



# ECOFIBRE

Ecofibre Limited  
ACN 140 245 263

## PROSPECTUS

For an offer of between 15,000,000 and 20,000,000 Shares at an issue price of \$1.00 per Share to raise between \$15,000,000 and \$20,000,000.

This Prospectus is a replacement prospectus. It is an important document and should be read in its entirety.

### Defined terms

Certain terms and abbreviations used in this Prospectus have defined meanings which are explained in the Glossary in Section 11.

### Important document

This Prospectus provides important information about the Company. If you have any questions about the Offer Shares being offered under this Prospectus, or any other matter relating to an investment in the Company, you should consult your professional adviser.

**An investment in Ecofibre Limited securities is speculative.**



ananda **PROFESSIONAL**



HEMP BLACK



anandahemp



  
anandafood

# IMPORTANT NOTICES

## General

This Prospectus is dated 22 February 2019. A copy of this Prospectus was lodged with ASIC on that date. It is a replacement prospectus that replaces the prospectus dated 11 February 2019 (Original Prospectus). Neither ASIC, ASX nor any of their respective officers take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

No Shares will be allotted or issued on the basis of this Prospectus later than 13 months after the date of the Original Prospectus.

No person is authorised to provide any information or make any representations about the Offer which is not contained in this Prospectus. Information or representations not contained in this Prospectus must not be relied on as authorised by the Company, or any other person, in connection with the Offer.

## Suitability of Investment & Risks

This Prospectus provides information for investors to decide if they wish to invest in Ecofibre. Read the document in its entirety. Examine the risk factors that could affect the financial performance of Ecofibre. Consider these factors carefully in light of your personal financial circumstances. Seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest. The Offer does not take into account any investment objectives, financial situation or needs of particular investors.

**An investment in Ecofibre should be considered speculative.**

## Electronic Prospectus

This Prospectus is available electronically at [www.ecofibre.com](http://www.ecofibre.com).

Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian and New Zealand resident and must only access the Prospectus from within Australia or New Zealand. Persons who access the electronic version of this Prospectus should ensure that they download and read the entire Prospectus.

The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered electronic version of this Prospectus. Any person may obtain an electronic copy of this Prospectus free of charge by contacting the Company. If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please contact the Company and the Company will send you, for free, a further electronic copy of the Prospectus.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

## Defined Terms

Certain terms and abbreviations used in this Prospectus have defined meanings which are explained in the Glossary

## Website

No document or information included on the Company's website is incorporated by reference into this Prospectus.

## Privacy

Please read the privacy information located in Section 7.17 of this Prospectus. By submitting an Application Form, you consent to the matters outlined in that Section.

## Forward-looking statements

This Prospectus contains forward-looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'hopes', 'expects', 'intends', 'aimed at' and other similar words that involve risks and uncertainties.

These statements are based on an assessment of past and present economic and operating conditions and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, its Directors and management.

Although the Company believes that the expectations reflected in the forward looking statements included in this Prospectus are reasonable, none of the Company, its Directors or officers and management, or any person named in this Prospectus, can give, or gives, any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur or that the assumptions on which those statements are based will prove to be correct or exhaustive beyond the date of their making. Investors are cautioned not to place undue reliance on these forward-looking statements.

Except to the extent required by law, the Company has no intention to update or revise forward looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus.

The forward looking statements contained in this Prospectus are subject to various risk factors that could cause the Company's actual results to differ materially from the results expressed or anticipated in these statements. The key risk factors of investing in the Company are set out in Section 5 of this Prospectus.

## Currency

Monetary amounts shown in the Prospectus are expressed in Australian dollars unless otherwise stated.

## Consent not sought for certain statements

Statements made by, attributed to or based on statements by third parties have not been consented to for the purposes of section 729 of the Corporations Act and are included in this Prospectus by the Company on the basis of *ASIC Corporations (Consents to Statements) Instrument 2016/72* relief from the Corporations Act for statements used from books, journals or comparable publications.

## Exposure Period

The Corporations Act prohibits the Company from processing Applications under the Offer in the 7 day period after the date of lodgement of the Original Prospectus with ASIC (**Exposure Period**). This period may be extended by ASIC for a further period of up to 7 days. The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of funds under the Offer. This Prospectus will be made generally available to Australian and New Zealand residents during the Exposure Period, without the Application Form, by being posted on the following website: [www.ecofibre.com](http://www.ecofibre.com).

Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on any Applications received during the Exposure Period.

## Selling restrictions

This Prospectus does not constitute an offer or invitation to apply for Shares in any place in which, or to any person to whom, it would be unlawful to make such offer or invitation.

No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of the Shares, in any jurisdiction outside Australia and New Zealand .

The distribution of this Prospectus outside Australia and New Zealand may be restricted by law and persons who come into possession of this Prospectus outside Australia or New Zealand should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. This Prospectus may not be distributed to, or relied upon by, persons in the United States. The Shares have not been, and will not be, registered under the United States Securities Act of 1933 (US Securities Act) or the securities laws of any state of the United States, and may not be offered or sold in the United States, except in a transaction exempt from, or not subject to, registration under the United States Securities Act and applicable US state securities laws. For details of selling restrictions that apply to the Offer and the sale of Shares in certain jurisdictions outside of Australia and New Zealand, please refer to Section 7.15.

THIS PROSPECTUS IS IMPORTANT AND SHOULD BE READ IN ITS ENTIRETY



ECOFIBRE

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LETTER FROM  
THE CHAIRMAN

## Dear Investor

On behalf of the Directors, it is my pleasure to invite you to consider becoming a shareholder in Ecofibre Limited.

The industrial hemp (hemp) industry has grown rapidly in recent years.

Consumers are increasingly aware of its many benefits, and regulators have responded by making hemp products more accessible. Consumption of hemp foods became legal in Australia in November 2017, and the legality of hemp in the United States was confirmed in December 2018 when the 2018 Farm Bill was signed into law.

Ecofibre is a provider of hemp products in the United States and Australia.

The Company has experience in breeding and growing hemp, and this knowledge has been commercialised over the last two years. Sales have grown rapidly and margins in our businesses are strong.

In the United States, the Company produces nutraceutical products for human and pet consumption, as well as topical creams and salves (**Ananda Health**). This business is now at economic scale, profitable and growing rapidly.

Hemp food products are grown and manufactured in Australia, including protein powders, dehulled hemp seed and hemp oil (**Ananda Food**). Our food manufacturing facility was commissioned in November 2018 and growing areas have been increased significantly for existing and potential future demand.

The Company is developing innovative hemp-based products in textiles and composite materials (**Hemp Black**) in partnership with Thomas Jefferson University (TJU) in the United States.

Our value proposition to customers is built on strong brands and quality products.

The Company owns or controls key parts of the value chain in each business, from breeding, growing and production to sales and marketing. We sell directly to customers, and also have strong distribution relationships in the United States and Australia.

Our priority is to continue growing sales and profits and to increase our working capital to take advantage of expansion opportunities, whilst maximising shareholder value.

Ecofibre is seeking a listing to accelerate the commercialisation of Hemp Black, and to provide working capital for the accelerated future growth of Ananda Food. The initial public offering (IPO) will provide a listed market for Existing Shareholders and provide an opportunity for new investors to participate in the hemp industry by becoming shareholders in Ecofibre.

I encourage you to read the prospectus carefully in its entirety and consult with your professional advisers before deciding whether to invest in the Company. You should particularly consider the Risks described in Section 5. On behalf of the directors I look forward to welcoming you as a shareholder of Ecofibre.



Barry Lambert  
Chairman



ananda  
PROFESSIONAL



# KEY OFFER INFORMATION

THC  
FREE

ALL NATURAL

ananda  
PROFESSIONAL

THC FREE  
SUBLINGUAL TINCTURE  
Net 30 ml (1 fl. oz)

SUBLINGUAL TINCTURE

10 mg

600 mg





## Key Offer Details

	Minimum Subscription	Maximum Subscription
Amount to be raised under the Offer	\$15,000,000	\$20,000,000
Offer Price per Share*	\$1.00	\$1.00
Total number of Shares currently on issue	282,291,855	282,291,855
Shares to be issued from part-conversion of a Convertible Note at Completion of the Offer**	7,057,296	7,057,296
Shares to be issued under Offer	15,000,000	20,000,000
Total number of Shares on issue at Completion of the Offer***	304,349,151	309,349,151
Percentage of Shares held by Existing Shareholders following Completion of the Offer	95%	94%
Indicative market capitalisation upon Completion of the Offer****	\$304,349,151	\$309,349,151
Cash proceeds from the Offer (before costs)	\$15,000,000	\$20,000,000
Pro forma cash and cash equivalents on Completion of the Offer	\$19,803,000	\$24,803,000

### Notes:

\* Refer to Section 9.2 for information about the rights attaching to Shares.

\*\* The note can be converted into a maximum of 12,205,519 Shares, representing between 4.01% (Minimum Subscription) and 3.95% (Maximum Subscription) of Shares on issue at Completion of the Offer. The 7,057,296 Shares to be issued resulting from part conversion of the note at Completion of the Offer will represent between 2.32% (Minimum Subscription) and 2.28% (Maximum Subscription) of Shares on issue at Completion of the Offer. The remaining 5,148,223 Shares are expected to be issued in September 2019. See Section 9.1.1(e) for information about this Convertible Note and its conversion into Shares.

\*\*\* The Company's agreements with TJU include the right, subject to certain conditions, to subscribe for up to 20,971,937 Shares, representing between 6.89% (Minimum Subscription) and 6.78% (Maximum Subscription) of Shares on issue at Completion of the Offer. See Section 9.1.3 for information concerning the Company's agreements with TJU and the conditions for issue of these Shares.

\*\*\*\* Market capitalisation is determined by multiplying the total number of Shares on issue by the price at which the Shares trade on the ASX from time to time. In the table above, the market capitalisation is calculated at the Offer Price. Please note that there is no guarantee that the Shares will be trading at the Offer Price upon the Company listing.

Please refer to Section 7.6 for further details relating to the proposed capital structure of the Company .

## Timetable

Event	Date and Time
Lodgement of Original Prospectus with ASIC	11 February 2019
Lodgement of this Replacement Prospectus with ASIC	22 February 2019
Opening Date of the Offer	26 February 2019
Closing Date of the Offer	11 March 2019
Issue of new Shares under the Offer	22 March 2019
Dispatch of holding statements to Shareholders	25 March 2019
Expected date for quotation on ASX	29 March 2019

The above dates are indicative only and may change without notice. The Exposure Period may be extended by the ASIC by not more than 7 days pursuant to Section 727(3) of the Corporations Act. The Company reserves the right to extend the Closing Date or close the Offer early without prior notice. The Company also reserves the right not to proceed with the Offer at any time before the issue of Shares to Applicants.

## How to Invest

Applications for Shares can be made in accordance with the procedures described in this Prospectus. Instructions on how to apply for Shares are set out in Section 7 and on the back of the Application Form.

# 1

## INVESTMENT OVERVIEW

## 1. Investment Overview

TOPIC	SUMMARY	MORE INFORMATION
1.1 Business Overview		

### Who is Ecofibre and what does Ecofibre do?

Ecofibre was registered in 2009 and became a public company in 2018.

Section 3

Ecofibre Limited and its Subsidiaries (Ecofibre/Company) operate in the hemp industry in the United States and Australia.

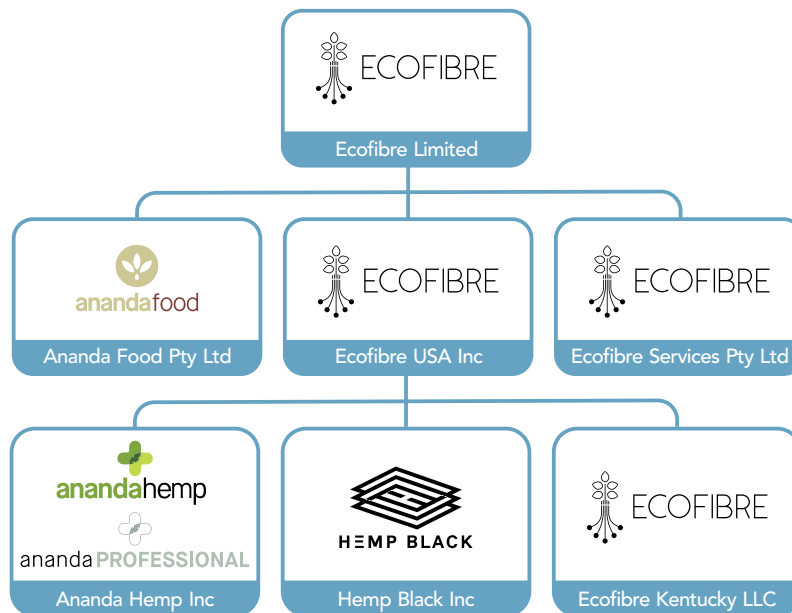
Ecofibre operates 3 key business lines through its Subsidiaries, namely:

**Ananda Health:** Production and sale of hemp related nutraceutical products focused on the US.

**Ananda Food:** Production and sale of hemp related food products in Australia.

**Hemp Black:** Development of innovative hemp related fibre products globally.

The chart below sets out the structure of Ecofibre and its Subsidiaries:



Ecofibre does not participate in any marijuana-related businesses. In this regard, refer to "The difference between hemp and marijuana" below.

### What is the industry in which Ecofibre operates?

In the US, Ecofibre operates in the hemp-derived nutraceutical sector, targeting the health and well-being segment based on whole-plant cannabinoid extracts (*Ananda Health*).

Sections 2 and 3

In Australia, Ecofibre operates in the hemp-derived food products sector, supplying 100% Australian grown and processed hemp seed foods (*Ananda Food*).

Hemp Black is a pre-commercial business that aims to provide hemp-based inputs for innovative product applications across a range of consumer and industrial markets (*Hemp Black*).

TOPIC	SUMMARY	MORE INFORMATION
<p>What is the difference between hemp and marijuana?</p>	<p>Hemp and <i>marijuana</i> come from the genus <i>Cannabis sativa L.</i>, but are distinct and subject to different legal treatment, uses and chemical composition.</p> <p>A key distinction between hemp and <i>marijuana</i> is that in <i>marijuana</i>, naturally occurring levels of the cannabinoid THC are higher. THC is known for its psychoactive properties.</p> <p>Hemp contains only trace levels of THC (usually no more than 0.3%) and is therefore not psychoactive. It is grown as an agricultural crop.</p> <p>Hemp has a wide variety of uses, including food, nutraceuticals and industrial applications, while <i>marijuana</i> is primarily used for recreational and medicinal uses due to its psychoactive tendencies.</p> <p>In the US, hemp and its derivative products are federally legal and are legal in more than 40 states, whereas <i>marijuana</i> is only legal in selected states.</p> <p>Unlike the US, in Australia, hemp and <i>marijuana</i> production regulations vary according to the end-use of the plant.</p>	<p>Sections 2.2, 2.3, 2.9 and 2.10</p>
<p>What are Ecofibre's current and proposed business activities?</p>	<p>Ananda Health is a vertically integrated business that produces, manufactures and distributes a range of hemp nutraceutical products under two main brands, Ananda Hemp and Ananda Professional, principally to wholesale, retail and white label customers in the US. These products are grown and manufactured in the United States.</p> <p>Ananda Food is a vertically integrated business that produces, manufactures and distributes a range of hemp food products under the Ananda Food brand, principally to wholesale and white label customers in Australia and potentially, Asia. These products are grown and manufactured in Australia.</p> <p>Hemp Black intends to use proprietary technology licenced to it by TJU to supply and license its customers and partners globally to produce innovative industrial and consumer products, using hemp-based inputs grown and manufactured in the US, with an emphasis on sustainable practices. Ecofibre's Hemp Black business is dependent on a licence of intellectual property from TJU (in this regard, see Section 9.1.3 for information relating to Ecofibre's agreements with TJU and Section 5.1.23 for risks relating to the Company's intellectual property). The licence stipulates a term ending the later of 10 years from the date of first commercial supply of a product by Ecofibre under the licence or the expiry of the last patent underlying the licence, unless terminated at any time earlier by TJU as a result of an unremedied material breach of the licence by Ecofibre.</p>	<p>Section 3</p>
<p>What is the regulatory status of hemp?</p>	<p>In December 2018, the President of the United States signed the 2018 Farm Bill, which removed hemp, including its extracts, cannabinoids and derivatives, from restrictions under the Controlled Substances Act. This law makes hemp a federally legal agricultural commodity that can be commercially cultivated and used in products in the US. State laws and regulations also apply.</p> <p>Hemp foods became legal for human consumption in Australia in November 2017.</p> <p>Globally, the use of hemp for industrial purposes is widely accepted.</p>	<p>Sections 2.9, 2.10, Annexure A and Annexure B</p>

TOPIC	SUMMARY	MORE INFORMATION
What is the status of the licences and permits that Ecofibre requires for its business activities?	Ecofibre holds all necessary licences and permits to conduct its current and proposed business activities in its current markets.	Section 3.6, Annexure A and Annexure B

Why is the offer being conducted?	<p>The purpose of the Offer is to:</p> <ul style="list-style-type: none"> <li>(a) fund the initial commercialisation of Ecofibre's Hemp Black fibre technologies, including product development, sales and marketing, customer samples and other commercialisation expenses;</li> <li>(b) fund the design, construction and commissioning of Ecofibre's new premises and facility in Georgetown, Kentucky, showcasing Hemp Black;</li> <li>(c) provide additional working capital to accelerate the growth of Ananda Food;</li> <li>(d) provide for administration costs and working capital needs; and</li> <li>(e) achieve a listing on the ASX to broaden the Company's shareholder base and provide a liquid market for its Shares.</li> </ul>	Section 7.1.4
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## 1.2 Key Features of Ecofibre's business model

What are Ecofibre's business objectives and strategy?	<p>Ecofibre's vision is to become a global leader in hemp applications by providing innovative solutions that address emerging health and resource issues.</p> <p>Ecofibre's business model is focused on selectively owning or controlling specific parts of the hemp value chain, in targeted geographies.</p> <p>Key elements of Ecofibre's strategy are</p> <ul style="list-style-type: none"> <li>(a) <i>strategic focus</i> - growing the Company's three business lines in nutraceutical products, food products and hemp fibre applications;</li> <li>(b) <i>attractive markets</i> - operating and supplying products in only what Ecofibre considers to be the most attractive markets, from a regulatory and commercial perspective;</li> <li>(c) <i>product quality</i> - producing the highest quality, safe hemp-derived products;</li> <li>(d) <i>scale and efficiency</i> - optimising production and distribution efficiencies and building scale in selected parts of the value chain;</li> <li>(e) <i>relationships</i> – building strategic relationships with key customers and suppliers; and</li> <li>(f) <i>genetics</i> – continuing to improve the Company's commercial efficiency by using its genetic resources and agronomic practices.</li> </ul>	Section 3
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TOPIC	SUMMARY	MORE INFORMATION
How does Ecofibre generate revenue?	<p>Ecofibre sells hemp-based products to consumers, wholesalers and manufacturers.</p> <p>Ananda Health generates revenue through the sale of its hemp nutraceutical products principally to wholesale, retail and white label customers in the United States.</p> <p>Ananda Food generates revenue by sale of its hemp food products principally to wholesale and white label customers in Australia.</p> <p>Hemp Black's hemp fibre products are not yet commercialised and it therefore does not currently generate revenue. Ecofibre aims to generate revenue in its Hemp Black business in the future by licensing its proprietary technology to customers and partners globally to produce innovative industrial and consumer products.</p>	Sections 3.3, 3.3.4, 3.3.5 and 4.6
Who are Ecofibre's customers?	Ecofibre's customers vary by business line, but include direct consumers, wholesalers, distributors and manufacturers.	Section 3.3
Where are the operations of the Ecofibre entities located?	<p>Ecofibre's corporate head office is located in Brisbane, Queensland.</p> <p>Ecofibre's senior management team are located in Australia and in the US.</p> <p>Ananda Health's principal operations are located in the Commonwealth of Kentucky in the US.</p> <p>Hemp Black's principal research operations are located in Philadelphia, Pennsylvania in the United States. Processing operations for Hemp Black will be located in the Commonwealth of Kentucky.</p> <p>Ananda Food's principal operations are located in Beresfield, New South Wales.</p>	Sections 3.3, 3.3.4, 3.3.5 and 3.3.6
Who does Ecofibre compete with?	<p>Each of the industry sectors in which Ecofibre operates are evolving, driven by legislative changes. Given the emergence of hemp related industry sectors globally, the Directors expect that the competitive landscape will continue to evolve over time and key competitors to Ecofibre will vary by sector, with none known to be currently competing with all three of Ecofibre's business lines.</p> <p>Ananda Health competes with other providers of hemp derived nutraceuticals in the US. These participants, along with Ananda Health, provide over-the-counter, non-prescription products for general health and well-being. There are a small number of publicly listed companies in this space and a very large number of privately held businesses providing similar products across a wide range of channels.</p> <p>Ananda Food competes in Australia with suppliers of plant-based protein and traditional proteins, as hemp seeds are a high quality protein source (see Section 2.5.1).</p> <p>The Australian hemp food market is in the early stages of development, having been legalised only in November 2017. Accordingly, the market and its players are not yet well-defined and the industry is still building local expertise.</p>	Sections 2.7.3, 3.3.4(g), 3.3.5(g), 3.3.6(b)(v)

