease liabilities	467	491
Non-current lease liabilities	463	474
	930	965

iii) Amounts recognised in profit or loss

	2022 $'000	2021 $'000
Interest on lease liabilities	65	75
Depreciation charge	584	552

iv) Amounts recognised in statement of cash flows

	2022 $'000	2021 $'000
Cash outflow for leases:		
Financing cash outflow	546	534
Operating cash outflow	65	75

v) Extension options

Some property leases contain extension options exercisable by the Group up to 2 to 3 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

	2022 $'000	2021 $'000
Capital work in progress	6,294	4,904
Land	2,900	2,680
Building	31,856	31,226
Less: accumulated depreciation	(1,603)	(814)
	30,253	30,412
Motor vehicles	522	498
Less: accumulated depreciation	(199)	(133)
	323	365
Office equipment	1,555	1,369
Less: accumulated depreciation	(1,089)	(649)
	466	720
Plant and machinery	13,719	12,500
Less: accumulated depreciation	(6,964)	(4,501)
	6,755	7,999
Total property, plant and equipment	56,846	53,177
Less: accumulated depreciation	(9,855)	(6,097)
	46,991	47,080

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

15. Deferred tax assets

	2022 $'000	2021 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	(2,307)	(255)
Inventory	-	-
Accrued expenses	512	181
Allowance for expected credit losses	32	4
Blackhole expenditure	53	187
Employee share transactions	1,360	887
Prepayments	(117)	(4)
R&D non-refundable offsets	1,702	779
Carried forward losses	8,449	2,066
Other	(103)	12
	9,581	3,857
Amounts recognised in equity:		
Transaction costs on share issue	89	49
Deferred tax asset	9,670	3,906
Movements:		
Opening balance	3,906	2,492
Credited to profit or loss	5,724	1,365
Credited to equity	40	49
Closing balance	9,670	3,906

16. Trade and other payables

	2022 $'000	2021 $'000
Trade creditors	2,154	2,074
Employee entitlements	614	699
Other creditors and accruals	2,792	2,389
	5,560	5,162

17. Related party loans

	2022 $'000	2021 $'000
Related party loans		
Non-current term loan	-	10,000

As at 30 June 2022, this loan is classified under Borrowings – see Note 18

18. Borrowings

	2022 $'000	2021 $'000
Current		
Unsecured term loan	2,000	-
Chattel mortgage	12	-
	2,012	-
Non-current		
Unsecured term loans	11,500	-
Secured term loan	5,225	
Chattel mortgage	40	64
	16,765	64

Unsecured term loans

In June 2020, the Company obtained a $10m loan from James & Cordelia Thiele Trust Fund. The interest rate on the loan was 8% p.a. In December 2021 the term of the loan was extended, and the repayment dates are now as follows: $2m repayable on 15 July 2022, and $8m repayable on 15 July 2023. Ecofibre also has an option to reduce the amount repayable on 15 July 2023 to $2m, and to repay the remaining balance of $6m on 15 July 2024.

In March 2022, Ecofibre received a $3.5m loan from the Lambert Superannuation Fund. The interest rate on the loan was 10% p.a, and the loan is repayable on 15 July 2023.

Secured term loan

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

Reconciliation of proceeds from borrowings in 2022 as follows:

	$'000
Unsecured term loan from Lambert Superannuation Fund	3,500
Secured term loan from Nubridge Commercial Lending LLC	5,225
Total proceeds from borrowings during the financial year	8,725

19. Deferred tax liabilities

	2022 $'000	2021 $'000
Deferred tax liability comprises temporary difference attributable to:		
Amounts recognized in profit or loss:		
Property, plant and equipment	2,007	4,173
Accrued expenses	-	(349)
Employee share transactions	-	(192)
Prepayments	-	94
R&D non-refundable offsets	-	(159)
Carried forward losses	(1,689)	(2,403)
Others	-	114
Deferred tax liabilities	318	1,278

Movements:		
Opening balance	1,278	-
(Credited) / debited to profit or loss	(960)	1,278
Closing balance	318	1,278

20. 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:

	2022 Number of shares	2021 Number of shares
Balance at 1 July	14,319,286	16,025,534
Shares issued by the EST to employees as part of the ESS	(849,500)	(1,706,248)
Balance as at 30 June 2022	13,469,786	14,319,286

21. Issued Capital

	2022 $'000	2021 $'000	2022 Quantity	2021 Quantity
Ordinary shares	115,347	108,152	335,510,772	326,696,691
Movement in ordinary shares Opening balance 1 July	108,132	62,376	326,696,691	305,619,401
Shares issued at $0.537 per share	-	883	-	1,646,116
Shares issued at $2.50 per share	-	29,500	-	11,800,000
TexInnovate acquisition shares	-	14,592	-	5,924,926
Share options exercised^	6,344	-	7,964,581	-
Shares issued by the EST	911	1,125	849,500	1,706,248
Share issue cost	(40)	(344)	-	-
Closing balance 30 June	115,347	108,132	335,510,772	326,696,691

348,980,558 total shares are on issue by the parent entity, which includes 335,510,772 consolidated shares on issue plus shares held by the EST (13,469,786) which have been issued by the parent entity and are eliminated on consolidation.

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

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

Reconciliation to the Consolidated Statement of Changes in Equity:

	$'000
Balance at 30 June 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
Shares options exercised	6,344
Share based payment: shares issued as part of the ESS	911
Share issue cost	(40)
Balance at 30 June 2022	115,347

22. Remuneration of auditors

	2022 $	2021 $
Amount received or due and receivable by the auditors of the company in respect of services to the group:		
- Annual audit	166,501	134,952
- Half year review	26,686	32,566
Audit and review of financial statements	193,187	167,518
- Tax advisory	18,425	45,745
- Accounting assistance	32,275	18,500
Other services	50,700	64,245
Amount received or due and receivable by other William Buck offices:		
- Tax advisory	24,350	14,800

23. 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:

	2022 $'000	2021 $'000
Less than one year	142	113
Between one and five years	-	4
	142	117
Capital expenditure commitments not provided for in the financial statements	138	-

24. 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 2022 %	2021 %
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%	100%
Hemp Black Polymer, LLC (HBP)	United States of America	100%	100%
EOF Distribution Inc. (EOFD)	United States of America	100%	100%
Ecofibre USA RE LLC (EUSARE)	United States of America	100%	-
Ecofibre Uruguay SA (EU)	Uruguay	100%	100%

ES's principal activity is the provision of group corporate functions and research and development services.
AF's principal activity is the growing, processing and distribution of hemp food products.
EAP's principal activity is sales and distribution of hemp products.
EUSA's principal activity is an investment holding company.
AH's principal activity is the marketing and distribution of hemp nutraceutical products.
EK's principal activity is to support the manufacture of hemp nutraceutical products.
HB's principal activity is to develop and commercialise hemp fibre products.
HBB's principal activity is manufacturing, and sale of customised polymer-based yarns used for internal medical implants and applications.
HBP's principal activity is to provide performance masterbatch and custom compounding to the plastics industry for technical textiles.
EOFD is a special purpose sales and marketing entity for the Ananda Health business in the United States.
EUSARE is a special purpose entity for the securitisation of loans.
EU is a dormant entity.

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

	2022 $'000	2021 $'000
Net profit (loss) after income tax	(14,670)	(6,986)
Depreciation and amortisation	5,073	4,290
Loss from disposal of fixed assets	-	26
Provision for expected credit losses	64	(23)
Share-based payments	1,671	1,773
Transaction costs from business acquisition	-	318
Fair value adjustments for convertible loan	-	-
Movement in foreign exchange	1,675	(4,922)
Unrealised foreign exchange gain (loss)	(76)	57
Change in operating assets and liabilities		
Decrease (increase) in assets		
Trade and other debtors	383	5,169
Prepayments	749	371
Inventories	711	(6,399)
Biological assets	771	971
Deferred tax assets	(5,764)	(1,414)
Tax recoverable	(659)	(3,357)
Increase (decrease) in liabilities		
Trade creditors	80	1,045
Other creditors and accruals	403	(3)
Tax payable	39	(764)
Employee entitlements	(85)	212
Deferred tax liabilities	(960)	1,278
Net cash flows from operating activities	(10,595)	(8,358)

26. Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables 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.