TOPIC	SUMMARY	MORE INFORMATION
	<p>There are several small growers, processors and distributors of hemp foods based in Australia, but most hemp seed currently sold in Australia is sourced from overseas.</p> <p>Ananda Food is one of the few vertically integrated providers of hemp food in Australia. The other suppliers of hemp food in Australia include companies such as Organic Markets Direct and Hemp Foods Australia.</p> <p>Hemp Black is not yet commercialised, but Ecofibre intends to position this business as an innovator in sustainable and cost-effective enhancement of the functional properties of consumer and industrial products. For example, Hemp Black may have potential to compete with:</p> <ul style="list-style-type: none"> <li>(a) silver oxide coatings for anti-microbial properties in textiles;</li> <li>(b) copper for electrical conductivity in textiles; and</li> <li>(c) carbon black in higher value applications as pigment.</li> </ul>	
<p>Who are Ecofibre's suppliers?</p>	<ul style="list-style-type: none"> <li>(a) <i>Hemp cultivation</i> - Ecofibre contracts with growers in Australia and the US each growing season, for production of hemp, usually using seed provided by Ecofibre, either from its own stock of germplasm or acquired from third parties.</li> <li>(b) <i>Manufacturing</i> - for Ananda Health and Ananda Food, Ecofibre owns and manages most production processes through to final product. Ecofibre uses a range of suppliers to provide consumables (for example, bottles, labels, boxes and other) and other selected services.</li> <li>(c) <i>Fibre processing</i> - for Hemp Black, key suppliers include Thomas Jefferson University (TJU) (intellectual property development and licensing) and a supply partner for the integration of Hemp Black materials into textiles and composites, ready for use by end-product manufacturers. Both of these suppliers have invested equity capital in Ecofibre.</li> </ul>	<p>Sections 3.3 and 9.1.3</p>
<p>What are Ecofibre's distribution channels?</p>	<p>Ecofibre has a range of agreements with regional and national distributors, primarily wholesalers and manufacturers in the US and Australia.</p> <p>Ecofibre also sells its nutraceutical products directly to retail customers in the US and elsewhere via its website, <a href="http://www.anandahemp.com">www.anandahemp.com</a>.</p>	<p>Sections 3.3.4(d), 3.3.5(d), 3.3.6(b) and 9.1.7</p>
<p>What are the growth opportunities for Ecofibre?</p>	<p>Ananda Health's sales are expected to be driven by:</p> <ul style="list-style-type: none"> <li>(a) <i>Organic growth</i> - based on the expanding market for hemp-based nutraceuticals in the US, via increasing awareness of the benefits of CBD and hemp plant extracts (although Ananda Health makes no express claims about the therapeutic properties of its hemp-derived CBD products);</li> <li>(b) <i>New product formulations</i> - may also be developed with higher concentrations of specific and rare cannabinoids sourced from Ecofibre's genetic resources; and</li> <li>© <i>Expanding product range</i> - diversification of Ananda Health's current product platform, such as the recent introduction of products for women and pets.</li> </ul>	<p>Sections 3.3, 3.3.4(f), 3.3.5(f) and 3.3.6</p>

TOPIC	SUMMARY	MORE INFORMATION
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### 1.3 Summary of Key Strengths

Ananda Food's sales are expected to be driven by:

- (a) *Organic growth* on the back of increasing awareness in Australia of the health value of hemp foods; and
- (b) *Asian market* - increasing demand in Asia for high quality plant-based proteins.

What are Ecofibre's key strengths?	(a) <i>Board and executive team</i>	Section 3.4
	Ecofibre's management team is highly skilled and experienced across multiple industries. Its board has a strong track record of operational success and building shareholder value.	
	(b) <i>Disciplined focus on strategic priorities</i>	
	Ecofibre concentrates its assets on what it considers to be the most attractive markets, consumer segments and geographies. Each of its chosen markets has attractive regulatory frameworks, market size and growth potential. For example, Ecofibre has elected not to invest in licences or assets in Australia's medicinal cannabis market.	
	(c) <i>Commercially focused business model</i>	
	Ecofibre aligns its assets and capabilities with its view of the most valuable and strategic parts of its value chain, to deliver quality margins.	
	(d) <i>Strategic relationships</i>	
	Ecofibre has built commercial relationships with strategic partners, particularly in the Hemp Black business through its work with TJU and specialist manufacturers.	
	(e) <i>Attractive market fundamentals</i>	
	Ecofibre operates in the growing hemp market, which presents attractive growth opportunities for Ecofibre's key business lines.	

### 1.4 Summary of Key Risks

What are Ecofibre's key risks?	<b>Specific Risks</b>	Section 5
	(a) <i>US Food and Drug Administration</i>	
	The FDA has published its view in a website "Q&A" and in advisory guidance that CBD products cannot be marketed as foods or dietary supplements in the United States. The Company's US lawyers consider that this position " <i>is unsettled and unsupported by law or regulations</i> " and " <i>is not a final determination</i> ". Should the FDA consider the Company's sale of hemp nutraceutical products impermissible, Ananda Health's business would be severely impacted and Ecofibre's financial viability could be at risk.	5.1.1
	For more information, please refer to Annexure A.	
	(b) <i>Early stage</i>	
	Ecofibre is at an early stage in the development of its business model in an industry that has recently undergone material regulatory changes and is evolving quickly. As a result, investing in Ecofibre is speculative and involves significant risk.	5.1.2



TOPIC	SUMMARY	MORE INFORMATION
(c) <i>Uncertainty of future profitability and revenue</i>	<p>On Completion of the Offer, Ecofibre will be operating 3 business lines, of which Ananda Health is the most mature. Ananda Food is less developed and Hemp Black has not yet been commercialised.</p> <p>The future profitability of Hemp Black and Ananda Food (and therefore, Ecofibre) will depend on Ecofibre successfully implementing its business plan in relation to the development of its Ananda Food and Hemp Black business lines. The future profitability of Ecofibre is contingent on many factors and may be impacted by adverse developments relating to the market for hemp products generally, or in relation to CBD, hemp food or hemp fibre products. As a result, anticipated development milestones or sales may not be achieved and even if achieved, may not result in Ecofibre being or remaining profitable.</p>	5.1.33
(d) <i>Obtaining and retaining licences and permits</i>	<p>Hemp growing and the production of hemp goods is highly regulated by governments at multiple levels. Ecofibre's business is dependent on retaining the appropriate permits issued by the relevant authorities for the cultivation, manufacture and sale of hemp in Australia and the United States.</p>	5.1.5
(e) <i>Risk created by recent legislative changes</i>	<p>Ecofibre operates in an industry that has recently experienced material regulatory and legislative changes. Given that this Federal legislation (and associated state-based legislation) is still in its relative infancy, there is a risk that the interpretation and implementation of the law may change or be subject to legal uncertainties. Additionally, given the varied and evolving regulation of hemp at a state level, there is a degree of uncertainty that could make legal compliance challenging.</p>	5.1.6
(f) <i>Risk of adverse future regulatory changes</i>	<p>There is a risk that a change in government or political disposition of governments to the hemp industry may result in a change in government policy and the relevant regulatory regimes under which Ecofibre operates, resulting in loss of markets or increased operating costs for Ecofibre.</p>	5.1.7
(g) <i>Product liability risk</i>	<p>Ecofibre's Ananda Hemp and Ananda Food businesses supply nutraceutical and food products and Ecofibre intends to supply products comprised of hemp fibre.</p> <p>As with all nutraceutical, food and textile products, there is a risk that the products sold by Ecofibre cause risk or injury to consumers. Should any of Ecofibre's products be associated with safety risks such as misuse or abuse, mislabeling, tampering or product contamination or spoilage, a number of materially adverse outcomes could occur.</p> <p>Ecofibre has previously provided broad indemnities for regulatory compliance of its products in the US. Claims under those indemnities, if made, may be material (although no claims have been made or threatened to date and the Directors are not aware of circumstances likely to give rise to such claims).</p>	5.1.8

TOPIC	SUMMARY	MORE INFORMATION
(h) <i>Workplace health and safety and workers' compensation risk</i>	<p>Ecofibre must comply with health and safety laws in Australia and the US. Despite Ecofibre's compliance measures, there remains a risk that penalties and other liabilities for the violation of health and safety laws and standards may be imposed on Ecofibre and may have an adverse effect on Ecofibre's reputation and its revenue, profitability and growth. Given legal uncertainty in the US hemp industry until passage of the 2018 Farm Bill, Ecofibre was unable to procure all required insurances covering death of or injury to its employees in certain US states. However, the company has taken now steps aimed at gaining cover for uninsured employees from state-run schemes.</p>	5.1.9
(i) <i>Agricultural risk</i>	<p>Ecofibre's businesses are based on agricultural production and supply. As such, the businesses are subject to the risks inherent in the agriculture industry. These risks include crop failures caused by insects, plant diseases, storm, fire, frost, flood, water salinity, pests, bird damage and force majeure events and in particular, irrigated land can be difficult to secure during times of low rainfall, especially in Australia.</p>	5.1.10
(j) <i>Currency risk and lack of hedging</i>	<p>Ecofibre is exposed to foreign currency risk, mainly through its foreign currency cash balances, receivables and payables denominated in foreign currencies and financial instruments held by overseas operations. Ecofibre's exposures are mainly against the US dollar (USD) and are managed through continuous monitoring of movements in exchange rates and by settling foreign currency purchases with proceeds from foreign currency income. Currently, Ecofibre does not have any currency hedging arrangements in place.</p>	5.1.11
(k) <i>Sector exposure</i>	<p>Ecofibre's business model is based on hemp food, fibre and CBD. As such, Ecofibre is materially exposed to any adverse conditions or events that may impact the hemp industry or parts thereof in which Ecofibre operates.</p>	5.1.12
(l) <i>Loss of key customers and distributors</i>	<p>The loss of any one or more of Ecofibre's material customer or distributor contracts may materially and adversely affect Ecofibre's revenue, profitability and growth, depending on the circumstances at the time.</p>	5.1.13
(m) <i>Increased competition risk</i>	<p>Ecofibre's chosen markets are subject to increasing domestic and international competition. The actions of Ecofibre's competitors may negatively affect the operating and financial performance of Ecofibre. For example, Ecofibre's competitive position may be adversely impacted by an existing or new competitor who attempts to aggressively grow its business.</p>	5.1.14
(n) <i>Uncontracted sales volumes risk</i>	<p>A material proportion of Ecofibre's revenue is derived from customer relationships that do not guarantee sales volumes. It is therefore not possible for Ecofibre to contractually guarantee consistency of sales volumes, price or terms going forward.</p>	5.1.15

TOPIC	SUMMARY	MORE INFORMATION
(o) <i>Seasonal grower contracts</i>	<p>Ecofibre's contract growers are separately contracted for each growing season. Although many growers are contracted for consecutive or multiple seasons, variations in commodity prices for different crops and other factors may cause growers to prefer raising alternate crops to hemp in the future. Failure to maintain, and where needed, increase numbers of hemp growers contracting with Ecofibre may have a material adverse effect on Ecofibre's performance and financial position.</p>	5.1.16
(p) <i>Commodity price risk</i>	<p>Ecofibre's performance is subject to local and international commodity prices for hemp supply. Prices of agricultural commodities fluctuate and are affected by a variety of regional and global factors that are beyond the control of the Company.</p>	5.1.17
(q) <i>Innovation risk</i>	<p>Failure by Ecofibre to develop new technologies and products, or to anticipate or react to changes in existing technologies, either within or outside of its industry, could result in a reduction in net sales and a loss of market share, with materially adverse impacts on the Company.</p>	5.1.18
(r) <i>Cost overruns</i>	<p>Management estimates the production costs in manufacturing any new product, including capital costs for acquiring equipment where production is in-sourced. Despite management's efforts, as with all forecasts and estimates, internal forecasts and estimates are based on assumptions that may prove inaccurate. If the level of capital or other expenditure required is higher than expected or if realised margins are lower than expected, Ecofibre's financial performance may be adversely affected.</p>	5.1.19
(s) <i>R&amp;D Claims</i>	<p>Ecofibre has historically received substantial R&amp;D refunds. The Company cannot guarantee that the Australian Taxation Office (ATO) or another governmental authority may not in the future take a different view on some or all of those claims, in which case the Company may be compelled to refund amounts received to the ATO.</p> <p>The Australian government has recently announced significant changes to the R&amp;D incentive programme. The Company has yet to assess the full impact of these changes, but there is a significant uncertainty as to the quantum of future R&amp;D rebates.</p>	5.1.20
(t) <i>Corporate and business taxation</i>	<p>Ecofibre is currently subject to a range of taxation obligations, potentially including income taxes, payroll taxes, superannuation and pension obligations, property taxes and other taxes and levies.</p> <p>An interpretation of taxation laws by the relevant tax authority that is contrary to Ecofibre's view of those laws may increase the amount of tax to be paid or cause changes in the carrying value of tax liabilities and assets in Ecofibre's financial statements.</p>	5.1.21

TOPIC	SUMMARY	MORE INFORMATION
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- (u) *Reputation and trade marks* 5.1.22

Ecofibre cannot ensure that there will not be any unauthorised use or misuse of its brands. Any infringement may be detrimental to its reputation and may lead to costly and time consuming litigation or adversely affect Ecofibre's financial performance.

- (v) *Intellectual property* 5.1.23

To the extent that Ecofibre relies upon its own or exclusively licensed intellectual property to conduct its business, it will need to protect that intellectual property and related rights. However, there may be circumstances where Ecofibre's intellectual property and related rights cannot be protected or is subject to unauthorised disclosure, infringement or challenge by a third party. Any loss of key intellectual property or related contractual rights of Ecofibre may materially adversely affect Ecofibre's reputation, revenue and profitability.

In particular, Ecofibre's Hemp Black business is dependent on a licence of TJU's intellectual property. While Ecofibre has no reason to doubt the validity and term of its licence with TJU (see Section 9.1.3), should that licence nonetheless be validly terminated earlier by TJU or otherwise be found to be invalid or unenforceable, Ecofibre will be unable to continue its Hemp Black business, which may materially adversely affect Ecofibre's growth prospects. TJU may terminate the licence before the end of its term if Ecofibre fails to remedy a material breach of the licence.

- (w) *Insurance* 5.1.26

Ecofibre cannot reasonably insure against all risks, either because appropriate or necessary cover is not available or because the Directors consider the required premiums to be excessive having regard to the benefits that would accrue.

- (x) *Counterparty and credit risk*

Financial failure, default or contractual non-performance by third parties with whom Ecofibre deals, including late payment of amounts owing to the Company, may have a material impact on Ecofibre's operations and performance.

- (y) *Other risks*

Ecofibre faces numerous other risks, including:

- (i) additional capital requirements in future;
- (ii) uncertainties associated with supply inputs;
- (iii) operational risks;
- (iv) environmental risk;
- (v) potential variability in dividend payments;
- (vi) dependence on key personnel;
- (vii) trade policy changes; and
- (viii) litigation risks.

**General Risks** Section 5.2

- (a) *Securities investments and share market conditions*

There are risks associated with any securities investment. The prices at which Ecofibre's securities trade in future may fluctuate in response to a number of factors.

Our value proposition to customers is built on strong brands and quality products.

”

A GREAT COMPANY HAS ACCOUNTABLE INDIVIDUALS.

YOU SHOULD WANT TO BE THE MOST RESPONSIBLE PERSON IN A TEAM. THERE'S A SIMPLE RULE: IF YOUR FIT DOESN'T FEEL RIGHT, IT ISN'T. WE DON'T NEED TO DEFINE RIGHT AND WRONG WITH A LONG SET OF RULES - EVERYONE WE HIRE KNOWS RIGHT FROM WRONG.

CUR FAMILY & COMMUNITY

WHEN YOU LOVE WHAT YOU DO, IT WON'T FEEL LIKE YOU ARE WORKING.

THIS IS SOMETHING EACH OF US SHOULD STRIVE FOR. IF YOU DON'T LOVE WHAT YOU ARE DOING FOR OUR CUSTOMERS, OUR COMPANY AND YOURSELF, YOU ARE IN THE WRONG JOB.

ECO FIBRE

TOPIC	SUMMARY	MORE INFORMATION
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(b) *Other general risks*

Ecofibre is exposed to numerous other general risks, including:

- (i) securityholders may be diluted;
- (ii) accounting policy changes;
- (iii) economic risk;
- (iv) trading in Shares may not be liquid; and
- (v) taxation changes for Shareholders.

## 1.5 Summary of Key Financial Information

**Summary Consolidated Statement of Profit or Loss and Other Comprehensive Income**

AUD '000	FY2017 Actual	FY2018 Actual	HY2019 Actual	HY2019 Pro forma (Min. subs.)	HY2019 Pro forma (Max. subs.)
Revenue	575	5,749	13,324	13,324	13,324
Gross profit	(2,658)	1,966	8,663	8,663	8,663
Net loss*	(8,660)	(8,699)	(191)	(1,054)	(1,054)

Section 4.3.1

\* Total comprehensive income attributable to members of the Company

**Summary Consolidated Statement of Financial Position**

AUD '000	FY2017 Actual	FY2018 Actual	HY2019 Actual	HY2019 Pro forma (Min. subs.)	HY2019 Pro forma (Max. subs.)
Total Assets	6,077	11,268	20,842	34,717	39,717
Total Liabilities	6,864	9,708	10,181	10,181	10,181
Net Assets & Total equity	(787)	1,560	10,661	24,536	29,536

Section 4.3.2

**What is Ecofibre's dividend policy?**

Ecofibre does not expect to pay dividends in the near future as its focus will primarily be on using cash reserves to seek to develop its business.

## 1.6 Directors and Management

**Who are the Directors?**

- (a) *Barry Lambert*, Non-executive Chairman
- (b) *Eric Wang*, Managing Director and CEO
- (c) *Jon Meadmore*, Non-executive Director

Section 6.1

**Who are the Senior Management of Ecofibre?**

- Ecofibre Corporate*
- (a) *Jonathan Brown* - CFO and Company Secretary
  - (b) *Alexandra Capano* – Chief Science Officer
  - (c) *Alastair Bor* – Chief Technology Officer
  - (d) *Adam Cantwell* – Global Operations Manager
- Ananda Health*
- (a) *Chuck Schneider* – Chief Revenue Officer
  - (b) *John Ryan* – Chief Operating Officer
  - (c) *Brian Furnish* – Director of Global Production
- Ananda Food*
- (a) *Kieren Brown* – Managing Director

Section 6.1

TOPIC	SUMMARY	MORE INFORMATION
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*Hemp Black*  
(a) *Mark Sunderland* – Chief Innovation Officer

**What are the Directors' interests in Ecofibre?**

As at the date of this Prospectus, the number of Shares and other securities held by the Directors (and their related entities) and their remuneration entitlements are set out below:

Sections 6.3, 6.4.2, 7.6 and 7.7

Name	Shares	Other Securities	Annual Remuneration
Barry Lambert and related entities	65,800,440	12,205,519*	\$100,000 incl. statutory superannuation
Jon Meadmore and related entities	498,000	Nil	\$90,000 fees
Eric Wang and related entities	13,301,253	7,200,000**	\$280,000 plus statutory superannuation

\* These securities relate to a Convertible Note that will be partly converted into 7,057,296 Shares at Completion of the Offer. Refer to Section 9.1.1(e) for further details of this note and its conversion into Shares. The note can be converted into a maximum of 12,205,519 Shares, representing between 4.01% (Minimum Subscription) and 3.95% (Maximum Subscription) of Shares on issue at Completion of the Offer. Of those Shares, 7,057,296 Shares will be issued from part conversion of the note at Completion of the Offer, representing between 2.32% (Minimum Subscription) and 2.28% (Maximum Subscription) of Shares on issue at Completion of the Offer. The remaining 5,148,223 Shares to be issued under the note are expected to be issued in September 2019.

\*\* These securities relate to Shares held by the ESS Trustee pursuant to the ESS Plan and subject to vesting conditions and performance hurdles. Refer to 6.4.2 for further details.

## 1.7 Directors and Management

**Who are the Existing Shareholders and what will their interests be at Completion of the Offer?**

Name	Shares held prior to the Offer	Shares held prior to the Offer (%)	Shares held at completion of the Offer	Shares held at completion of the Offer (%)
Barry Lambert & related entities*	65,800,440	23%	72,857,736	24%
Warneroo Pty Ltd and related entities	56,151,702	20%	56,151,702	18%
Freshwater Superannuation Fund Pty Ltd & related entities	30,291,114	11%	30,291,114	10%
Other Existing Shareholders	130,048,599	46%	130,048,599	41%
New Shareholders	-	0%	20,000,000	7%
Total shares upon Completion of the Offer	282,291,855	100%	309,349,151	100%

Section 7.7

Notes:

This table is based on the Maximum Subscription of \$20 million. The Minimum Subscription is \$15 million.