26. 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.

	2022 $'000	2021 $'000
Financial Assets		
Cash and cash equivalents	7,251	8,620

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 2022, 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)	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Consolidated				
+ 1% (100 basis points)	73	86	73	86
- 0.5 % (50 points)	(36)	(43)	(36)	(43)

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.

26. 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:

	2022 $'000	2021 $'000
Less than one year	8,070	5,718
Between one and five years	31,542	24,230
Later than five years	-	-
	39,612	29,948

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	
	2022	2021	2022	2021
Consolidated	$'000	$'000	$'000	$'000
US dollars	1,537	1,397	-	-

The consolidated entity had net assets denominated in foreign currencies of US$1,537,000 (assets of US$1,537,000 less liabilities of nil) as at 30 June 2022 (2021: US$1,397,000). Based on this exposure, had the Australian dollar weakened by 5%/strengthened by 5% (2021: 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 $112,000 higher/$112,000 lower (2021: $93,000 higher/$93,000 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 gain for the year ended 30 June 2022 was $539,000 (2021: loss of $478,000).

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.

27. Key management personnel disclosures

Compensation

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

	2022	2021
	$	$
Short-term employee benefits and directors fees	896,316	741,569
Share based payments	1,012,910	972,012
Post-employment benefits	41,285	36,003
	1,950,511	1,749,584

See also Note 28 for other related party transactions

28. Related party transactions

Transactions with related parties

The following transactions occurred with related parties:

	2022	2021
	$	$
Interest expense for term loan (see note 17)	-	800,000
	-	800,000

In FY21, interest expense from related party relates to loan from James & Cordelia Thiele Trust Fund, a trust related to the Company's former non-executive Chairman, Mr Barry Lambert. The interest rate on the loan is 8% p.a. As at 30 June 2022, this loan is classified under Borrowings – see Note 18, and the interest is no longer a related party transaction.

Receivable and payable to related parties

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

29. Parent entity information

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

	2022 $'000	2021 $'000
Profit (Loss) after income tax	(12,083)	1,982
Total comprehensive income	(12,083)	1,982
Statement of financial position		
Total current assets	163	4,343
Total assets	120,029	125,130
Total current liabilities	1,173	169
Total liabilities	11,486	10,412
Equity		
Issued capital	115,347	108,132
Share based payment reserve	4,489	5,796
Share capital reserve	14,300	14,300
Accumulated losses	(25,593)	(13,510)
Total equity	108,543	114,718

30. Share-based payments

TJU share options

In accordance with the Research and Share Subscription Agreement signed between TJU and Ecofibre and upon completion of the research program, TJU has exercised an option over 7,964,581 shares. 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	-

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

	2022 $'000	2021 $'000
Expenses recognised during the year for share options granted in prior years	-	827
Transfer from share option reserve to share capital	2,067	-

30. Share-based payments (continued)

Non-Executive Director (NED) share options

A share option plan has been established by the consolidated entity and approved by shareholders at a general meeting, whereby the consolidated entity may grant options over ordinary shares in the company to the Non-Executive Directors of the consolidated entity. The options are issued for nil consideration and are granted in accordance with the Company's Share and Option Plan, the terms of which were summarized in the Company's 2019 IPO Prospectus.

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

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
1 Dec 2021	7 Oct 2024	$0.83	-	849,201	-	(144,750)	704,451
Weighted average exercise price			$0.83	$0.00	$0.00	$0.00	$0.83

None of the options granted are exercisable at 30 June 2022.

The weighted average share price during the financial year was $0.57 (2021: $1.35)

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.3 years.