\*Barry Lambert's relevant interest in Shares will increase at Completion of the Offer by 7,057,296 Shares (to a total 72,857,736) as a result of part-conversion of a Convertible Note. In this regard, refer to Section 9.1.1(e).

TOPIC	SUMMARY	MORE INFORMATION
What related party arrangements exist?	<p>Related party arrangements include:</p> <ul style="list-style-type: none"> <li>(a) A <i>Convertible Note</i> issued to the Lambert Superannuation Fund (a related party through Barry Lambert) (see Section 9.1.1(e)). The note can be converted into a maximum of 12,205,519 Shares at a conversion price of \$0.257 per Share, representing in aggregate between 4.01% (Minimum Subscription) and 3.95% (Maximum Subscription) of Shares on issue at Completion of the Offer. 7,057,296 Shares will be issued resulting from part conversion of the note at Completion of the Offer, representing between 2.32% (Minimum Subscription) and 2.28% (Maximum Subscription) of Shares on issue at Completion of the Offer. The remaining 5,148,223 Shares issuable under the note are expected to be issued in September 2019 at \$0.257 per Share;</li> <li>(b) a <i>line of credit and loan agreement</i> with Barry Lambert, a Director (see Section 9.1.1(f));</li> <li>(c) <i>Executive Services Agreements or letters of appointment</i> for Directors (see Section 9.1.1);</li> <li>(d) <i>Deeds of Indemnity, Insurance and Access</i> with each Director (see Section 9.1.1); and</li> <li>(e) <i>grants of interests in Shares</i> under the Company's ESS to Eric Wang, a Director (see Section 9.1.1(b)).</li> </ul> <p>Potential investors are strongly encouraged to read Section 6.2.5 and Sections 6.3-6.8 and Sections 9.1.1 in full for further information in respect of Ecofibre's related party arrangements.</p>	Section 6.2.5 and Sections 6.3-6.8, 9.1.1(b), 9.1.1(e) and 9.1.1(f)

## 1.8 Key terms and conditions of the Offer and proposed use of funds

Who is the issuer of this Prospectus?	Ecofibre Limited (ACN 140 245 263)	Section 3
What is the Offer?	<p>The Offer is an initial public offering of between 15,000,000 and 20,000,000 Shares at the Offer Price of \$1.00 per Share to raise between \$15,000,000 and \$20,000,000 before costs of the Offer.</p> <p>The Shares being offered to new Shareholders under the Offer will represent between 5% (Minimum Subscription) and 6% (Maximum Subscription) of Shares on issue at Completion of the Offer.</p> <p>The free float is estimated to be at least 35% of the Shares on issue on Completion of the Offer.</p>	Section 7.1
What is the Minimum Subscription?	<p>The Minimum Subscription is 15,000,000 Shares at \$1 per Share to raise \$15,000,000 before costs of the Offer.</p> <p>If the Minimum Subscription is not reached within three months after the date of the Original Prospectus (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received by Ecofibre will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.</p>	Section 7.1.2



TOPIC	SUMMARY	MORE INFORMATION																																												
What is the Maximum Subscription?	The Maximum Subscription is 20,000,000 Shares at \$1 per Share to raise \$20,000,000 before costs of the Offer.	Section 7.1.3																																												
What are the terms of the Shares offered under the Offer?	Offer Shares will rank equally with other Shares on issue.	Section 9.2																																												
What is the proposed use of funds raised under the Offer?	<p>The funds received under the Offer are proposed to be used as follows:</p> <table border="1"> <thead> <tr> <th rowspan="2">Use of funds raised under the Offer</th> <th colspan="2">Minimum Subscription</th> <th colspan="2">Maximum Subscription</th> </tr> <tr> <th>\$</th> <th>%</th> <th>\$</th> <th>%</th> </tr> </thead> <tbody> <tr> <td colspan="5">Accelerate the establishment and commercialisation of Hemp Black:</td> </tr> <tr> <td>• product development, sales and marketing, customer samples and other commercialisation expenses;</td> <td>2,083,000</td> <td>14%</td> <td>2,083,000</td> <td>10%</td> </tr> <tr> <td>• Fund the design, construction and commissioning of new premises in Georgetown, Kentucky</td> <td>7,792,000</td> <td>52%</td> <td>7,792,000</td> <td>39%</td> </tr> <tr> <td>Provide additional working capital to accelerate the growth of Ananda Food*</td> <td>4,000,000</td> <td>27%</td> <td>4,000,000</td> <td>20%</td> </tr> <tr> <td>Provide additional general working capital**</td> <td>-</td> <td>-</td> <td>5,000,000</td> <td>25%</td> </tr> <tr> <td>Costs of the Offer</td> <td>1,125,000</td> <td>7%</td> <td>1,125,000</td> <td>6%</td> </tr> <tr> <td><b>Total funds allocated</b></td> <td><b>15,000,000</b></td> <td><b>100%</b></td> <td><b>20,000,000</b></td> <td><b>100%</b></td> </tr> </tbody> </table> <p>* To be applied mainly in Tasmania and New South Wales to increase the area and volume of seed crops grown for Ananda Food, principally to fund the timing difference between payment of growers for annual crops and the collection of funds from the sale of resulting products in the 12 months subsequent to harvesting.</p> <p>** May be applied to a further increase in the cropping area for Ananda Food if justified by higher market demand and to investigating export markets for Ananda Food and if necessary and appropriate, any increase in the costs of production, sales and marketing or administration for Ananda Health, to the extent that the increased costs are not covered by increased cash flow from operations.</p>	Use of funds raised under the Offer	Minimum Subscription		Maximum Subscription		\$	%	\$	%	Accelerate the establishment and commercialisation of Hemp Black:					• product development, sales and marketing, customer samples and other commercialisation expenses;	2,083,000	14%	2,083,000	10%	• Fund the design, construction and commissioning of new premises in Georgetown, Kentucky	7,792,000	52%	7,792,000	39%	Provide additional working capital to accelerate the growth of Ananda Food*	4,000,000	27%	4,000,000	20%	Provide additional general working capital**	-	-	5,000,000	25%	Costs of the Offer	1,125,000	7%	1,125,000	6%	<b>Total funds allocated</b>	<b>15,000,000</b>	<b>100%</b>	<b>20,000,000</b>	<b>100%</b>	Sections 7.3
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Will the Shares be quoted on the ASX?	<p>Ecofibre will apply to the ASX for admission to the Official List and quotation of Shares on the ASX (which is expected to be under the code EOF). It is expected that quotation will be on a normal settlement basis.</p> <p>If permission is not granted for official quotation of the Shares on ASX within three months after the date of the Original Prospectus (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received by Ecofibre will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.</p>	Section 7.11																																												

TOPIC	SUMMARY	MORE INFORMATION
What is the minimum Application amount under the Offer?	The minimum Application size under the Offer is \$2,000 of Shares in aggregate.	Section 7.9.2
Is the Offer underwritten?	No, the Offer is not underwritten.	Section 7.2
What is the allocation policy?	<p>Directors will allocate Shares under the Offer at their sole discretion with a view to ensuring an appropriate Shareholder base for the Company going forward (subject to any regulatory requirements).</p> <p>There is no assurance that any Applicant will be allocated any Shares, or the number of Shares for which it has applied. The Company reserves the right to reject any Application or to issue a lesser number of Shares than those applied for. Where the number of Shares issued is less than the number applied for, surplus Application Monies will be refunded (without interest) as soon as reasonably practicable after the Closing Date.</p> <p>It is the responsibility of Applicants to determine their allocation prior to trading in Offer Shares. Applicants who sell Offer Shares before they receive their holding statements do so at their own risk.</p>	Section 7.13
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or duty is payable by Applicants on the acquisition of Shares under the Offer.	Section 7.9.1
What are the tax implications of making an investment?	<p>A summary of certain Australian tax consequences of participating in the Offer and investing in Shares are set out in Section 9.12.</p> <p>The tax consequences of any investment in Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest.</p>	Section 9.12
How can I apply?	Application Forms must be completed and payment made in accordance with instructions in the Application Form.	Section 7.9
When will I know my Application has been successful?	It is expected that initial holding statements will be dispatched to successful Applicants by standard post on or around 25 March 2019.	
Can the Offer be withdrawn?	<p>The Company may withdraw the Offer at any time before the allocation and issue of Shares to successful Applicants under the Offer.</p> <p>If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest).</p>	Section 7.8

TOPIC	SUMMARY	MORE INFORMATION
<p>Are there any escrow arrangements?</p>	<p>It is expected that certain Shares held by Existing Shareholders will be classified by ASX as restricted securities and be subject to escrow restrictions for up to 24 months from the date quotation of the Company's Shares commences. For all Shares classified by ASX as restricted securities, the Company will enter into Restriction Agreements with the holders of the restricted securities, in accordance with Chapter 9 of the ASX Listing Rules.</p> <p>Prior to the Shares commencing trading on the ASX, the Company will announce to the ASX full details of the Shares that have been classified as restricted securities, including the number of escrowed Shares and the relevant periods of the escrow restrictions.</p>	<p>Section 7.16</p>
<p>Where can I find out more information about this Prospectus or the Offer?</p>	<p>If you have any queries in relation to the Offer, please contact the Ecofibre Limited Offer Information Line on 1800 828 558 (from within Australia) or +61 1800 828 558 (from outside Australia).</p>	<p>Section 7.19</p>

# 2

## INDUSTRY OVERVIEW

## 2.1 What is hemp?

In this Prospectus, *hemp* or *industrial hemp* refers to the plant *Cannabis sativa L.*, of which there are many different varieties, landraces and breeding lines. *Cannabis sativa L.* is a multi-purpose plant that has been domesticated and utilised for bast (phloem) fibre in the stem, a multi-purpose fixed oil in the “seeds” and a resin secreted by epidermal glands.

## 2.2 What is the difference between hemp and marijuana?

Both *hemp* and *marijuana* come from the genus *Cannabis sativa L.*, but are genetically distinct and are further distinguished by use and chemical makeup.

*Marijuana* is used to describe a *Cannabis* plant that is bred for its potent, resinous glands (known as trichomes). These trichomes contain high amounts of cannabinoids, including THC, known for its psychoactive properties.

*Hemp*, on the other hand is used to describe a *Cannabis sativa L.* plant that contains only trace amounts of THC (see below), usually less than 0.3%.

*Marijuana* and hemp are therefore classified by the levels of naturally occurring THC that they contain. *Hemp* is low in THC and *marijuana* has intoxicating amounts of THC.

## 2.3 Key Terms

### *Cannabinoids*

*Cannabis* contains a seemingly unique class of chemicals, the cannabinoids (phytocannabinoids), of which more than 120 have been reported in *Cannabis sativa* plants, but only a few are psychoactive.

### *CBD*

Cannabidiol (CBD) is one of the two most common cannabinoids found in the plant and is non-psychoactive. CBD is believed to interact with the body through the endocannabinoid system (ECS), which regulates the body’s homeostasis, or general state of balance. The ECS is made up of millions of cannabinoid receptor sites located primarily throughout the brain, central nervous system and immune system, that act in neural communication.

There are claims that CBD may positively influence such functions as mood, sleep, appetite, hormone regulation and immune response.

### *Hemp seed oil*

Hemp seed oil is obtained by pressing the seeds of the hemp plant. When cold pressed, the hemp seed oil appears greenish in colour with a nutty flavour if ingested. Unlike other methods to extract oil, cold-pressed hemp seed oil retains its flavour, aroma and nutritional value.

### *Hemp derived CBD oil*

Hemp derived CBD oil is derived from the flowers and leaves of the hemp plant. It is a natural botanical extract that is high in cannabidiol (CBD), a non-psychoactive compound of cannabis resin extract.

### *Nutraceutical*

Nutraceuticals generally refers to foods or products produced from foods that are believed to offer healthcare benefits in addition to their nutritional value.

### *THC*

Delta-9-tetrahydrocannabinol ( $\Delta^9$ -THC, or simply THC) is the other of the two most common cannabinoids. It has a predominant psychoactive effect and occurs in higher levels in some varieties of *Cannabis indica* plants, typically described as *marijuana*.

## 2.4 History of hemp

Hemp is believed to have originated in Central Asia and the Himalayan foothills and spread out from this region. China has farmed and cultivated hemp for its strong fibre since at least 8000 BC.

During the early to mid-twentieth century, hemp cultivation in the developed world, having reached substantial proportions during the nineteenth century, largely ceased as a result of concerns about illicit use of THC as a psychoactive drug.

However, in more recent times, following earlier successful cultivation of hemp in Europe, an understanding has developed that low THC hemp can be successfully bred and grown for a number of commercial purposes. This has resulted in the re-emergence of a hemp industry in Europe and Canada and the recent amendments to US and Australian legislation to legalise the hemp industry, set out in Annexures A and B.

### 2.4.1 Ecological Friendliness of Hemp

It is considered that hemp, as a crop, offers significant environmental and sustainability advantages over many other crops.

*Cannabis sativa L.* is claimed to be materially less "ecotoxic" in comparison to many other crops. It is known to be relatively resistant to pests and use of pesticides and fungicides on hemp is often limited. Due to its fast growing nature, hemp crops require relatively less herbicide applications compared with other crops.

Hemp is therefore pre-adapted to organic agriculture and is accordingly well suited to the growing market for products associated with environmentally-friendly, sustainable production.

## 2.5 Uses of hemp

There are four usable parts of the hemp plant: the inner fibres (hurd), the outer fibres (bast), the seeds and the female flower. Different varieties are selected for growing, depending on the part to be used.

Hemp has actual or potential applications in a large number of products. Traditionally, hemp has been used in items such as textiles, paper, rope, fuel, oil and stockfeed. More recent applications for hemp fibre also include:

- (a) food products;
- (b) personal care (lotions, salves, cosmetics);
- (c) nutritional supplements;
- (d) medicines (registered and unregistered);
- (e) textiles;
- (f) bioplastics;
- (g) building materials;
- (h) industrial applications, such as car parts; and
- (i) other consumer products, such as paper.



## 2.5.1 Hemp seeds and extracts as a dietary supplement

Food products made from hemp seeds are usually consumed as dehulled seeds, hemp seed oil (distinct from hemp derived CBD oil - see Section 2.5.2), protein powder or flour.

Hemp seeds are believed to be a good source of essential nutrients such as protein, fatty acids, fibre, vitamins and minerals, without an excess of calories, starches and sugars. As such, they are sold as a dietary supplement.

### *Essential fatty acids*

Hemp seeds are believed to be an excellent source of essential fatty acids, typically comprising 35% of the seeds. More specifically, hemp seeds typically contain:

- (a) high amounts of polyunsaturated fatty acids, mainly oleic acid, linoleic acid (omega-6), alpha-linolenic acid (omega-3) and gamma-linolenic acid (GLA). Hemp is currently the only natural food source of GLA, i.e. not requiring the consumption of extracted dietary supplements;
- (b) Vitamin E and minerals, such as phosphorus, potassium, sodium, magnesium, sulphur, calcium, iron and zinc; and
- (c) significant amounts of soluble and insoluble fibre.

One tablespoon of hemp oil, derived from hemp seeds, typically contains 14 grams of fat, of which only 1 gram is saturated. This low saturated fat content is a primary benefit of using hemp oil in place of animal fats such as lard and butter.

### *Non-animal protein*

Hemp seeds are believed to represent a good source of amino acids, typically containing 25%–30% protein that is easily digestible. They contain all 20 amino acids, including the 8 essential amino acids. Hemp is therefore well suited to use in the growing non-animal protein market.

### *Dietary fibre*

Hemp seeds typically contain 27% carbohydrates, primarily as fibre and as such, serve as a good source of dietary fibre believed to promote healthy digestion.

## 2.5.2 Hemp derived CBD oil as a nutraceutical

*Hemp derived CBD oil* (as distinct from low-CBD *hemp seed oil* used in dietary supplements - see Section 2.5.1), extracted from hemp flowers and having high concentrations of CBD, is reportedly used for treatment of anxiety and stress, among other things. It is also reportedly useful as an anti-convulsant, an anti-aging remedy and as an anti-inflammatory. It has also reportedly been used to alleviate symptoms of cancer, such as nausea and insomnia.

Current regulations generally restrict claims concerning nutritional or health benefits of CBD extracts and other cannabinoids and the reported uses described above have largely not yet been subjected to clinical trials.

Hemp derived CBD oil is often consumed directly using tinctures, gel caps or sprays. It is also used in personal care products and in other edibles for humans and pets.

### (a) Personal care

*Hemp derived CBD oil* is now marketed throughout the world in a range of body care products in the form of hemp CBD-infused lotions, balms and oils, moisturisers and lip balms.

Topical applications have appeal in the area of sports medicine, given their potential anti-inflammatory properties.

Skin care and beauty product applications of hemp CBD include face masks, eye serums and CBD-infused mascara, which are usually applied topically.



### (b) CBD Edibles

Edible hemp CBD is used in lozenges, gummies, candies, chocolates, baked goods and drinks.

### (c) Pet CBD

There is growing interest in the qualities CBD potentially offers for pets, especially with regard to joint pain, anxiety and seizure relief. Products in this segment include tinctures, treats, capsules, topicals and sprays.

## 2.5.3 Use of hemp as fibre

Hemp fibre is believed to have potential to compete with other biological fibres in many applications. Hemp fibres are considered strong, durable, biodegradable, light weight and particularly resistant to decay, which in the past, made hemp popular for rope, nets, sail-cloth, and oakum for caulking.

The textile industry is one of the largest consumers in the hemp market, using it in the manufacture of apparel, fabrics, denim and textiles. In recent times, technological advancements in processing have resulted in the manufacture of more refined hemp fibre for use in higher end textile applications.

Hemp fibre is also used in manufacturing products such as twine, rope, nets, canvas bags, tarps, carpets and geotextiles and has applications in the automotive, furniture, paper and construction industries.

## 2.6 The market for hemp as a dietary supplement

### 2.6.1 Market size

The global market for hemp derived foods and beverages is estimated to grow from USD 685 million in 2018 to USD 1.88 billion in 2025, with a compound annual growth rate (CAGR) of 15.1%<sup>1</sup>.

The Australian plant protein market, of which hemp protein forms a part, was valued at USD 231 million in 2018 and is expected to reach USD 349 million by 2024, at an estimated CAGR of 7.1% over the period<sup>2</sup>.



## 2.6.2 Growth drivers in Australia and Asia

Growth in demand for hemp food products is expected to be driven by the following factors:

### (a) FSANZ Act

On 12 November 2017, hemp seeds and seed products became lawful for use and sale in food in Australia. This has opened the door to development and growth of hemp seed foods and dietary supplements in Australia.

### (b) Consumer demand

There is rising consumer awareness of the benefits of hemp as a super food, including those set out in Section 2.5.1. In addition, the rise in awareness about the negative effects of excessive meat consumption is compelling many to consider plant-based diets and plant-based protein products.

### (a) Environment and sustainability

Hemp's credentials as a sustainable crop are increasing its popularity with many consumers who are seeking more environmentally friendly, sustainable and ethical products.

## 2.7 The market for hemp derived CBD products

### 2.7.1 Market size

The US market for hemp derived CBD products is estimated to grow from USD 591 million in 2018 to in excess of USD 22 billion by 2022<sup>3</sup>.

### 2.7.2 Growth drivers

Although hemp derived CBD products are sought-after for their reputed therapeutic benefits rather than nutritional value, the hemp CBD market nonetheless shares common growth drivers with hemp dietary supplements discussed in Section 2.6. Its growth is also likely to be driven by the factors set out below:

#### 2018 Farm Bill

On 20 December 2018, the President of the United States signed a bill removing hemp and products like hemp derived CBD from the list of substances controlled under the federal *Controlled Substances Act* and providing for other measures relating to hemp. The United States Drug Enforcement Administration (US DEA) no longer has any claim to interfere with hemp or hemp derived products with a THC concentration of 0.3% or less in interstate commerce.



### *Consumer demand*

There is rising consumer awareness in the US of the benefits associated with hemp derived CBD, including those set out in Section 2.5.2. This is expected to fuel growth as the reputed benefits of CBD become better understood and known to a growing proportion of the population.

### *Increased research and development (R&D) and range of products*

The passage of the 2018 Farm Bill and consumer demand are expected to drive increased R&D efforts to better understand and identify the benefits of CBD and other non-psychoactive cannabinoids, potentially leading to a significant increase in the range of products available and their use as nutraceuticals in health and wellness applications.

### *Expansion of retail channels*

Increased availability of hemp CBD products through natural food stores and other popular retail channels, beyond traditional dispensaries and smoke shops, is fueling growth.

It is anticipated that hemp derived CBD will transition from a grassroots movement largely driven by word-of-mouth marketing into a full-fledged competitor in the nutraceutical market, driving an estimated 132% CAGR between 2017 and 2022 and further growth in the future.

## 2.7.3 Competitive landscape

The hemp derived CBD market in the US continues to be fragmented, with hundreds of brands present. Despite this, the market is showing signs of consolidation. Key competitors of Ananda Health in the US include CW Hemp, CV Sciences Inc., Bluebird Botanicals and Elixinol.

## 2.8 Market for hemp fibre

### 2.8.1 Size of market

The global hemp fibre market is expected to grow from USD 1.7 billion in 2018 to USD 4.4 billion in 2025, with a CAGR of 13.9%<sup>4</sup>.

Global use of hemp as a component in textiles is expected to grow from \$954.7 million in 2018 to USD 2.84 billion in 2025, with a CAGR of 16.4%<sup>5</sup>.

### 2.8.2 Growth drivers

Factors driving the growth of this industry include passage of the 2018 Farm Bill in the US, hemp's environmental and sustainability credentials and increasing awareness of the advantages inherent in hemp fibre, as well as R&D driven innovation.

## 2.9 Legal position of hemp in Australia

Hemp is strictly regulated in Australia. However, subject to compliance with state and territory licensing and Federal requirements, including prescribed maximum THC levels and good character requirements, the Australian regulatory landscape permits the cultivation and supply of hemp seed and hemp-based food products. Key laws affecting the industry are summarised below and represent a barrier to entry for new market entrants. For more detail, refer to Annexure B.

### 2.9.1 Commonwealth

Under Commonwealth law, Hemp is a controlled plant, a controlled drug and a border-controlled drug/plant and therefore unless permitted by another law, cultivating, selling, manufacturing, trafficking, possessing or importing hemp is unlawful.

However, on 3 May 2017, the Board of FSANZ (Food Standards Australia and New Zealand) made a variation to the ANZFSC (Food Standards Code) permitting hemp seeds to be used as a food for sale or used as an ingredient in a food for low THC hemp.

A licence is required to import or export any cannabis product into or out of Australia, regardless of the THC levels.

## 2.9.2 New South Wales

The *Hemp Industry Act 2008* (NSW) (**HI Act**) and the *Hemp Industry Regulation 2016* (NSW) (**HI Regulation**) allow farmers to obtain licences to grow low-THC hemp crops for fibre, seed and oil production and for the grant of licences for cultivation and supply of low-THC hemp for any one or more of the following purposes (among others):

- (a) for commercial production; and
- (b) for use in any manufacturing process.

## 2.9.3 Queensland

Commercial production of hemp is regulated by the *Drugs Misuse Act 1986* (Qld) (**DM Act**) and the *Drugs Misuse Regulation 1987* (Qld) (**DM Regulation**), under which a licence may be obtained for growing hemp. Hemp plants must be grown from seed certified to produce plants with no more than 0.5% THC concentration.

## 2.9.4 Tasmania

The *Industrial Hemp Act 2015* (Tas) (**IH Act**) and the *Industrial Hemp Regulations 2016* (Tas) (**IH Regulations**) regulate the hemp industry in Tasmania and permit the issue of licences in Tasmania for one or more of possession, cultivation or supply of hemp for commercial production, use in any manufacturing process, food production or scientific research.

## 2.10 Legal position of hemp in the United States

On 20 December 2018, the 2018 Farm Bill was signed into law and became effective immediately. The 2018 Farm Bill removes hemp from scheduled control under the federal *Controlled Substances Act*. As a result, hemp is deemed to be an agricultural commodity.

Hemp is federally redefined as, "the plant *Cannabis sativa L.* and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 THC concentration of not more than 0.3 percent on a dry weight basis".

As a result, hemp products, such as hemp-derived CBD, are also removed from scheduled control under the *Controlled Substances Act*.

The 2018 Farm Bill explicitly protects interstate commerce involving hemp and hemp derived products and prohibits states from interfering with the interstate transportation or shipment of hemp and hemp-derived products. Any effort by state law enforcement or regulatory officials to enforce against hemp or hemp-derived products in interstate commerce would contravene federal law.

## 2.11 Endnotes

Sources for this overview included:

Note	Source
1	Grand View Research Inc., 2019, <i>Industrial Hemp Market, Market Analysis, 2019</i>
2	Mordor Intelligence, 2019, <i>Global Plant Protein Market Segmented by Product, Form, Application, and Geography - Analysis of Growth, Trends, and Forecast (2019-2014)</i>
3	Brightfield Group, 2018, <i>Hemp-Derived CBD 2018 Market Overview &amp; Analysis, Industry Report</i>
4	Grand View Research Inc., 2019, <i>Industrial Hemp Market, Market Analysis, 2019</i>
5	Grand View Research Inc., 2019, <i>Industrial Hemp Market, Market Analysis, 2019</i>

# 3

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## ECOFIBRE OVERVIEW

## 3.1 History of Ecofibre

Ecofibre was established by Phil Warner in 2009 as Ecofibre Industries Operations Pty Ltd. It acquired the business and assets of another company operating as an early stage participant in the hemp industry.

Ecofibre focused on plant breeding, research and the development of hemp processing techniques, primarily in Australia, where the regulatory framework permitted this work.

The Company commenced research operations in the United States in July 2015, planting several acres of trial crops after the passage of the 2014 Farm Bill which contained provisions permitting hemp pilot programs, subject to state regulations.

Ecofibre closed its Hunter Valley hemp research farm in early 2017 when its focus shifted to commercial operations and it began the implementation of its current business model.

In early 2018, Ecofibre became a public company.

## 3.2 Ecofibre's vision and business model

Ecofibre's vision is to become the global leader in hemp technologies by providing innovative solutions that address emerging health and resource issues.

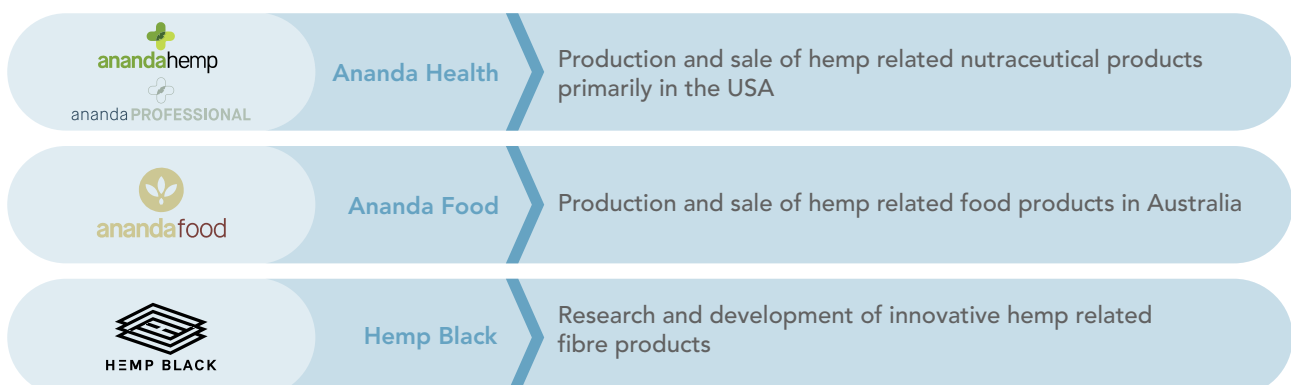
Ecofibre's business model is focused on owning or controlling selected parts of the hemp value chain, in targeted geographies. Key elements of Ecofibre's strategy are:

- (a) strategic focus - growing the Company's three business lines in nutraceutical products, food products and hemp fibre applications;
- (b) attractive markets - operating and supplying products in only what Ecofibre considers to be the most attractive markets, from a regulatory and commercial perspective;
- (c) product quality - producing the highest quality, safe hemp-derived products;
- (d) scale and efficiency - optimising production and distribution efficiencies and building scale in selected parts of the value chain;
- (e) relationships – building strategic relationships with key customers, suppliers and regulators; and
- (f) genetics – continuing to improve the Company's commercial efficiency by using its genetic resources and agronomic practices.

## 3.3 Overview of Ecofibre's business

### 3.3.1 Key business lines

Ecofibre is focused on owning and managing the most attractive and sustainable parts of the value chain across its three business lines, which are:



Ecofibre has staged the commercialisation of these businesses in order to focus resources and manage implementation risks.

Ecofibre's Ananda Health nutraceutical business is the most mature, launching its first branded products in the US in January 2017. The business is operating at an economic scale, sales are growing and the key infrastructure necessary to manage and grow the business is in place. This business is profitable and the Directors intend that it will self-fund any additional capital requirements.

Ecofibre's Ananda Food business officially launched post-legalisation of hemp as a food in Australia in November 2017. Ananda Food's products have been available to the public in Australia since January 2018. The Ananda Food brand was launched in October 2018, and sales and marketing activities are now accelerating. This business has completed the insourcing of all production and manufacturing at its own facility. Working capital will be required to accelerate the growth of this business.

Ecofibre's Hemp Black consumer and industrial solution business is entering the commercialisation phase. R&D started in mid-2017 and a large portion of this phase culminated with the filing of six provisional patent applications in 2018 by TJU (see Sections 3.5 and 9.1.3). The business has developed the supply chain required to support the commercialisation of the IP created. Ecofibre has commissioned the equipment to produce the specified feedstock for the first range of products. The Company will build a facility in Georgetown, Kentucky to base commercial operations and market its Hemp Black capability.

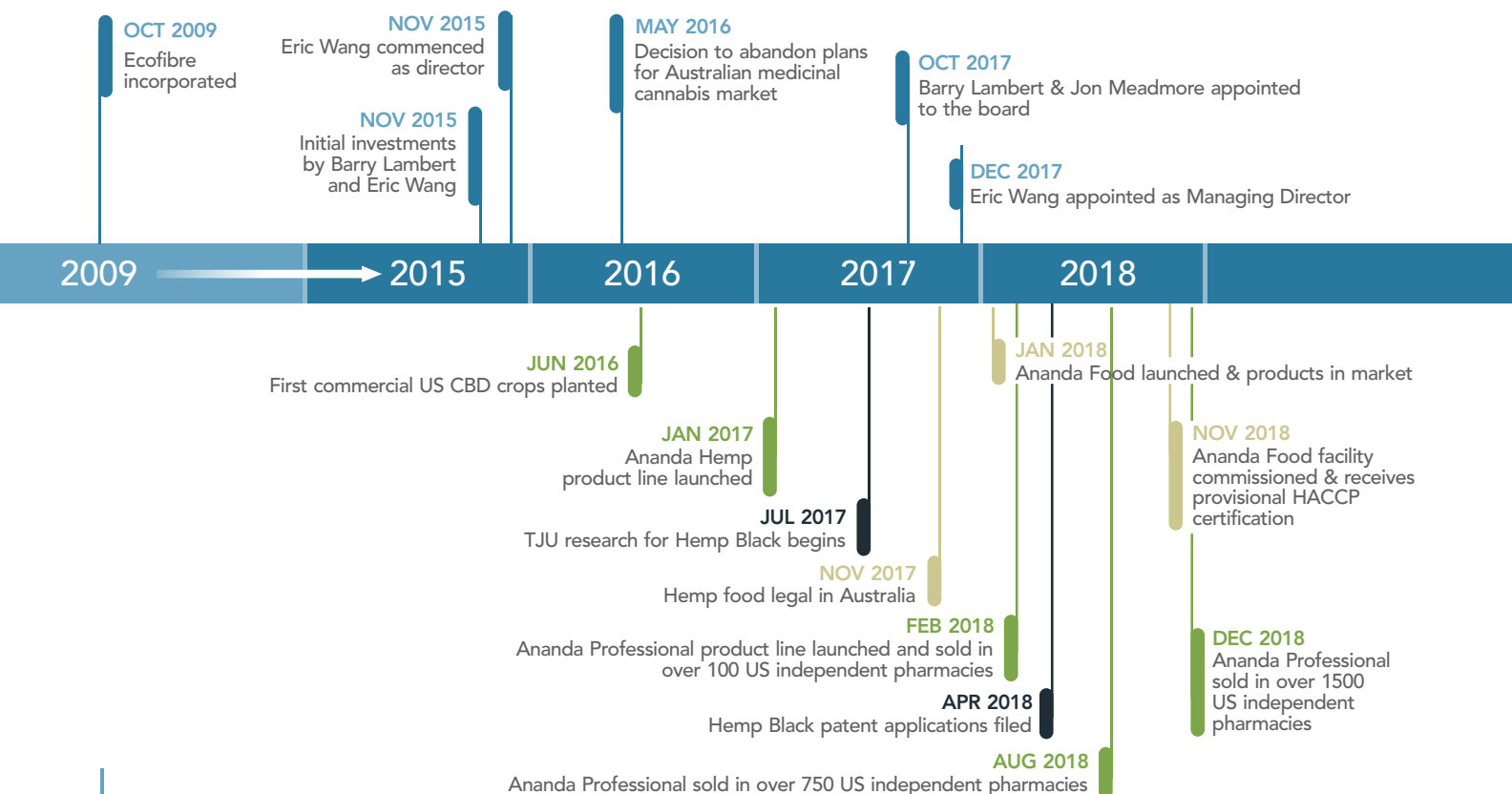
Ecofibre focusses on optimal markets with favourable regulatory environments for its products and owning what it considers to be the most valuable parts of its value chain over the long term with barriers to entry for competitors. Therefore, Ecofibre has focused its Ananda Health business on the US market and its Ananda Food business on the Australian market.

Ecofibre does not operate in the medicinal cannabis sector, as the Directors believe the current regulatory framework makes it difficult to achieve profitable sales volume.

Ecofibre also does not supply marijuana products through any of its businesses.

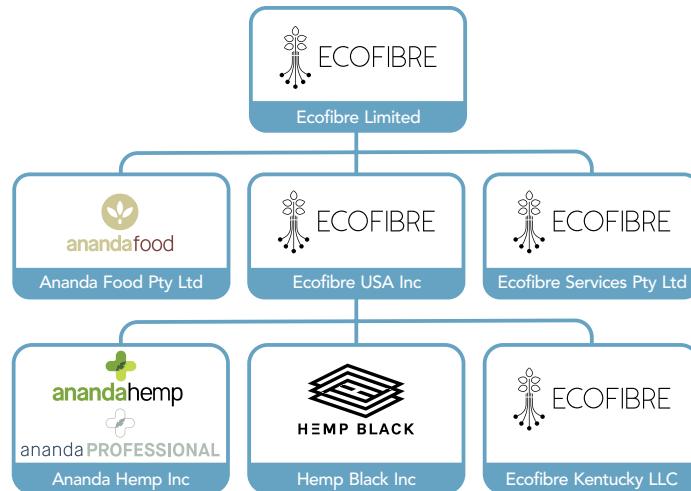
### 3.3.2 Evolution of Ecofibre and key milestones

Key milestones in the commercialisation of Ecofibre's business are set out below:



### 3.3.3 Current Group Structure

Ecofibre's structure is as follows:



### 3.3.4 Ananda Health

(a) **Summary**

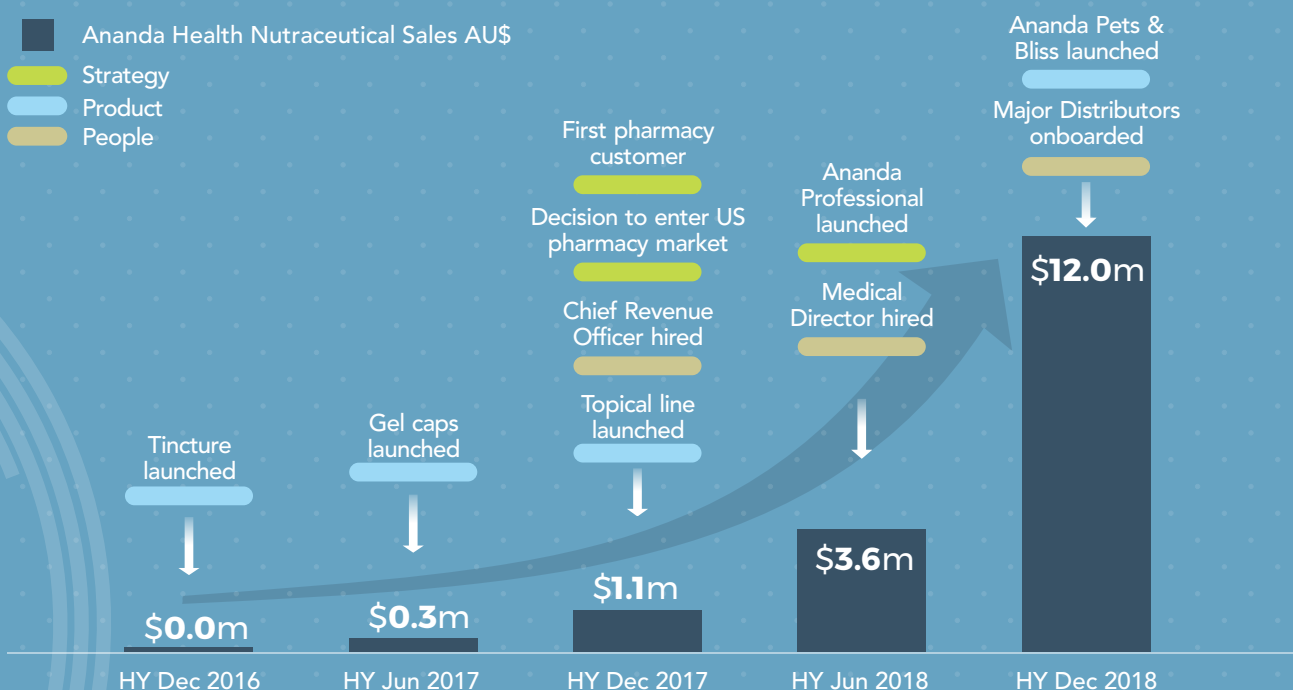
The Ananda Health business sells nutraceutical products under two brands, Ananda Hemp and Ananda Professional. Ananda Hemp sells to wholesalers, distributors and directly to retail customers via its website, [www.anandahemp.com](http://www.anandahemp.com).

Ananda Professional is a brand created exclusively for independent pharmacies.

Both brands target the health and wellbeing customer segment and in particular, customers seeking improved sleep or anxiety relief. Ananda Health makes no express claims about the therapeutic properties of its hemp derived CBD products.

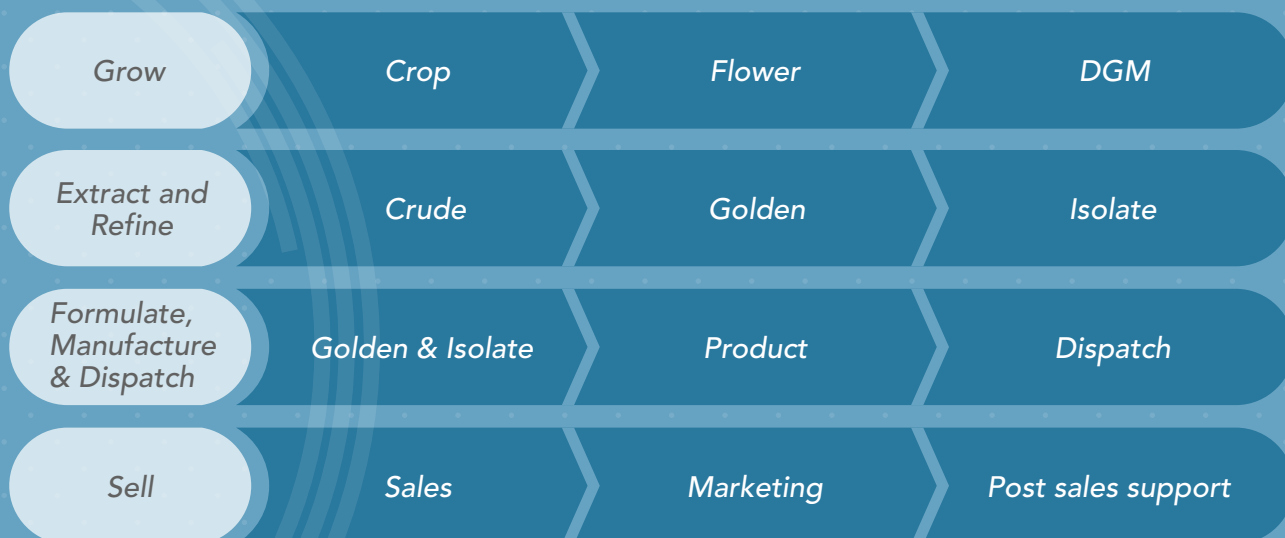
Ananda Health also selectively services strategic white label and bulk customers.

The following table summarises sales growth for Ananda Health products since inception and key milestones in the development of the business.