For the options granted during the current financial year, the valuation model input 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 Dec 2021	7 Oct 2024	$0.68	$0.83	74%	-	17.5%	$0.2839

	2022 $'000	2021 $'000
Expenses recognized during the year for NED share options	41	-

30. Share-based payments (continued)

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:

	2022 $'000	2021 $'000
Expenses from equity-settled share-based payment transactions	1,630	946

Share-based payment reserve

	2022 $'000	2021 $'000
TJU options	-	2,067
NED options	41	-
Employee shares	4,448	3,729
Total share-based payment reserve	4,489	5,796

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

Share-based payment expense

	2022 $'000	2021 $'000
TJU options	-	827
NED options	41	-
Employee shares	1,630	946
Total share-based payment expense	1,671	1,773

31. Earnings per share (EPS)

	2022 $'000	2021 $'000
Loss used in the calculation of basic and diluted EPS	(14,670)	(6,986)
Weighted average number of shares* outstanding during the period used in the calculation of basic and diluted EPS:		
Basic	332,533,170	322,746,559
Diluted**	332,533,170	322,746,559

* Weighted average number of shares exclude Treasury shares held in the EST.
** Options granted are not included in the diluted weighted average number of shares because they are antidilutive. Adding these options would result in a lower loss per share.

32. 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 - 2022				
Assets				
Biological assets	-	579	-	579
Liabilities				
Contingent consideration	-	13,996	-	13,996
Consolidated - 2021				
Assets				
Biological assets	-	1,350	-	1,350
Liabilities				
Contingent consideration	-	12,414	-	12,414

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.

33. Contingent consideration

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 USD42.0, including 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.

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 2022:

	$'000	$'000
Balance at 1 July 2021/ fair value^ at acquisition date	12,414	12,611
Fair value movement on contingent consideration during the period	414	325
Foreign currency impact	1,168	(522)
Balance at 30 June 2022	13,996	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).

34. Business acquisitions

On April 2022, the Group completed the acquisition of Soul Seed (Ananda Food) and New Composite Partners (Hemp Black).

Total consideration for the businesses:

- AU$245,000 for Soul Seed, fully settled in cash
- US$200,000 for New Composite Partners, consideration to be paid in equal 4 instalments. As at 30 June 2022, US$50,000 had been settled in cash

Details of the acquisition are as follows:

	$'000
Soul Seed	245
New Composite Partners	291
Acquisition-date fair value of the total consideration	536

Cash used to acquire business:	
Acquisition-date fair value of the total consideration transferred	314

35. 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 majority of the Company's business is conducted in Australian and United States dollars. The closing exchange rate for this currency pair changed by 8% during the year as the USD appreciated against the AUD (2022: AUD1 for USD0.6875, 2021: AUD1 for USD0.7511).

The foreign currency translation reserve as at 30 June 2022 consists of the following exchange differences:

Balance sheet component	Rate used for translation	$'000
Investment in subsidiaries	Historical spot rate	2,929
Retained earnings	Average rate	(1,119)
Total		1,810

Movement in the foreign currency translation reserve:	$'000
Balance at 30 June 2021	(5,097)
Exchange differences on translation of foreign controlled entities	6,907
Balance at 30 June 2022	1,810

36. Events after the reporting period

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

On 19 August 2022 the Group completed the acquisition of ECS Botanics's Food and Wellness business for a total purchase consideration of $250,000.

On 1 September 2022, Director Mark Bayliss joined the Board of the Company as an independent, non-executive director. Mr Bayliss will transition into the role of Chair of the Audit, Risk & Compliance Committee after a brief handover period with Director Jon Meadmore.

The impact of the Coronavirus (COVID-19) pandemic is ongoing. It is not practicable to estimate the potential impact after the reporting date, but overall the impact of the pandemic on the Group's businesses has moderated toward the latter part of FY22.

No other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

5. SIGNED REPORTS

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 2022 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 from the CEO and CFO, 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

Vanessa Wallace
Director

27 September 2022
Sydney

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 2022, 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 2022 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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William Buck
ACCOUNTANTS & ADVISORS

Key Audit Matters (continued)

Share-based Payments	
Refer also to Remuneration Report, note 1(r) and 30	**How our audit addressed it**
The Group issued share options to non-executive Directors. 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.	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.