(b) **Business Model**

To maximise the value of the Ananda Health business and protect its supply chain, Ecofibre has implemented a vertically integrated model that is aligned to Ecofibre's over-arching strategy (see Section 3.2):



The Company contracts with local growers in Kentucky to raise hemp crops that have a relatively high concentration of CBD and other cannabinoids (excluding THC) in the female flower.

The female hemp flowers are harvested and processed at the Company's production facility in Cynthiana, Kentucky, to produce the resultant dried green material (**DGM**) that is the base feedstock for the hemp extract.

Ananda's production facility is licensed by the State of Kentucky and is Good Manufacturing Practice (**GMP**) compliant. Since first being commissioned in 2016, the facility has been extended twice to accommodate growth of the business. The planned new corporate headquarters and Hemp Black facility in Georgetown, Kentucky will provide further space for expansion.

DGM is processed to produce a golden oil that is blended directly into finished products, with some golden oil processed further to isolate targeted individual cannabinoids for blending purposes to ensure batch-to-batch consistency of products.

A bottling and packaging line for tincture products was commissioned in July 2018. Gel-cap packaging and filling commenced in November 2018.

(c) **Products**

Ananda Health's products are derived from whole hemp plant extracts to provide a full spectrum product that includes multiple cannabinoids and terpenes (see "*entourage effect*" in Section 3.3.4(f)). Ananda Health uses the oil it extracts from hemp flowers to produce and bottle a full spectrum hemp derived oil, topical creams, tinctures and gel capsules.

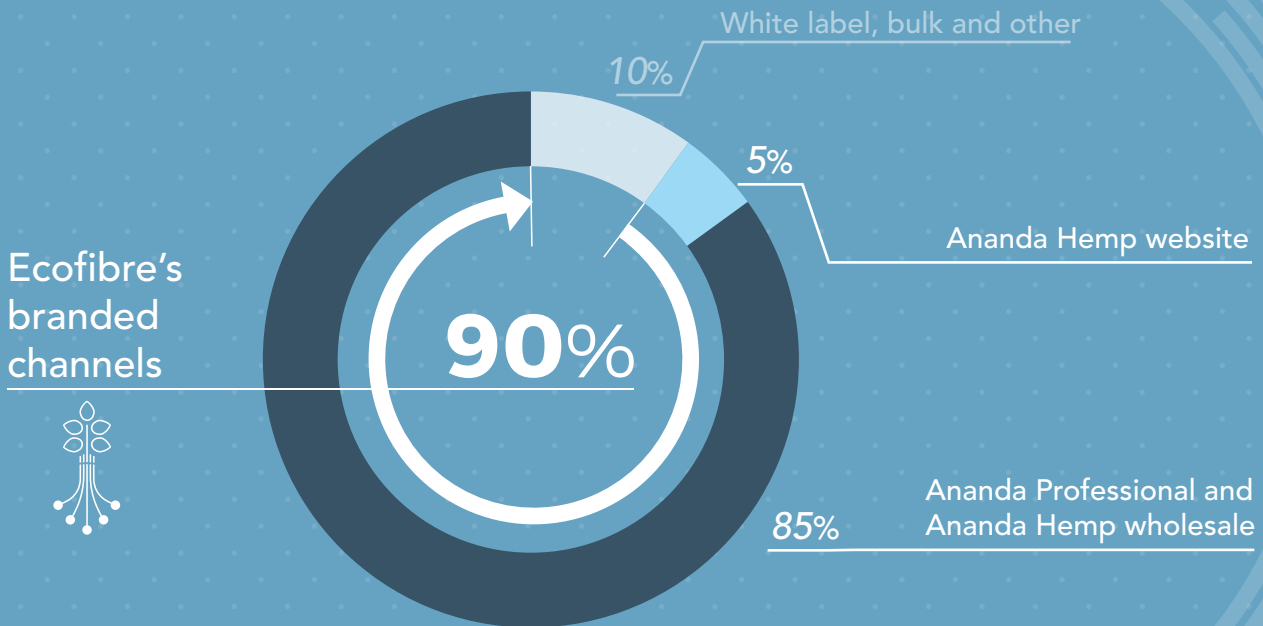
Ananda Health currently supplies over 20 consumer products, either for topical use or ingestion. The range has recently been expanded to include products aimed at women's health and pets.



(d) **Distribution channels**

Nearly all of Ananda Health's products are sold in the US, although a very small percentage of sales are made to international customers via its website, [www.anandahemp.com](http://www.anandahemp.com).

## Nutraceutical Sales - HY2019



Independent pharmacies in the US order directly online via [www.anandaprofessional.com](http://www.anandaprofessional.com).

90% of Ananda Health's nutraceutical sales in the HY ended 31 December 2018 were through Ecofibre's branded channels.

(e) **Value Drivers and differentiation**

(i) *Safety and quality*

As a first priority, Ananda Hemp provides high quality products that have a reputation for being consistent and safe for use by its customers.

Pharmacies in the US are regulated by the US DEA.

(ii) *Brand reputation*

Ananda is recognised in its market for high quality hemp derived CBD oil and similar products.

As CBD based products become more available in the future, a strong, recognised and trusted brand will be important to retain customers and protect margins.

(iii) *Vertically integrated model*

Ananda Health's vertically integrated business model means it can provide its customers with full traceability for each ingestible product. Ananda Health products include a QR code which enables customers to obtain information for any given batch of product directly from the Company's website.

In the pharmacy segment, Ananda Health promotes the benefits of a 'farm to pharmacy' model for the supply of its extracts. This is attractive to consumers of Ananda Health's products, especially those interested in green product credentials. The vertically integrated business model also positions Ananda with levers to help drive efficiencies, reduce costs, ensure quality, control margins and react to market changes.

(iv) *Relationship with customers, regulators, growers and other local businesses*

Ananda Health has worked to develop sustainable business relationships with high quality customers and distributors. The business has strong relationships with regulators at all levels, including the Kentucky Department of Agriculture, local Kentucky Congressmen and Senators who are supportive of hemp.

Most Ananda Health growers have supplied the business since its inception.

(f) **New Product Development and opportunities for growth**

Ananda Health's sales are expected to be driven by organic growth of its current product lines, as well as investment in new and complimentary products, within the expanding hemp CBD market (for information about the hemp derived CBD market, refer to Section 2.7.2).

Ananda Professional is a recognised brand in the US, sold in over 1,500 of the 22,000 independent pharmacy stores, as at the date of this Prospectus.

Increasing customer awareness of the potential benefits of CBD and hemp plant extracts is a key driver of ongoing growth. The signing of the 2018 Farm Bill in December 2018 is expected to open significant new distribution opportunities for Ananda Hemp, as large distributors respond to the clarification of the legal position of CBD and hemp extracts (in this regard, refer to Section 2.6.2).

Ananda Health has significantly expanded its product offering since its first product and expects to continue this expansion as consumer demand in the hemp CBD market evolves. Some of these products, including Ananda Pets and Bliss, have only recently been launched and the Directors expect future sales growth for these new products in existing and new channels.

New products may be developed with higher concentrations of specific cannabinoids. To date, most cannabinoid-based nutraceuticals are sought after by customers because of their CBD content. However, there is a growing interest in secondary molecules, including tetrahydrocannabivarin (THCV), cannabidiol (CBD) and cannabigerol (CBG) and the so called "entourage effect" of beneficial combinations of cannabinoids and terpenes found in hemp.

Ecofibre has hemp varieties that show indications for each of these molecules and if a safe and legal market develops, there is the potential for Ecofibre to breed and grow plants with a commercially viable concentration of these molecules for application in new products.

Increased demand for nutraceutical products is expected to offer new opportunities for operational efficiencies through increased economies of scale, as Ananda Health is now attractively positioned to incur lower incremental costs relative to volume and revenue growth.

(g) **Competitors**

Ananda Health products compete with existing conventional medicines and other remedies such as opioids, anti-anxiety and sleep medications. Specifically, Ananda Health competes with other providers of hemp derived nutraceuticals in the US.

Key competitors in the market are listed in Section 2.7.3.

### 3.3.5 Ananda Food

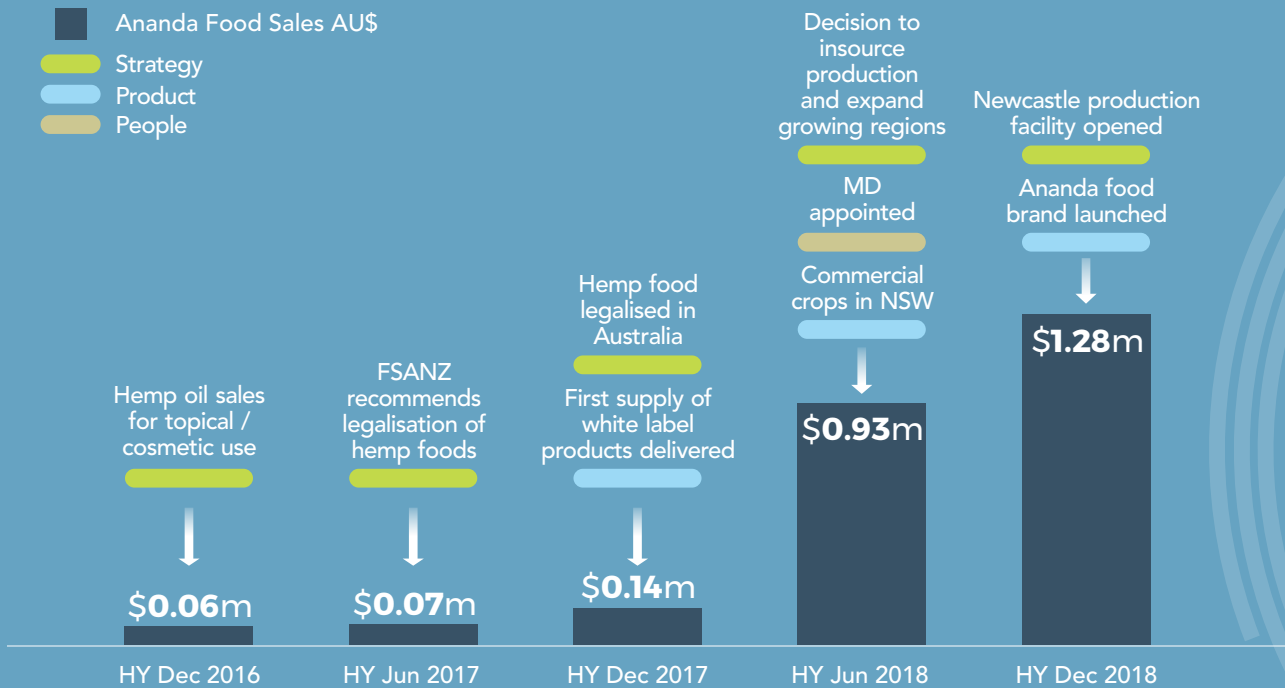
(a) **Summary**

The strategic objective for Ananda Food is to be the leading hemp food supplier in Australia and in future, in Asia.

In November 2017, hemp as a food was legalised in Australia (see Annexure B for more information) and Ananda Food began to commercialise its long experience in growing hemp seed crops. In particular, the business had established relationships with a number of contract growers in Tasmania that it leveraged to commence and expand food production.

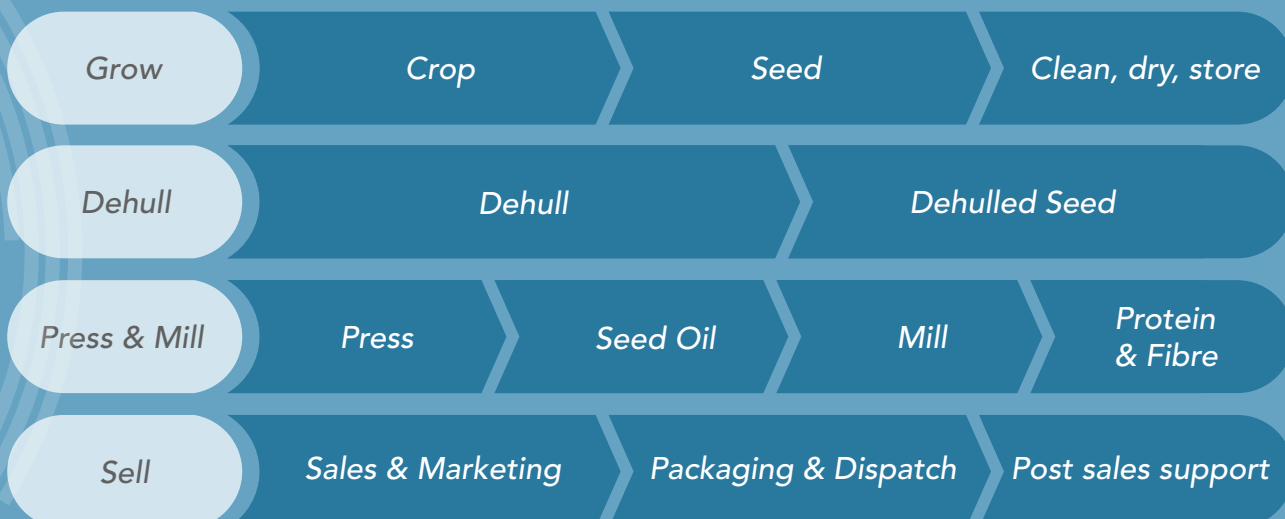
Ecofibre markets its food products in Australia under its Ananda Food brand and also provides white label services to selected customers.

The following table shows recent sales growth for Ananda Food and summarises key milestones in the development of the business.



(b) Business model

Within the context of Ecofibre's over-arching strategy (see Section 3.2), Ananda Food has implemented a vertically integrated model depicted below:



Ananda Food now contracts farmers to grow seed in Tasmania, New South Wales and Queensland for use in the production of its hemp foods. The business supplies contract farmers with the genetic material used to produce its hemp crops and retains ownership of the crops in the ground at all times.

All seeds used to produce hemp food are sourced from Australian farms, representing a significant differentiator for the Company, as a large proportion of products sold by its competitors in Australia are imported.

In November 2018, the Company commissioned a production facility in Beresfield, New South Wales, which now produces de-hulled seed and protein and fibre powders. The facility is licensed by the New South Wales Department of Health and has received provisional certification under Hazard Analysis and Critical Control Points (HACCP) requirements.

Hemp seed is currently pressed for oil by an outsourced provider, but the Company is in the process of commissioning equipment to in-source this capability, consistent with its vertical integration strategy.

(c) Products

Produced from hemp seeds, Ananda Food products contain high-quality proteins, essential fatty acids and other essential dietary elements, for human and animal consumption (see Section 2.5.1).

Products include food-grade hemp seed oil, hemp protein powder, hemp seeds and hemp flour.

(d) Distribution channels

At present, substantially all of Ananda Food's products are sold to Australian wholesale customers, including health food and grocery stores, as well as distributors, white label and bulk customers.

Ananda Food launched its own brand at the Melbourne fine food festival in September 2018. Under its brand, Ananda is supplying smaller wholesale customers who do not have the scale to justify their own label for hemp food products.

Products are promoted via the website, [www.anandafood.com](http://www.anandafood.com), but not sold online.

(e) Value Drivers and differentiation

(i) *Growing capability*

Ananda Food is one of the few businesses in Australia that has suitable genetic varieties, available stocks of planting seed and experience to grow hemp seed crops at commercial scale.

Many contract growers have supplied Ananda Food for multiple seasons, so that Ananda Food's hemp growing expertise and the expertise of its contract farmers have developed in a complimentary manner. This strategy positions Ananda to incrementally improve its agronomic expertise through the value chain over time.

(ii) *100% Australian*

Ananda Food guarantees to its customers that 100% of seed used to produce its hemp foods is grown in Australia.

(iii) *Vertically integrated model*

Ananda Food's control of the value chain enables it to provide its customers with full traceability for its products, which gives customers confidence that the business produces products of the highest quality. Traceability from "farm to family" is a key differentiator.

Vertical integration also gives Ananda Food the levers to help drive efficiencies and reduce costs, ensure quality assurance, control margins and react to market changes.

(iv) *Brand reputation*

Ananda Food is building its brand for high quality hemp derived food products.

(f) **New Product Development and opportunities for growth**

Ananda Food's growth is expected to be driven by organic growth of its current product lines within the expanding hemp foods market. An important factor in this is increasing awareness amongst Australian households that hemp is legal and nutritious. Ananda Food believes that as the market develops, mainstream consumers will come to view hemp foods as less of a niche or fringe product.

Ananda Food has an opportunity for further product development to offer additional flavours, mixes and formulations.

In the future, the Company also believes that Ananda Food will have an opportunity to consider expanding its sales channels into Asia, most likely through customers with existing distribution networks in the region.

(g) **Competitors**

Ananda Food competes in Australia with suppliers of plant-based protein and traditional proteins, as hemp seeds are a high quality protein source (see Section 2.5.1).

The Australian hemp food market is in the early stages of development, having been legalised only in November 2017. Accordingly, the market and its players are not yet well-defined and the industry is still building local expertise.

There are several small growers, processors and distributors of hemp food based in Australia, but most hemp seed currently sold in Australia is sourced from overseas.

Ananda Food is one of the few vertically integrated providers of hemp food in Australia. The other suppliers of hemp food in Australia include companies such as Organic Markets Direct and Hemp Foods Australia.

### 3.3.6 Hemp Black

(a) **Background**

The strategic objective for Hemp Black is to be the recognised global leader in innovative hemp applications.

Ecofibre's relationship with TJU is central to delivering the Company's strategy for Hemp Black. Ecofibre and TJU have worked together since July 2017 to identify and develop relevant technologies.

To date, this collaboration has resulted in the filing of six provisional patent applications in the US. The patents, if granted, will be owned by TJU, while Ecofibre will have a global, exclusive right to commercialise the patents (see Section 9.1.3 for details of the agreement between Ecofibre and TJU).

In addition, TJU's deep relationships across the US business community have given Ecofibre valuable access to high-profile potential customers and business partners.

(b) **Commercialisation strategy**

Ecofibre and TJU are conducting trials and work necessary to advance the provisional patent applications and submit final patent applications as soon as practicable.

Ecofibre has prioritised two supply chain processes for future commercialisation of the technology:

(i) *Hemp Black bi-component fibres*

This process requires hemp fibres to be pyrolised and then spun into bi-component fibres, which can be combined in different patterns and concentrations.

These bi-component fibres may have a number of potentially useful attributes, including moisture management, anti-odour properties, thermal regulation, low friction, anti-microbial properties and conductivity.

Potential commercial applications Ecofibre is considering include multi-filament yarns, extruded films, 3D printing filament, performance apparel and fabrics for motor vehicles, offices and other uses.

Initial proof-of-concept trials by Ecofibre and TJU for production of bi-component fibres have been successful and Ecofibre has ordered the equipment necessary to process the hemp fibre in-house.

Ecofibre has identified a supply chain partner to spin the bi-component fibre at commercial scale. This party invested equity capital of USD 3 million in Ecofibre in December 2018.

(ii) *Hemp Black Nano*

This process involves using hemp flower extract, in a form already produced by Ecofibre, to create a fine, cannabinoid-rich fibre mat that has potential anti-inflammatory benefits, as well as additional potential benefits often associated with CBD (see Section 2.5.2).

Ecofibre sees potential for these products to be incorporated into wound dressings and textiles (including the fibres from the bi-component fibres in (i) above), as well as in filtration and drug delivery technologies.

A commercial partner for Hemp Black Nano has been identified. Ecofibre will explore entering into an agreement with this party as soon as practicable to further develop this technology.

(iii) *Ecofibre's Georgetown, Kentucky facility*

Ecofibre's proposed new facility in Georgetown will be important in the commercialisation of Hemp Black technology. It will serve as a production centre and a showcase for the potential of hemp fibres and Hemp Black technology.

Although planning permissions have not yet been obtained for the proposed new premises for which Ecofibre has acquired the land (see Section 4.7.1), Ecofibre's preparatory investigations lead it to conclude that the risk of failure to obtain them is low (see Section 5.1.31).

The Hemp Black brand is also important for Ecofibre's commercialisation strategy. Ecofibre intends to invest more in developing the brand persona and profile following listing.

(iv) *Timeline*

It will take time for Ecofibre to:

- (A) complete the trials and work mentioned above;
- (B) enter into agreements with development partners mentioned above; and
- (C) educate consumers about the benefit of its Hemp Black products.

As a result, a fixed timetable to achievement of these objectives cannot be determined as at the date of this Prospectus. Ecofibre will target high quality and specialty manufacturers to become early adopters of its Hemp Black products.

(v) *Potential customer groups*

Ecofibre believes that potential customer groups for Hemp Black, if commercialisation proceeds as planned, include:

- (A) athleisure and high-performance clothing manufacturers;
- (B) building materials and office furniture;
- (C) US military;
- (D) medical suppliers to hospital and other health facilities; and
- (E) Yoga market (mats, clothing, equipment, as well as potential cross-selling opportunities for oils and food).

Ecofibre intends to position Hemp Black as an innovator in sustainable and cost-effective enhancement of the functional properties of consumer and industrial products. For example, Hemp Black may have potential to serve as a substitute for:

- (A) the use of silver oxide coatings for anti-microbial properties in textiles;
- (B) the use of copper for electrical conductivity in textiles; and
- (C) the use of carbon black in higher value applications as pigment.

(c) **Business and revenue model**

Ecofibre does not anticipate that it will become a manufacturer of finished goods that use Hemp Black materials. Rather, Ecofibre intends to generate revenue by:

- (i) supplying Hemp Black feedstock and CBD extracts based on the processes outlined above, conducting first stage processing in-house where relevant (for example, pyrolysis); and
- (ii) working with partners who will manufacture the completed fibre for sale to finished goods manufacturers.

Ecofibre intends also to seek royalty income from finished goods manufacturers for use of the Hemp Black brand and intellectual property.

### 3.3.7 Genetics and Growing Operations

The strategic objective for Ecofibre's genetics and growing operations is to leverage its genetic resource to provide itself a competitive advantage along the value chain.

Ecofibre's program of plant R&D is focused on improving the long term yield of its hemp seed for food production and a higher yield of useable cannabinoids. Other crop and agronomic characteristics, including growing latitude, optimum sowing and harvesting dates, crop uniformity and harvestability are also taken into account.

All breeding and commercial crops are subject to a requirement that the concentration of THC must not exceed 0.3% of the dried weight of the female flower. This is an overarching requirement for any breeding activity.

## 3.4 Ecofibre's Key Strengths

Ecofibre's key strengths inherent in its three business lines include, in the opinion of the Directors:

(a) *Board and executive team*

Ecofibre's management team is highly skilled and experienced across multiple industries. Its Board has a strong track record of operational success and building shareholder value.

(b) *Disciplined focus on strategic priorities*

Ecofibre concentrates its assets on what it considers to be the most attractive markets, consumer segments and geographies. Each of its chosen markets currently has attractive regulatory frameworks, market size and growth potential. For these reasons, Ecofibre has elected not to invest in licences or assets in Australia's medicinal cannabis market.

(c) *Commercially focused business model*

Ecofibre aligns its assets and capabilities with what it views as the most valuable and strategic parts of the value chain to deliver quality margins. Ecofibre has elected to partner in less attractive segments of the value chain, for example where capabilities are highly specialized and/or excessively capital intensive. For example, Ecofibre has chosen not to spin the Hemp Black bi-component fibre, instead securing a supply chain partner.

(d) *Strategic relationships*

Ecofibre has built key commercial relationships with strategic partners, particularly in the Hemp Black business through its work with TJU and specialist manufacturers. It has also invested the time and resources necessary to build strong political, regulatory and industry relationships. For example, Ecofibre was invited by US Senate Majority Leader, Mitch McConnell, to be present at the presidential signing of the 2018 Farm Bill.

(e) *Attractive market fundamentals*

Ecofibre operates in the growing hemp market, which presents attractive growth opportunities for Ecofibre's key business lines.

## 3.5 Ecofibre's intellectual property

Ecofibre has applied for registration of trade marks in Australia and the US relating to its brands and intends to prosecute them to protect its brands, whenever necessary and possible.

Ecofibre has obtained registration of plant breeders rights in Australia that protect some of the germplasm it uses from use by competitors.

Six provisional patent applications have been filed by TJU in the US relating to TJU's research conducted under its agreements with Ecofibre (see Section 9.1.3 for information concerning the terms of under which TJU IP is licenced to Ecofibre and circumstances in which TJU may terminate the licence before the end of its stipulated term). Ecofibre has an exclusive licence from TJU to commercially exploit the IP developed pursuant to its agreements with TJU, including the IP comprised in the provisional patent applications that Ecofibre understands TJU intends to prosecute to grant, if possible. Ecofibre is unable to disclose further information about the provisional patent applications, as their content cannot be made public under patent law.

## 3.6 Ecofibre's regulatory licences

Ecofibre has the following key statutory licences for its hemp activities, which permit operation of its businesses in Australia and the United States:

### 3.6.1 Australia

Licence Reference	Issuing Authority	Term and Renewal*	Licence Details and conditions
1820871	Department of Health, Therapeutic Goods Administration	1 January 2019 to 31 December 2019.	Licence to import under Regulation 5 of the <i>Customs (Prohibited Imports) Regulations 1956</i> , cannabinoids, cannabis (including extracts and tinctures of cannabis) and cannabis resin.  Condition: Permit to import to be obtained for each consignment
1820872	Department of Health, Therapeutic Goods Administration	1 January 2019 to 31 December 2019.	Licence to export under Regulations 10, 10A, 10B, 10C, 10D, 10E and 10F of the <i>Customs (Prohibited Exports) Regulations 1958</i> , cannabinoids, cannabis (including extracts and tinctures of cannabis) and cannabis resin.  Condition: Permit to export to be obtained for each consignment
G007	Department of Agriculture, & Fisheries, Biosecurity Queensland	19 November 2018 to 5 September 2021	Grower Licence G077 - commercial production of industrial cannabis.  Condition: Authorised activities to be carried out only at stipulated locations.
R1-005	Department of Agriculture, & Fisheries, Biosecurity Queensland	Licence effective 19 November 2018 and Licence expiry date 5 September 2021	Licence to perform research activities.  Conditions:  1 Authorised activities to be carried out only at stipulated locations at a maximum quantity per consignment of specified cannabis material.  2 The licensee may only supply the specified cannabis material to the approved party whilst the approved party remains authorised under the law of New South Wales to possess the specified cannabis material.  3 The licensee is authorised to carry out the activity solely for the purposes of conducting research into the use of industrial cannabis as a commercial fibre and seed crop.
H18/17092	Department of Health, New South Wales	23 March 2018 to 31 March 2021	Authority to possess to the maximum quantity: - cannabis oil/resin – one hundred (100) millilitres - cannabis leaf (plant material) – one (1) kilogram - cannabis leaf (seed) - twenty (20) kilograms - cannabinoid (analytical standards) - ten (10) milligrams,  Condition: Limited to the transport of cannabis between stipulated locations



Licence Reference	Issuing Authority	Term and Renewal*	Licence Details and conditions
52905	NSW Department of Primary Industries, Biosecurity & Food Safety	24 December 2018 to 23 December 2023	Licencee to supply or cultivate low-THC hemp on or in the premises specified in the licence. Condition: Authorised activities to be carried out only at stipulated locations
IH 003	Department of Primary Industries, Parks, Water and Environment, Tasmania	27 September 2018 to 30 April 2023	Licence to cultivate, supply and manufacture, at stipulated location. Condition: Authorised activities to be carried out only at stipulated locations
IH 004	Department of Primary Industries, Parks, Water and Environment, Tasmania	27 September 2018 to 30 April 2023	Licence to cultivate, supply and manufacture, at stipulated location. Condition: Authorised activities to be carried out only at stipulated locations

*\*In all cases, renewals are made on application to the relevant Federal or State authority, which in each case has a discretion whether or not to grant renewal. There is no guarantee that licences will be renewed, but Ecofibre has no reason to believe that any renewal applications will not be granted, when sought.*

### 3.6.2 United States

Licence Reference	Issuing Authority	Term and Renewal*	Licence Details and conditions
MOU-16-13-03	Kentucky Department of Agriculture	Expires 31 March 2021	Kentucky Industrial Hemp LLC dba Ecofibre. Kentucky LLC is licensed as a processor/handler under the Industrial Hemp Research Pilot Program. Brian Lewis Furnish and other growers are similarly licensed as growers. Conditions: 1. Compliance with all applicable federal, state and local laws, including federal Food Drug & Cosmetic Act. 2. Hemp must be processed, stored and handled only at approved sites. Facilities subject to inspection by KDA and law enforcement agencies.
19335218310	US Food and Drug Administration (FDA)	Biennial registration expires 31 December 2020. Subject to renewal every other year	Kentucky Industrial Hemp LLC dba Ecofibre. Kentucky LLC - to operate a facility licensed to manufacture, pack and label food in the category of dietary supplements, herbals and botanicals for human consumption. Conditions: 1. Compliance with applicable regulations governing Current Good Manufacturing Practice in Manufacturing, Packaging, Labeling, or Holding Operations for Dietary Supplements 2. Subject to FDA inspection
101451	Cabinet for Health and Family Services, Commonwealth of Kentucky	Expires 31 December 2019. Subject to annual renewal	Permit to operate a food processing or storage establishment in compliance with Kentucky Food, Drug and Cosmetic Act. Conditions: 1. Compliance with applicable federal and state health and safety requirements 2. Subject to periodic inspection

*\*In all cases, renewals are made on application to the relevant Federal or State authority, which in each case has a discretion whether or not to grant renewal. There is no guarantee that licences will be renewed, but Ecofibre has no reason to believe that any renewal applications will not be granted, when sought.*

# 4

## FINANCIAL INFORMATION

## 4.1 Introduction

This section contains a summary of the Historical Financial Information and the Pro forma Historical Financial Information (together, the **Financial Information**) of Ecofibre.

(a) **The Historical Financial Information** comprises:

- (i) Historical Consolidated Statements of Profit or Loss and Other Comprehensive Income for the financial years ended 30 June 2017 (FY2017) and 30 June 2018 (FY2018), and for the half-year ended 31 December 2018 (HY2019);
- (ii) Historical Consolidated Statements of Financial Position as at 30 June 2017, 30 June 2018 and 31 December 2018; and
- (iii) Historical Consolidated Statements of Cash Flows for FY2017, FY2018 and HY2019.

(b) **The Pro forma Historical Financial Information** comprises:

- (i) Pro forma Historical Consolidated Statement of Profit or Loss and Other Comprehensive income for HY2019; and
- (ii) Pro forma Historical Consolidated Statement of Financial Position as at 31 December 2018.

The Financial Information has been reviewed in accordance with the Australian Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Fundraising and/or Prospective Financial Information, by William Buck (Qld) Pty Ltd, whose Investigating Accountant's Report is contained in Section 8. Investors should note the scope and limitations of the report.

(c) In addition, Section 4 summarises:

- (i) the basis of preparation and presentation of the Financial Information (see Section 4.2);
- (ii) assumptions adopted in compiling the Pro forma Historical Financial Information, including a description of the pro forma adjustments to the Historical Financial Information and reconciliations between the Historical Financial Information and the Pro forma Historical Financial Information (see Section 4.4.3);
- (iii) Segment information (see Section 4.5);
- (iv) Management commentary and key operating metrics (see Section 4.6);
- (v) Subsequent events after the reporting period (see Section 4.7); and
- (vi) Significant accounting policies (see Annexure C).

The information in this Section 4 should be read in conjunction with the risk factors set out in Section 5 and other information contained in this Prospectus. All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest thousand. Tables in this Section 4 have not been amended to correct immaterial summation and rounding differences.

## 4.2 Basis of preparation and presentation of financial information

### 4.2.1 Overview

The Directors are responsible for the preparation and presentation of the Financial Information. The Financial Information included in this Prospectus is intended to present potential investors with information to assist them in understanding the underlying historical financial performance, cash flows and financial position of Ecofibre.

The Financial Information has been prepared and presented in accordance with the recognition and measurement principles of the Australian Accounting Standards, which are consistent with the International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board. The Financial

Information is presented in an abbreviated form insofar as it does not include all the disclosures, statements or comparative information as required by the Australian Accounting Standards (AAS) applicable to annual financial reports prepared in accordance with the Corporations Act 2001.

The significant accounting policies adopted in the preparation of the Financial Information are set out in Annexure C and have been consistently applied throughout the financial periods presented in this Prospectus.

## 4.2.2 Preparation of Historical Financial Information

The Historical Financial Information has been extracted from the general purpose financial statements of Ecofibre for the financial years ended 30 June 2017 and 30 June 2018, and the half-year ended 31 December 2018.

William Buck (Qld) was appointed auditor of Ecofibre on 5 September 2016. The financial statements above were audited in accordance with Australian Auditing Standards. William Buck (Qld) issued unmodified audit opinions on the financial statements for the years ended 30 June 2017 and 30 June 2018 and unmodified review report for the half-year ended 31 December 2018. However in respect of the financial report for the year ended 30 June 2017, the auditor had drawn attention to a material uncertainty at that time in respect of going concern (further details are set out in the Investigating Accountant's Report in Section 8.5).

The Pro forma Historical Financial Information is based on the reviewed Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position for the half-year ended 31 December 2018 adjusted for the impact of the Offer which includes Offer costs and other pro forma adjustments as set out in Section 4.4.3. Investors should note that past results are not a guarantee of future performance.

## 4.2.3 New and revised accounting standards

The AASB has recently issued revised accounting standards in relation to revenue recognition (AASB 15), financial instruments (AASB 9) and leases (AASB 16). The revised standards in relation to revenue recognition and financial instruments will become effective for reporting periods commencing on or after 1 January 2018 and therefore are applicable for the Company for the reporting period ending 31 December 2018. The adoption of these two accounting standards has no material impact on the Company.

The revised leases standard will become effective for reporting periods commencing on or after 1 January 2019 and therefore will be applicable for the Company for the reporting period ending 31 December 2019. The Financial Information does not consider the effect of this new standard as it is not yet effective.

## 4.2.4 Explanation of certain non-IFRS measures

Ecofibre uses certain information and financial measures to manage and report on its business that are not recognised under the Australian Accounting Standards, nor under IFRS. These are collectively referred to as non-IFRS financial information. Certain financial data contained in this Section 4 is 'non-IFRS financial information' under Regulatory Guide 230 'Disclosing non-IFRS financial information' published by ASIC.

The Company believes that this non-IFRS financial information provides useful information to users in measuring the financial performance and conditions of Ecofibre. As non-IFRS measures are not defined by recognised standard setting bodies, they do not have a prescribed meaning. Therefore the way Ecofibre calculates these measures may be different to the way other companies calculate similarly titled measures. Investors are cautioned not to place undue reliance on any non-IFRS financial information and ratios.

In particular the following non-IFRS financial data is included:

- (a) EBITDA – earnings before interest, taxation, depreciation and amortisation;
- (b) EBITDA Margin - the ratio of EBITDA to revenue;
- (c) Gross profit – which is the difference between revenue and direct costs; and
- (d) Gross profit margin – the ratio of gross profit to revenue.

## 4.3 Historical Financial Information

### 4.3.1 Consolidated statement of profit or loss and other comprehensive income

AUD '000s	Notes	Audited FY2017	Audited FY2018	Reviewed HY2019
Revenue	1	575	5,749	13,324
Direct costs	2	(3,233)	(3,783)	(4,661)
<b>Gross profit</b>		<b>(2,658)</b>	<b>1,966</b>	<b>8,663</b>
<b>Other income</b>	3	<b>1,625</b>	<b>3,557</b>	<b>1,520</b>
Employees and contractors	4	(2,275)	(5,901)	(5,211)
Share based payments	5	(1,136)	(2,292)	(1,892)
Sales and marketing	6	(366)	(1,208)	(547)
Travel and accommodation		(505)	(623)	(299)
Equipment modification and maintenance		(144)	(609)	(207)
Rent		(91)	(451)	(323)
Legal fees and compliance		(161)	(321)	(453)
Accounting and audit		(71)	(135)	(94)
Make good provision		140	10	-
Acquisition costs written off	7	(1,476)	-	-
Others		(913)	(1,660)	(1,121)
<b>Other operating expenses</b>		<b>(6,998)</b>	<b>(13,190)</b>	<b>(10,147)</b>
Interest expense		(484)	(547)	(250)
<b>Loss before income tax</b>		<b>(8,515)</b>	<b>(8,214)</b>	<b>(214)</b>
Income tax expense		(134)	(413)	(183)
<b>Loss after income tax attributable to the members of the Company</b>		<b>(8,649)</b>	<b>(8,627)</b>	<b>(397)</b>
Other comprehensive income for the year				
Exchange differences on translating foreign controlled entities		(11)	(72)	206
<b>Total comprehensive income for the year attributable to the members of the Company</b>		<b>(8,660)</b>	<b>(8,699)</b>	<b>(191)</b>

#### Notes:

- Revenue is generated from sales of hemp products.
- Direct costs include cost of goods sold and other expenses directly related to production.
- Other income mainly relates to R&D Tax Rebates. These rebates are recognised as income in the year of receipt, and totaled \$1,522,000 in FY2017, \$3,113,000 in FY2018 and \$1,476,000 in HY2019.
- Employee and contractor expenses include wages and salaries of all staff (excluding the allocation of production related labour to direct costs above) and service based contracts including research & development services provided by TJU. These expenses also include sales commissions.
- Share based payment expenses relate to shares issued to employees and the TJU Option.
- Sales and marketing expenses include advertising and marketing expenses directly related to the sale of Ecofibre products.
- In FY2017, the Company purchased 27.25% of AH from minority shareholders. The consideration paid was in the form of Ecofibre's shares which was valued at \$1,476,000 at the issue date.

### 4.3.2 Consolidated statement of financial position

AUD '000s	Notes	Audited FY2017	Audited FY2018	Reviewed HY2019
<b>Current assets</b>				
Cash and cash equivalents		2,449	2,756	5,928
Trade and other receivables		190	990	2,059
Inventories	1	1,667	2,719	4,193
Biological assets	2	565	955	2,912
Other current assets		227	794	920
<b>Total current assets</b>		<b>5,098</b>	<b>8,214</b>	<b>16,012</b>
<b>Non-current assets</b>				
Intangible assets		-	340	340
Property, plant and equipment		979	2,714	4,490
<b>Total non-current assets</b>		<b>979</b>	<b>3,054</b>	<b>4,830</b>
<b>Total assets</b>		<b>6,077</b>	<b>11,268</b>	<b>20,842</b>
<b>Current liabilities</b>				
Trade and other payables		959	3,561	6,283
Provisions		10	-	-
Related party loans	3	375	939	260
Tax payable		-	80	86
<b>Total current liabilities</b>		<b>1,344</b>	<b>4,580</b>	<b>6,626</b>
<b>Non-current liabilities</b>				
Related party loans	3	4,896	4,452	2,830
Borrowings	4	624	676	722
<b>Total non-current liabilities</b>		<b>5,520</b>	<b>5,128</b>	<b>3,552</b>
<b>Total liabilities</b>		<b>6,864</b>	<b>9,708</b>	<b>10,181</b>
<b>Net assets</b>		<b>(787)</b>	<b>1,560</b>	<b>10,661</b>
<b>Equity</b>				
Issued capital		13,635	22,536	32,209
Foreign currency and translation reserve		(69)	(141)	65
Accumulated losses		(14,877)	(23,504)	(23,901)
Convertible loan reserve		524	524	329
Share-based payment reserve	5	-	2,145	1,959
<b>Total equity</b>		<b>(787)</b>	<b>1,560</b>	<b>10,661</b>

Notes:

- 1 Inventories consist of raw materials, work-in-progress and finished goods.
- 2 Biological assets represent crops planted but yet to be harvested and weighed.
- 3 Related party loans mainly consist of the convertible loan from Lambert Superannuation Fund.
- 4 Borrowings are unsecured, incur interest at 5% per annum, are denominated in USD and repayable by 21 June 2020.
- 5 The Share-based payment reserve is used to record the cost of equity-settled transactions over the vesting period.

The Company has a Line of Credit with Barry Lambert to borrow up to \$6.5 million at an interest rate of 7.5%, repayable the earlier of 14 days after Listing or 30 June 2019. At 31 December 2018, there was no outstanding balance on this facility. For further details, refer to Section 9.1.6.

### 4.3.3 Consolidated statement of cash flows

AUD '000s	Notes	Audited FY2017	Audited FY2018	Reviewed HY2019
<b>Cash flows from operating activities</b>				
Receipts from customers		516	4,960	12,223
R & D tax rebate		1,522	3,113	1,476
Payments to suppliers and employees		(8,502)	(13,965)	(12,964)
Interest received		36	15	22
Finance costs paid		(252)	(375)	(187)
Income tax paid		(170)	(333)	(177)
<b>Net cash flows (used in) generated from operating activities</b>		<b>(6,850)</b>	<b>(6,585)</b>	<b>393</b>
<b>Cash flows from investing activities</b>				
Payments for property, plant and equipment		(710)	(2,136)	(2,156)
Receipt from sale of property, plant and equipment		-	127	-
<b>Net cash flows used in investing activities</b>		<b>(710)</b>	<b>(2,009)</b>	<b>(2,156)</b>
<b>Cash flows from financing activities</b>				
Repayment to related entities		(6)	-	(572)
Proceeds from issue of shares	1	9,690	8,901	5,507
Proceeds from convertible loan	2	5,000	-	-
Share buy back	3	(5,902)	-	-
<b>Net cash flows generated from financing activities</b>		<b>8,782</b>	<b>8,901</b>	<b>4,935</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,222</b>	<b>307</b>	<b>3,172</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>1,227</b>	<b>2,449</b>	<b>2,756</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>2,449</b>	<b>2,756</b>	<b>5,928</b>

Notes:

- 1 The Company raised capital through issuance of shares to sophisticated and other exempt investors.
- 2 In FY2017, a convertible loan of \$5,000,000 was provided by Lambert Superannuation Fund (a related party of Barry Lambert).
- 3 On 15 July 2017, the Company paid \$5,902,000 to purchase and cancel 18,560,612 Shares then on issue and owned by a significant Shareholder.