Key Audit Matters (continued)

<table>
<tr><th colspan="2">Valuation of Inventories and Biological Assets</th></tr>
<tr><th>Refer also to note 1(i), 1(j), 9 and 10</th><th>How our audit addressed it</th></tr>
<tr><td>The Group held biological assets of $579,000 at 30 June 2022. 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.</td><td>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.</td></tr>
<tr><th colspan="2">Impairment Assessment of Intangible Assets Including Goodwill</th></tr>
<tr><th>Refer also to note 1(n) and note 12</th><th>How our audit addressed it</th></tr>
<tr><td>Included in the statement of financial position is an intangible asset balance of $55.4 million as at 30 June 2022, which includes goodwill of $51.1 million.

In accordance with AASB 136 – Impairment of assets the Group 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 Group 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.</td><td>Our audit procedures included:

— a detailed evaluation of the Group'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 Group's disclosures in the notes to the financial report.</td></tr>
</table>

Key Audit Matters (continued)

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 2022, 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/admin/file/content102/c3/ar1_2020.pdf

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

William Buck
ACCOUNTANTS & ADVISORS

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 2022.

In our opinion, the Remuneration Report of Ecofibre Limited, for the year ended 30 June 2022, 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

M. Monaghan

M J Monaghan
Director

Brisbane: 27 September 2022

6. SHAREHOLDER AND ASX INFORMATION

Five-year financial history

	2022 $'000	2021 $'000	2020 $'000	2019 $'000	2018 $'000
Summarised income statement					
Sales Revenue	30,220	28,793	50,717	35,605	5,749
Other income	2,144	4,951	6,482	1,864	3,557
Total revenue and other income	32,364	33,744	57,199	37,469	9,306
Operating profit (loss) before depreciation and amortisation, finance costs and income tax	(15,296)	(4,580)	19,187	5,766	(7,338)
Depreciation and amortisation	(5,073)	(4,290)	(2,049)	(958)	(344)
EBIT	(20,369)	(8,870)	17,138	4,808	(7,682)
Net finance costs	(1,379)	(1,173)	113	(223)	(532)
Income tax expense (credit)	7,078	3,057	(4,095)	1,415	(413)
Profit (Loss) after income tax attributable to members of Ecofibre Limited	(14,670)	(6,986)	13,156	6,000	(8,627)
Factors affecting total shareholders return					
Share price at financial year end ($)	0.20	0.68	2.22	2.10	n/a*
Total dividends declared (cents per share)	-	-	-	-	-
Basic earnings per share (cents per share)	(4.41)	(2.16)	4.43	2.28	(3.17)
Financial position as at 30 June					
Total assets	149,554	141,745	84,295	47,775	11,268
Total liabilities	39,612	29,948	21,294	5,472	9,708
Net assets	109,942	111,797	63,001	42,303	1,560
Net tangible asset per ordinary share ($)	13.23	17.64	19.60	13.81	0.51
Net debt to equity (%)	17%	9%	16%	3%	389%
Total liabilities / total assets (%)	26%	21%	25%	11%	86%

* Ecofibre was listed on ASX in March 2019.

Shareholder information

The shareholder information set out below was applicable as at 13 September 2022.

Number of securityholders

There are 5,215 holders of ordinary shares, 3 holder of options (unquoted) over ordinary shares, 18 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	2,057	1,030,594	0.30%
1,001 to 5,000	1,662	4,183,593	1.20%
5,001 to 10,000	517	4,064,302	1.16%
10,001 to 100,000	820	24,669,520	7.07%
100,001 and over	159	315,032,549	90.27%
Total	**5,215**	**348,980,558**	**100.00%**
Holding less than a marketable parcel	2,679	1,916,951	