## 4.4 Pro forma Historical Financial Information

The Pro forma Consolidated Statement of Profit or Loss and Other Comprehensive Income for HY2019, and the Pro forma Consolidated Statement of Financial Position as at 31 December 2018, have been prepared to illustrate the effects of the Offer, and any subsequent events, as if they had occurred at 31 December 2018.

The assumptions and adjustments made to prepare the Pro forma Historical Financial Information are set out in Section 4.4.3.

### 4.4.1 Pro forma consolidated Statement of Profit or Loss and Other Comprehensive Income for the period ended 31 December 2018

The following table sets out the pro forma consolidated statement of profit or loss and other comprehensive income for the period ended 31 December 2018 on the basis that the Company raises \$15,000,000 or \$20,000,000 under the Offer.

AUD '000s	Reviewed HY2019	Minimum Subscription \$15,000,000		Maximum Subscription \$20,000,000	
		Impacts of the Offer	Pro forma after Offer	Impacts of the Offer	Pro forma after Offer
Revenue	13,324	-	13,324	-	13,324
Direct costs	(4,661)	-	(4,661)	-	(4,661)
<b>Gross profit</b>	<b>8,663</b>	-	<b>8,663</b>	-	<b>8,663</b>
Other income	1,520	-	1,520	-	1,520
Other operating expenses	(10,147)	(863)	(11,010)	(863)	(11,010)
Interest expense	(250)	-	(250)	-	(250)
<b>Loss before income tax</b>	<b>(214)</b>	<b>(863)</b>	<b>(1,077)</b>	<b>(863)</b>	<b>(1,077)</b>
Income tax expense	(183)	-	183	-	183
Loss after income tax attributable to the members of the company	(397)	(863)	(1,260)	(863)	(1,260)
Other comprehensive income					
Exchange differences on translating foreign controlled entities	206	-	206	-	206
<b>Total comprehensive income for the year attributable to the members of the company</b>	<b>(191)</b>	<b>(863)</b>	<b>(1,054)</b>	<b>(863)</b>	<b>(1,054)</b>



#### 4.4.2 Pro forma consolidated Statement of Financial Position as at 31 December 2018

The following tables set out the pro forma consolidated statement of financial position as at 31 December 2018 on the basis that the Company raises \$15,000,000 or \$20,000,000 under the Offer.

AUD '000s	Reviewed HY2019	Minimum Subscription \$15,000,000		Maximum Subscription \$20,000,000		
		Impacts of the Offer	Pro forma after Offer	Impacts of the Offer	Pro forma after Offer	
<b>Current assets</b>						
Cash and cash equivalents	5,928	13,875	19,803	18,875	24,803	
Trade and other receivables	2,059	-	2,059	-	2,059	
Inventories	4,193	-	4,193	-	4,193	
Biological assets	2,912	-	2,912	-	2,912	
Other current assets	920	-	920	-	920	
<b>Total current assets</b>	<b>16,012</b>	<b>13,875</b>	<b>29,887</b>	<b>18,875</b>	<b>34,887</b>	
<b>Non-current assets</b>						
Intangible assets	340	-	340	-	340	
Property, plant and equipment	4,490	-	4,490	-	4,490	
<b>Total non-current assets</b>	<b>4,830</b>	<b>-</b>	<b>4,830</b>	<b>-</b>	<b>4,830</b>	
<b>Total assets</b>	<b>20,842</b>	<b>13,875</b>	<b>34,717</b>	<b>18,875</b>	<b>39,717</b>	
<b>Current liabilities</b>						
Trade and other payables	6,283	-	6,283	-	6,283	
Related party loans	260	-	260	-	260	
Tax payable	86	-	86	-	86	
<b>Total current liabilities</b>	<b>6,629</b>	<b>-</b>	<b>6,629</b>	<b>-</b>	<b>6,629</b>	
<b>Non-current liabilities</b>						
Related party loans	2,830	-	2,830	-	2,830	
Borrowings	722	-	722	-	722	
<b>Total non-current liabilities</b>	<b>3,552</b>	<b>-</b>	<b>3,552</b>	<b>-</b>	<b>3,552</b>	
<b>Total liabilities</b>	<b>10,181</b>	<b>-</b>	<b>10,181</b>	<b>-</b>	<b>10,181</b>	
<b>Net assets</b>	<b>10,661</b>	<b>13,875</b>	<b>24,536</b>	<b>18,875</b>	<b>29,536</b>	
<b>Equity</b>						
Issued capital	32,209	14,738	46,947	19,738	51,947	
Foreign currency and translation reserve	65	-	65	-	65	
Accumulated losses	(23,901)	(863)	(24,764)	(863)	(24,764)	
Convertible loan reserve	329	-	329	-	329	
Share-based payment reserve	1,959	-	1,959	-	1,959	
<b>Total equity</b>	<b>10,661</b>	<b>13,875</b>	<b>24,536</b>	<b>18,875</b>	<b>29,536</b>	

### 4.4.3 Assumptions adopted in compiling the Pro forma Historical Financial Information

The following tables set out the pro forma consolidated statement of financial position as at 31 December 2018 on the basis that the Company raises \$15,000,000 or \$20,000,000 under the Offer.

#### Subsequent events:

There are no events that have arisen subsequent to 31 December 2018 which give rise to an adjustment to the Pro forma Historical Financial Information.

#### Pro forma impact of the Offer:

Details of the Offer, including funds available, use of funds and the costs of the Offer, are set out in Section 7.1, 7.3 and 9.10.

The Offer is to raise between \$15,000,000 and \$20,000,000 by issuing 15,000,000 to 20,000,000 new shares at an Offer Price of \$1 per New Share. The Pro forma Consolidated Statement of Financial Position and the Pro forma Consolidated Statement of Profit or Loss and Other Comprehensive Income reflect the associated issue of Ordinary Shares.

The estimated costs of the Offer totaling \$1,125,000 have been allocated as follows:

- (a) \$262,000 cost of the share issue have been attributed to equity
- (b) \$863,000 have been treated as listing costs and attributed to Pro Forma Historical Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 31 December 2018.

### 4.4.4 Comments on the Pro forma Historical Financial Information

Ecofibre's principal sources of cash are cash generated from operations and cash on hand following completion of the Offer. Ecofibre expects it will have sufficient cash resources to fund working capital and capital expenditure requirements to carry out its stated business objectives.

On completion of the Offer, Ecofibre expects to have pro forma net cash of between \$19,803,000 to \$24,803,000, excluding the impact of non-Offer cash flows between 31 December 2018 and listing date.

## 4.5 Segment Information

Ecofibre is organised into four segments based on differences in products and services provided: Ananda Health, Ananda Food, Hemp Black and Ecofibre Corporate.

These operating segments have been identified based on the internal reports used by the Board of Directors to assess performance and determine the allocation of resources. There is no aggregation of operating segments.

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

<b>Ananda Health</b>	Production and sale of hemp related nutraceutical products primarily in the USA.
<b>Ananda Food</b>	Production and sale of hemp related food products in Australia.
<b>Hemp Black</b>	Research and development of innovative hemp related fibre products.
<b>Ecofibre Corporate</b>	This includes head office costs, research and development of the Company's Germplasm, and previous bulk-fibre operations in Australia.

The income statements of each segment for HY2019, FY2018 and FY2017 are set out below.

AUD '000s	HY2019				Total
	Ananda Health	Ananda Food	Hemp Black	Ecofibre Corporate	
<b>Revenue</b>					
Sales to external customers	12,048	1,276	-	-	13,324
Intersegment sales	-	-	-	-	-
<b>Total sales revenue</b>	<b>12,048</b>	<b>1,276</b>	<b>-</b>	<b>-</b>	<b>13,324</b>
R&D tax rebate	-	-	-	1,476	1,476
Interest income	18	-	-	4	22
Other income	41	6	-	(25)	22
<b>Total revenue</b>	<b>12,107</b>	<b>1,282</b>	<b>-</b>	<b>1,455</b>	<b>14,844</b>
<b>Total expenses</b>	<b>(9,212)</b>	<b>(1,696)</b>	<b>(1,329)</b>	<b>(2,821)</b>	<b>(15,058)</b>
<b>Profit (loss) before income tax</b>	<b>2,895</b>	<b>(414)</b>	<b>(1,329)</b>	<b>(1,366)</b>	<b>(214)</b>

AUD '000s	FY2018				Total
	Ananda Health	Ananda Food	Hemp Black	Ecofibre Corporate	
<b>Revenue</b>					
Sales to external customers	4,617	1,069	-	63	5,749
Intersegment sales	-	-	-	-	-
<b>Total sales revenue</b>	<b>4,617</b>	<b>1,069</b>	<b>-</b>	<b>63</b>	<b>5,749</b>
R&D tax rebate	-	-	-	3,113	3,113
Interest income	-	-	-	15	15
Other income	(37)	35	-	431	429
<b>Total revenue</b>	<b>4,580</b>	<b>1,104</b>	<b>-</b>	<b>3,622</b>	<b>9,306</b>
<b>Total expenses</b>	<b>(9,261)</b>	<b>(1,807)</b>	<b>(1,370)</b>	<b>(5,082)</b>	<b>(17,520)</b>
<b>Loss before income tax</b>	<b>(4,681)</b>	<b>(703)</b>	<b>(1,370)</b>	<b>(1,460)</b>	<b>(8,214)</b>

AUD '000s	FY2017				Total
	Ananda Health	Ananda Food	Hemp Black	Ecofibre Corporate	
<b>Revenue</b>					
Sales to external customers	341	131	-	103	575
Intersegment sales	-	-	-	5	5
<b>Total sales revenue</b>	<b>341</b>	<b>131</b>	<b>-</b>	<b>108</b>	<b>580</b>
R&D tax rebate	-	-	-	1,522	1,522
Interest income	-	-	-	36	36
Other income	-	-	-	67	67
<b>Total revenue</b>	<b>341</b>	<b>131</b>	<b>-</b>	<b>1,733</b>	<b>2,205</b>
Expenses	(4,704)	(213)	-	(5,798)	(10,715)
Intersegment purchases	(5)	-	-	-	(5)
<b>Total expenses</b>	<b>(4,709)</b>	<b>(213)</b>	<b>-</b>	<b>(5,798)</b>	<b>(10,720)</b>
<b>Loss before income tax</b>	<b>(4,368)</b>	<b>(82)</b>	<b>-</b>	<b>(4,065)</b>	<b>(8,515)</b>

## 4.6 Management Commentary and Key Operating Metrics

Management's commentary on the factors affecting the operating and financial performance of Ecofibre, including key measures and drivers, is set out below:

### Ananda Health

Metrics	FY2017	FY2018	HY2019
Revenue growth *	6334%	1254%	422%
Gross profit margin	(407%)	39%	67%
EBITDA margin	(1217%)	(92%)	25%
DGM processed (kg)	2,960	16,989	23,242
Golden Oil produced (kg)	-	156	239

\* Annualised for HY2019

Ananda Health revenue has grown from \$0.34 million in FY2017 to \$4.6 million in FY2018, and then \$12.0 million in HY2019.

As shown in Section 3.3.4, Nutraceuticals segment derives revenue through a number of channels, including:

- Independent pharmacies, either through direct sales or via distributors
- Other wholesale customers, including health food and grocery stores
- White label customers
- Sale of cannabis flower extracts to bulk customers
- Online retail sales

Ecofibre produced and sold its first nutraceutical products in late 2016. Since then, in the opinion of the Directors, revenue growth has been primarily due to Ecofibre's ongoing focus on high quality, safe and legal products, and growing customer reach and brand recognition in key sales channels.

Gross margins have improved over the same period to 67% in HY2019.

The cost of sales for Ananda Health products primarily relates to the cost of growing hemp, and then drying, extracting, blending and (where relevant) bottling and packaging products. The cost of sales also includes the cost of other raw materials and the allocation of costs for production staff.

Cost of sales have reduced as manufacturing volumes and efficiency increased, new production capabilities were in-sourced, and better prices obtained from some suppliers.

Operating expenses for the Nutraceutical segment increased in line with the investment in capabilities throughout the value chain. Operating expenses include non-production employment costs, share based payments, sales and marketing, legal, administrative, facilities and travel costs.

In HY2019, the Nutraceuticals segment reported its first positive EBITDA result.

## Ananda Food

Metrics	FY2017	FY2018	HY2019
Revenue growth *	4577%	745%	132%
Gross profit margin	23%	22%	42%
EBITDA margin	(61%)	(53%)	(14%)
Seed harvested (t)	82	245	97

\* Annualised for HY2019

Food revenue has grown from \$0.1 million in FY2017 to \$1.1 million in FY2018, and then \$1.3 million in HY2019.

Prior to the legalisation of hemp foods in Australia in November 2017, Ecofibre sold hemp seed oil for topical use, and other hemp seed by-products as animal feed.

Since that date, revenues have included proceeds from the sale of products for human consumption, including de-hulled hemp seed, hemp seed oil, and hemp seed protein and fibre powders.

Gross margins have improved over the same period to 42% in HY2019.

Prior to November 2017, the cost of sales primarily related to the cost of growing, transporting and pressing hemp seed, and packaging finished products. Since that date the cost of sales also includes the cost of processing and packaging additional products. A number of processing and packaging operations have been progressively insourced following commissioning of Ecofibre's new production facility in Beresfield in September 2018.

Operating expenses have increased as Ecofibre invested throughout the value chain to establish the hemp foods business. Operating expenses include non-production employment expenses, share based payments, sales and marketing and facilities costs.

### Hemp Black

Ecofibre's fibre segment is in a commercial proof-of-concept phase and has no historical revenues or cost of goods sold.

Operating expenses relate primarily to the cost of research and development services provided by TJU, including the cost of the TJU Option.

Capital expenditure includes a deposit paid on pyrolysis equipment required to produce carbonised hemp for Hemp Black, and the cost of the patent applications.

### Ecofibre Corporate

The FY2017 result include revenues, cost of goods sold and operating expenses from a bulk fibre business previously conducted in the Hunter Valley, NSW. Hemp stalks were dried, chopped and processed to produce material for garden mulch, pet bedding, oil spill absorption and other purposes. The business was discontinued in March 2017.

Other expenses include research and development costs in relation to plant breeding and seed multiplication, as well as head office and plant science employment expenses, share based payments, legal accounting and audit costs, insurances, facilities costs and travel.

## 4.7 Subsequent events after the reporting period

### 4.7.1 Purchase of land in Kentucky

On 18 December 2018, Ecofibre entered into a contract to purchase 6.2 acres of land in Georgetown, Kentucky for USD 160,000. The contract is conditional upon local government approval and approval of an incentive by the Kentucky Economic Development Finance Authority.

The land is situated near Ecofibre's existing nutraceutical facility in Cynthiana, Kentucky, and subject to completion of the Offer will be used to construct a US head office and production facility for Hemp Black, as well as accommodate future growth in the Nutraceuticals business.

#### 4.7.2 ESS Offer to employees

Offers were made to 44 staff for the right to participate in Ecofibre's ESS. All the offers were accepted in January 2019 for a total amount of 1,487,100 Shares. As a result of the 1 to 3 share split on 6 February 2019, the total entitlement increased to 4,461,300.

These Shares will be issued to employees from Shares already held by the ESS if employees meet time based, or time and performance based, vesting hurdles. The time based hurdles are 1, 2, 3 or 5 years, typically depending on the seniority of the employee.

#### 4.7.3 Issue of shares to TJU

On 4 February 2019, TJU exercised its option to purchase Shares at a price of \$1.61 per Share in relation to the accumulated value of research services provided for Hemp Black up to 31 December 2018 (USD 1,389,600) and the company issued 1,128,194 shares to TJU. As a result of the 1 to 3 share split on 6 February 2019, the total shares issued to TJU increased to 3,384,582. See Section 9.1.3 for information about the Company's agreements with TJU.

#### 4.7.4 Share Split

On 11 November 2018, Shareholders passed a resolution which authorised the Directors to proportionally increase (split) the number of Shares of the Company on issue immediately prior to the issue of a prospectus for the Listing.

The Share Split was implemented on 6 February 2019 at a ratio of 3 Shares for every existing Share.

### 4.8 Other matters

The majority of revenue is charged in currencies other than Australian dollars, principally US dollars. In addition, a large proportion of expenses in the business are incurred in currencies other than Australian dollars, including US dollars. Ecofibre typically does not hedge its foreign currency exposure when engaging in transactions.

The Company has yet to establish a dividend policy. Any future determination as to the payment of dividends will be at the discretion of the directors of the Company and will depend on the availability of distributable earnings and operating results and financial condition of the Company, as well as future capital requirements and general business and other factors considered relevant by Directors.

Ecofibre's businesses are in varying stages of development and the Directors do not expect to pay a dividend for at least two years.

No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by the Company.

### 4.9 Summary of Significant Accounting Policies

A summary of Ecofibre's significant accounting policies are set out in Annexure C.

# 5

## RISK FACTORS



The Shares offered under this Prospectus are considered highly speculative.

An investment in the Company carries substantial risk and the Directors strongly urge potential investors to consider the risk factors described below, together with information contained elsewhere in this Prospectus and to consult with their professional advisers before deciding whether to apply for Shares pursuant to this Prospectus or to invest in the Company.

Prior to deciding whether to participate in the Offer or invest in the Company, investors should read the entire Prospectus in order to gain an appreciation of the Company, its activities, operations, financial position and prospects. The Company's securities do not carry any guarantee with respect to the payment of any dividends, returns of capital, returns on investment or the market value of securities.

There are a number of risks that, either individually or in combination, may materially and adversely affect the future operating and financial performance of the Company and the value of its Shares. Some of these risks may be mitigated by the Company's internal controls and processes, but many are outside the control of the Company, the Directors and management. There can be no assurance that the Company will achieve its stated objectives or that any forward-looking statements will eventuate.

Investors should have regard to their own investment objectives and financial circumstances, and should consider seeking professional guidance from their stockbroker, accountant, financial or other professional adviser before deciding whether to participate in the Offer or invest in the Company.

Some of the factors which investors should consider before they make a decision whether or not to apply for Shares or invest in the Company include, but are not limited to, the risks in this Section.

## 5.1 Specific Risks

### 5.1.1 US Food and Drug Administration

The 2018 Farm Bill preserves the authority of the U.S. Food and Drug Administration (FDA) to regulate ingestible and topical products, including those that contain hemp and hemp extracts, such as CBD, under the federal Food, Drug, and Cosmetics Act.

The FDA has published its view in a website "Q&A" and advisory guidance that CBD products cannot be marketed as foods or dietary supplements in the United States. The Company's US lawyers consider that this position "is unsettled and unsupported by law or regulations" and "is not a final determination".

They also note that to date, the FDA has not taken any hemp derived CBD products off the market, prohibited the sale of such products, or ordered a product recall, but has written warning letters to online retailers of hemp derived CBD products in relation to impermissible, cancer-related medical claims. Ecofibre makes no such claims.

Should the FDA consider the Company's sale of hemp nutraceutical products impermissible, Ananda Health's business would be severely impacted and Ecofibre's financial viability could be at risk.

For more information, please refer to Annexure A.

### 5.1.2 Early stage

Ecofibre is at an early stage in development of its business model in an industry that has recently undergone material regulatory changes and is evolving. As a result, investing in Ecofibre is speculative and involves significant risk.

The sales potential of Ecofibre's products is still at a relatively early commercial stage. The ongoing and future demand for Ecofibre's products, in existing and target markets, is still being established and is uncertain. There is a risk that there may not be sufficient demand for Ecofibre's products for their sustainable commercial exploitation.

### 5.1.3 Uncertainty of future profitability and revenue

On Completion of the Offer, Ecofibre will be operating 3 business lines, of which Ananda Health is the most mature. Ananda Food is less developed and Hemp Black has not yet been commercialised.

The future profitability of Hemp Black and Ananda Food (and therefore, Ecofibre) will depend on Ecofibre successfully implementing its business plan in relation to development of its Hemp Food and Hemp Black business lines.



Further, the future profitability of Ecofibre is contingent on many factors and may be impacted by adverse developments relating to the market for hemp products generally, or in relation to CBD, hemp food or hemp fibre products. As a result, anticipated development milestones or sales may not be achieved and even if achieved, may not result in Ecofibre being or remaining profitable.

Ecofibre's business growth plan is contingent, among other things, on successfully building internal capacity to service growth in each of its businesses. If it fails to build this capacity or if it develops slower than anticipated, there may be an adverse impact on the profitability of Ecofibre, its financial performance and its ability to pay dividends.