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	10.80%
Barry Martin Lambert & Joy Wilma Lillian Lambert	34,497,242	9.89%
Phil Warner Pty Ltd	32,481,381	9.31%
HSBC Custody Nominees (Australia) Limited	31,972,875	9.16%
National Nominees Limited	17,619,740	5.05%
Kylie Warner Pty Ltd	16,340,072	4.68%
Citicorp Nominees Pty Limited	13,639,590	3.91%
Thomas Jefferson University	12,178,259	3.49%
Eric Wang	9,994,158	2.86%
Pacific Custodians Pty Limited (Employee Securities TST Unallocated A/C)	7,200,000	2.06%
Texsymmetry Inc	6,595,959	1.89%
Pacific Custodians Pty Limited (Employee Securities TST A/C)	6,269,786	1.80%
Warner Research Institute Limited	5,318,960	1.52%
Jeffrey Bruner	4,814,148	1.38%
Freshwater Superannuation Fund Pty Limited	4,017,830	1.15%
Yarrawonga Holdings Pty Limited <Yarrawonga Super Fund A/C>	3,048,553	0.87%
BT Portfolio Services Ltd	2,929,730	0.84%
Troncell Pty Ltd	2,922,078	0.84%
Eric Wang + Christie Wang <ATF The Ghengis Khan Super Fund>	2,574,423	0.74%
Profitous Pty Ltd	2,426,287	0.70%
Total	**254,529,525**	**72.94%**

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%
Perennial Value Management Limited (PVM)	26,276,118	7.53%

Unquoted Options

There were 704,451 unquoted options over ordinary shares as follows:

Unquoted options – description	Number of options	Number of holders
Non-executive director options expiring 7 October 2024 exercisable @ AU$0.83 per share	704,451	3
Total	**704,451**	**3**

Unquoted Employee Share Rights

Distribution of Employee Share Rights

There are 13,155,002 unquoted performance rights on issue held by 18 holders as follows:

Size of holding	Number of holders	Number of Rights	% of Rights on issue
1-1,000	-	-	0.00%
1,001 – 5,000	-	-	0.00%
5,001 – 10,000	-	-	0.00%
10,001 – 100,000	9	460,000	3.50%
100,001 and above	9	12,695,002	96.50%
Total	**18**	**13,155,002**	**100.00%**

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.

Investor information

Shareholder services

Ecofibre's share register is maintained by Link Market Services Limited. By visiting the Link Investor Centre, shareholders can:

- View their holding details
- Register to receive Annual Reports electronically
- Access and update information held by the Share Registry
- View information relating to transaction history
- Provide their Tax File Number or ABN
- Download forms, change address details, update communication preferences and add or amend direct credit details.

When you visit the Link Investor Centre, you will need your Security Reference Number (SRN) or Holder Identification Number (HIN) to verify your identity. Your SRN/HIN is available on your holding/transaction and distribution statements.

Recent legislative changes to the Corporations Act 2001 (Cth) mean there are new options for how Ecofibre shareholders receive communications. Ecofibre will no longer send physical meeting documents unless a shareholder requests a copy to be mailed.

Electronic communication has the added advantage of being timelier and more cost-effective, which benefits all shareholders, and Ecofibre encourages all shareholders to provide an email address so we can communicate with you electronically when shareholder notices become available online, for items such as meeting documents, dividend statements, and annual reports.

Shareholders can still elect to receive some or all of their communications in physical or electronic form. To review your communication preference or sign up to receive your shareholder communications via email, please update your details at the Link Investor Centre.

For all other questions, please contact the Registry:

Link Market Services Limited

Level 21, 10 Eagle Street, BRISBANE, QLD, AUSTRALIA, 4000

Share registry telephone: 1300 554 474

registrars@linkmarketservices.com.au

linkmarketservices.com.au

Information on Ecofibre

Ecofibre website
Up-to-date information on the company can be obtained from the company's website www.ecofibre.com.

Securities Exchange listing
Ecofibre shares are listed on the Australian Securities Exchange under the code EOF.

Share prices can be accessed from major Australian newspapers, on the Ecofibre website, or at www.asx.com.au.

Privacy
A copy of the Ecofibre Privacy Policy is available on the Ecofibre website.

Ecofibre Investor Relations department
Further information and publications about the company's operations are available by contacting the Investor Relations department via the Ecofibre website.

CORPORATE DIRECTORY

Directors
Vanessa Wallace
Eric Wang
Jon Meadmore
Prof. Bruce Robinson
Michele Anderson
Mark Bayliss

Company secretary
Jonathan Brown
Robin Sheldon

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 22, 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

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