#### 5.1.4 Growth risk

Ecofibre has a number of strategies to support future growth and earnings that depend on future events. There is a risk that the Company may select the wrong strategies or poorly execute its strategies. Either of these risks could result in lost revenues, lower margins, delays or cost overruns. There is no guarantee that any strategy will generate the anticipated commercial benefits.

Since the hemp industry is relatively new, both of these growth risks are amplified.

#### 5.1.5 Obtaining and retaining licences and permits

Hemp growing and the production of hemp goods are highly regulated by governments at multiple levels. Ecofibre's business is dependent on retaining the appropriate permits issued by the relevant authorities for the cultivation, manufacture and sale of hemp in Australia and the United States.

Currently, Ecofibre has the permits required to operate its business as described in this Prospectus (see Section 3.6) and intends to seek additional permits, when necessary. The Company needs to maintain those permits to continue operating. While the Directors have no reason to believe that Ecofibre will not be in a position to maintain its regulatory permits, any change to the regulatory systems in Ecofibre's markets that adversely impact on maintenance of Ecofibre's regulatory permits would materially adversely impact Ecofibre and its performance.

There is also no guarantee that any licence or permit already issued to Ecofibre will not be revoked during the term of the relevant licence or permit, or that the licence or permit will be renewed for a further period of time or renewed on terms anticipated by Ecofibre.

If any current or future application made by Ecofibre for a permit or licence is not approved, or any of Ecofibre's existing licences or permits are revoked or not renewed, Ecofibre will not be able to undertake the activities for which the relevant licence or permit is required. This will adversely affect Ecofibre's ability to generate revenue, which will reduce Ecofibre's overall profitability and adversely impact its financial performance.

#### 5.1.6 Risk created by recent legislative changes

Ecofibre operates in an industry that has recently experienced material regulatory and legislative changes. In particular:

- (a) Ecofibre's Ananda Health business, in the United States, operates under US Federal legislation authorising the cultivation of hemp products, introduced in 2014 under President Obama.

In late 2018, the 2018 Farm Bill was passed at Federal Level and is considered to have clarified the legality of hemp in the United States.

Given this Federal legislation (and associated State-based legislation) is still in its relative infancy, there is a risk that the interpretation and implementation of the law may change or be subject to legal uncertainties. Additionally, given the varied and evolving regulation of hemp at a state level, there is a degree of uncertainty that could make legal compliance challenging.

For more information on the US regulatory regime, see Annexure A.

- (b) Ecofibre's Ananda Foods business in Australia operates under the ANZFS Code. Changes to the ANZFS Code permitting consumption of hemp products as food only came into effect in November 2017.

Whilst this is seen as an opportunity for growth for the business, as with any legislative and regulatory change, there is a natural period of uncertainty whilst regulators, market participants and consumers interpret and respond to the change. For more information on the recent changes to the ANZFS Code, see Annexure B.

### 5.1.7 Risk of adverse future regulatory changes

The operations and proposed operations of Ecofibre are subject to a variety of complex laws, regulations and guidelines in its markets, at federal and state levels. The hemp and food industries are evolving in Australia and the USA.

Hemp has historically been severely restricted by laws and there is a risk that a change in government or political disposition of governments may result in a change in government policy and the relevant regulatory regimes under which Ecofibre operates, resulting in loss of markets or increased operating costs for Ecofibre.

The introduction of new legislation or amendments to existing legislation by governments, or the respective interpretation of the legal requirements in any of the legal jurisdictions that govern the operations or contractual obligations of Ecofibre, could impact adversely on the assets, operations, and the financial performance of Ecofibre and the industry in general.

### 5.1.8 Product liability risk

Ecofibre's Ananda Hemp and Ananda Food businesses supply nutraceutical and food products and Ecofibre intends to supply products comprised of hemp fibre.

As with all nutraceutical, food and textile products, there is a risk that the products sold by Ecofibre cause serious or unexpected side effects, including injury to consumers. Should any of Ecofibre's products be associated with safety risks such as misuse or abuse, mislabelling, tampering or product contamination or spoilage, a number of materially adverse outcomes could occur, including:

- (a) litigation or claims by the parties affected;
- (b) regulatory authorities may revoke any approvals granted, impose more onerous regulatory requirements under any licence or approval, or force Ecofibre to conduct a product recall;
- (c) regulatory action or being sued by the regulatory authority and being held liable for any harm caused to customers; or
- (d) Ecofibre's brand and reputation being damaged.

Additionally, material risks to the health and safety of customers may force Ecofibre to voluntarily suspend or terminate sales and/or operations.

Ecofibre has previously provided broad indemnities for regulatory compliance of its products in the US. Claims under those indemnities, if made, may be material (although no claims have been made or threatened to date and the Directors are not aware of circumstances likely to give rise to such claims).

Regardless of insurance and quality standards applied by Ecofibre, as in any manufacturing concern, there remains a risk of defective products. These defects or problems could result in the loss or delay in revenue, or a material cost to Ecofibre.

### 5.1.9 Workplace health and safety and workers' compensation risk

Many aspects of farming and manufacturing operations are inherently dangerous. Sales, administration and other staff are also exposed to risks, particularly if they are travelling.

Ecofibre must comply with various health and safety laws in Australia and the US. There is a risk that penalties and other liabilities for the violation of health and safety law and standards may be imposed on Ecofibre and may have an adverse effect on Ecofibre's reputation and its revenue, profitability and growth.

Given legal uncertainty in the US hemp industry until passage of the 2018 Farm Bill, Ecofibre was unable to procure all required insurances covering death of or injury to its employees in certain US states. However, the company has taken now steps aimed at gaining cover for uninsured employees from state-run schemes.

While Ecofibre endeavours to mitigate these risks, including with policies of workers compensation (where available), travel and other insurances, together with suitable work practices, there remains a residual risk that cannot be fully avoided.

### 5.1.10 Agricultural risk

Ecofibre's business is based on agricultural production and supply. As such, the business is subject to the risks inherent in the agriculture industry. These risks include insects, plant diseases, storm, fire, frost, flood, water salinity, pests, bird damage and force majeure events and in particular, irrigated land can be difficult to secure during times of low rainfall, especially in Australia.

Risks also include identifying geographic locations that provide the best agronomic conditions for growing hemp on a large scale and selecting the most suitable varieties for applicable growing conditions.

These risks may be mitigated to some degree by proper management, but they still may impact growing time, the number of harvests or the oil yield generated from each harvest.

Owing to the destruction during the twentieth century of many genetic repositories of hemp germplasm as a result of legislative curtailment of hemp cultivation, there may have been a loss of individual genes or particular combinations of genes in some varieties of hemp. This may impede or slow the generation of higher-yielding cultivars in the future. To mitigate this risk, Ecofibre has devoted substantial resources over several years to build its germplasm repository.

Any one or more of the abovementioned factors may adversely affect Ecofibre's activities and operations, financial performance and prospects in the future.

### 5.1.11 Currency risk and lack of hedging

Ecofibre is exposed to foreign currency risk, mainly through its foreign currency cash balances, receivables and payables denominated in foreign currencies and financial instruments held by overseas operations. Ecofibre's exposures are mainly against the US dollar (USD).

Currently, Ecofibre does not have any currency hedging arrangements in place, but this may change if the Directors form the view that the cost of such arrangements is appropriate. This means that Ecofibre does not currently have measures in place to soften the adverse effect of currency movements.

### 5.1.12 Sector exposure

Ecofibre's business model is based on hemp. As such, Ecofibre is materially exposed to any adverse conditions or events that may impact the hemp industry or parts thereof in which Ecofibre operates.

Sales of hemp derived CBD oil and its derivatives have largely been driven by a perception concerning their health benefits that has not been fully underwritten by clinical research, especially since the legal status of hemp has only recently been confirmed in key markets.

Should consumer sentiment towards hemp derived CBD oil products, non-animal protein products or hemp derived foods decline in future, there may be an adverse impact on Ananda Health's or Ananda Food's operations and the financial performance of Ecofibre.

### 5.1.13 Loss of key customers and distributors

Ecofibre is taking steps to grow its key customer and distributor relationships. As its customer and distributor base grows, the Company may become less reliant on individual key customers and distributors.

In future, Ecofibre may lose key customers and distributors due to a range of events, including failure to renew a contract, weakening of relationships or disputes with customers, insolvency of customers, increased competition, changes in the market or a lack of input supply.

The loss of any one or more of Ecofibre's material customer or distributor contracts may materially and adversely affect Ecofibre's revenue, profitability and growth, depending on the circumstances at the time.

### 5.1.14 Increased competition risk

Ecofibre's chosen markets are subject to increasing domestic and international competition. While Ecofibre will undertake all reasonable due diligence in its business decisions and operations, Ecofibre cannot influence or control the activities or actions of its competitors, whose activities or actions may adversely affect the operating and financial performance of Ecofibre.

Revenues or margins in the future may be reduced as the industry consolidates and seeks revenue accretion at the expense of profit margin.

US, Canadian and other hemp producers may enter or increase their focus on the US hemp derived CBD and other cannabinoid markets following passage of the 2018 Farm Bill. In Australia, following the amendment to the Food Standards in November 2017, local and foreign competitors may also enter or increase their focus on the Australian hemp food market.

Ecofibre's competitive position may be adversely impacted by an existing or new competitor who attempts to aggressively grow its business. If Ecofibre is not successful in competing in such an environment, this may impact Ecofibre's competitive position resulting in loss of market share, sales and margins and have an adverse impact upon Ecofibre's financial performance.

### 5.1.15 Uncontracted sales volumes risk

A material proportion of Ecofibre's revenue is derived from uncontracted customer relationships that do not contractually guarantee sales volumes or exclusivity for Ecofibre, with sales made under standard terms and conditions. There is a risk that these customer relationships may not be able to be maintained, or new relationships may not be formed on terms acceptable to the Company.

Additionally, given the nature of these contractual relationships, it is not possible for Ecofibre to contractually guarantee consistency of sales volumes, price or terms going forward.

Ecofibre's financial performance could be materially and adversely impacted by wholesale customers:

- (a) materially changing trading terms;
- (b) promoting the products of one or more of Ecofibre's competitors; or
- (c) refusing to promote or stock Ecofibre's products or significantly reducing orders for its products.

### 5.1.16 Seasonal grower contracts

Ecofibre's contract growers are separately contracted for each growing season. While many growers have contracted for consecutive or multiple seasons, variations in commodity prices for different crops and other factors may cause growers to prefer raising alternate crops to hemp in future.

Ecofibre will need to recruit additional growers from time to time and the Company typically needs to work with growers over multiple seasons to achieve maximum productivity.

Failure to maintain and where needed, increase numbers of hemp growers contracting with Ecofibre may have a material adverse effect on Ecofibre's performance and financial position.

### 5.1.17 Commodity price risk

The performance of the business is subject to local and international commodity prices for hemp supply. Prices of agricultural commodities fluctuate and are affected by a variety of regional and global factors that are beyond the control of the Company.

These factors include: regional and international demand and supply; production cost levels in major producing regions; weather-related conditions; government regulation and initiatives, including domestic and foreign growing programs and policies, sanctions and barriers; plant diseases and others. Commodity prices are also affected by macroeconomic factors such as expectations regarding inflation, interest rates and general global economic conditions.

Adverse movements in commodity prices could have a negative impact on Ecofibre's operations and business.

### 5.1.18 Innovation risk

Should Ecofibre fail to develop new technologies and products, or anticipate or react to changes in existing technologies, either within or outside of its industry, development of new products may be materially delayed, which could result in a reduction in net sales and a loss of market share, with materially adverse impacts on the Company.

### 5.1.19 Cost overruns

Management estimates the production costs in manufacturing any new product, including capital costs for acquiring equipment where production is in-sourced. Despite management's efforts, as with all forecasts and estimates, internal forecasts and estimates are based on assumptions that may prove inaccurate. If the level of capital or other expenditure required is higher than expected or if realised margins are lower than expected, Ecofibre's financial performance may be adversely affected.

### 5.1.20 R&D Claims

Ecofibre has received \$6,111,000 in R&D refunds in respect of the last 3 financial years. While it believes that its claims are substantiated with appropriate evidence, the Company cannot guarantee that the Australian Taxation Office (ATO) or another governmental authority may not in the future take a different view on some or all of those claims, in which case the Company may be compelled to repay amounts received to the ATO.

The Australian government has recently announced significant changes to the R&D incentive programme. The Company has yet to assess the full impact of these changes, but there is a significant uncertainty as to the quantum of future R&D rebates.

### 5.1.21 Corporate and business taxation

Ecofibre is currently subject to a range of taxation obligations, potentially including income taxes (Australia, US federal, state, county and municipal income taxes), indirect taxes (Australian Goods and Services Tax, and sales and use taxes levied by individual states in the US), payroll taxes, superannuation and pension obligations, property taxes and other taxes and levies.

There is the potential for changes to any domestic tax laws. Any change to the current rates of taxes imposed on Ecofibre is likely to affect returns to Shareholders.

There is a tax treaty in existence between Australia and the US. Interpretation of such treaties and associated international tax laws is highly complex and subject to varying and sometimes, uncertain interpretations over time. Any change to the content, interpretation or application by the relevant tax authorities of such treaties or laws that is contrary to Ecofibre's view of those treaties or laws may increase the amount of tax to be paid by Ecofibre or impact on Shareholders' ability to access franking credits.

Any change in tax rules and tax arrangements or their implementation could have an adverse effect on the level of dividend franking and Shareholder returns.

### 5.1.22 Reputation and trade marks

Ecofibre believes that reputation and brand recognition are vital to its business and the effective protection of intellectual property rights is critical to its interest.

Ecofibre cannot guarantee that there will not be any unauthorised use or misuse of its brands, especially since it is still seeking trade mark registration. Any infringement may be detrimental to Ecofibre's reputation and may lead to costly and time consuming litigation or adversely affect Ecofibre's financial performance.

### 5.1.23 Intellectual property

To the extent that Ecofibre relies upon its own or exclusively licensed intellectual property to conduct its business, it will need to protect its intellectual property. However, there may be circumstances where Ecofibre's intellectual property and related licences cannot be protected or are subject to unauthorised disclosure, infringement or challenge by a third party.

If Ecofibre fails to protect any material intellectual property or licence, this may lead to a loss of opportunities and adversely impact on Ecofibre's operating results and financial position.

In addition, there can be no assurance that Ecofibre's intellectual property rights now and in the future will afford it a competitive advantage, commercially significant protection of the relevant intellectual property, or that any of the products that may arise from the intellectual property will have commercial application.

Any challenge to Ecofibre's intellectual property position, including its patent licences, would divert the limited resources of Ecofibre away from its primary development program and may result in Ecofibre requiring additional funds to complete that program. It may also result in Ecofibre being unable to fully utilise its intellectual property portfolio or being required to licence certain intellectual property to conduct its development program in a manner which will allow commercialisation of its products, which may reduce the profits available from such activities.

There is always a risk of third parties claiming involvement in or superior rights to technological discoveries. Further, competition in retaining and sustaining protection of intellectual property and the complex nature of intellectual property can lead to expensive and lengthy patent disputes, for which there can be no guaranteed outcome. Some parties may be able to utilise their greater financial resources to sustain the costs of litigation or proceedings.

Ecofibre may incur significant costs in asserting its rights in such circumstances. Even a registered patent can be invalidated in certain circumstances and disputes may arise in future about termination or subsistence of Ecofibre's intellectual property licences. Although Ecofibre will seek to protect and enforce its intellectual property and related contractual rights, there can be no assurance that these measures will be successful.

Any loss of key intellectual property or related contractual rights of Ecofibre may materially adversely effect on Ecofibre's reputation, revenue and profitability.

In particular, TJU's Hemp Black business is dependent on a licence of TJU's intellectual property. While Ecofibre has no reason to doubt the validity and term of its licence with TJU (see Section 9.1.3), should that licence nonetheless be validly terminated by TJU before the end of its stipulated term or otherwise be found to be invalid or unenforceable, Ecofibre may be unable to continue its Hemp Black business. The TJU licence provides that TJU may terminate the licence before the end of its term if Ecofibre fails to remedy a material breach of the licence within 30 days of request to do so.

#### 5.1.24 Insurance

Ecofibre will maintain insurance where it is considered appropriate for its needs and is available.

Ecofibre cannot reasonably insure against all risks, either because appropriate or necessary cover is not available or because the Directors consider the required premiums to be excessive in relation to the benefits that would accrue.

If Ecofibre incurs losses or liabilities for which it is uninsured, the value of its assets and its ongoing cash flows may be at risk.

#### 5.1.25 Reliance on relationships and alliances

Ecofibre has relationships with government, technical and advisory parties and other stakeholders in the industries in which it operates. Ecofibre's success, in part, depends upon continued successful relations with these parties. The loss of one or more of these relationships or a change in the nature or terms of one or more of these relationships may have a material adverse impact on Ecofibre's financial position and prospects.

#### 5.1.26 Counterparty and credit risk

Ecofibre's operations require the involvement of a number of third parties, including suppliers and contractors. Financial failure, default or contractual non-performance on the part of such third parties, including late payment of amounts owing to the Company or failure to pay such amounts, may have a material impact on the operations and performance of the Company (see Section 9.1 for a summary of Ecofibre's material contracts).

#### 5.1.27 Additional capital requirements

The funds to be raised under the Offer are considered sufficient to meet Ecofibre's current objectives. However, additional funding may be required in the event that costs exceed Ecofibre's expectations or if further opportunities arise for capital expenditure.

Ecofibre may seek or need to raise additional funds via equity financing, debt financing or licensing arrangements. Failure to obtain sufficient funding in those circumstances may result in delay and indefinite postponement of Ecofibre's activities. There can be no assurance that additional financing will be available when needed, on terms appropriate to Ecofibre's or that do not involve substantial dilution to Shareholders.

### 5.1.28 Uncertainties associated with supply inputs

The ability for Ecofibre to cultivate and manufacture products for supply in the US and Australia is dependent on a number of key inputs and their related costs. These inputs include seeds, raw materials, electricity, water and skilled labour. As with any cultivation or manufacturing operation, the availability of reputable suppliers of key inputs and any significant interruption or change in availability or costs of key inputs could materially impact the production process and subsequently the products available for supply. This would affect the operating results of Ecofibre during the period which these risks materialise.

If, in future, Ecofibre cannot secure and retain key suppliers, its ability to maintain consistent production levels may be compromised, which in turn may have a material adverse impact on the financial performance of the Company.

### 5.1.29 Operational risks

Ecofibre's business may be affected by various factors which are beyond its control. Ecofibre is dependent on the ongoing, efficient operation of its systems and infrastructure. Risks that may threaten Ecofibre's operations include failure of critical machinery, interruption to the supply of power, gas or water supply and industrial action.

The operation of Ecofibre's manufacturing facilities involves risks to employees, contractors, and plant and equipment, including the risk of accidents arising from malfunction of equipment, natural disasters and force majeure.

Such events may not always be foreseen or insured against and are beyond Ecofibre's control. The occurrence of such events may result in damage to Ecofibre's operations or reputation and may have a material adverse effect on Ecofibre's revenue, profitability and growth.

Ecofibre's production activities are vulnerable to critical breakdowns, as a failure of one portion of the line can result in the entire line becoming idle. This poses a material potential financial risk to the Company. Ecofibre implements measures to mitigate this risk, to the extent practicable.

### 5.1.30 Environmental risk

Ecofibre is subject to environmental laws and regulations where it operates. It may be required to pay compensation costs and penalties if environmental contamination occurs, which could also give rise to breaches of environmental laws and regulations. This could have a material adverse effect on Ecofibre's reputation, revenue and profitability.

While the hemp industry is generally considered favourably with respect to its impact on the environment, increasing government and public sensitivity to environmental sustainability and environmental regulation, may nonetheless impact adversely on Ecofibre's business.

### 5.1.31 Planning and building approval and construction risks for Georgetown Facility

The ability for Ecofibre to construct its proposed new facility in Georgetown, Kentucky requires it to obtain appropriate planning and building approvals.

Should planning and building approvals not be obtained for the specific site selected and acquired by Ecofibre within a reasonable time, Ecofibre will attempt to make acceptable modifications to its site proposal to deal with the issues raised or causing the delays and should that fail, the Company intends to acquire a substitute site as close as possible to the original site in or near Georgetown, Kentucky, to be developed along the same lines. In that event, which Ecofibre considers unlikely, it will endeavour to sell the current site to best advantage. This could have a material impact on the timing and costs for executing Ecofibre's business objectives and ultimately, the profitability of Ecofibre.

There are a number of inherent risks associated with any construction project which equally apply to Ecofibre's proposed new facility. These include time and cost overruns in construction and force majeure events. If any of these risks eventuates, they could have a material impact on the timing and costs and an adverse impact on Ecofibre's profitability.

### 5.1.32 Potential variability in dividend payments

The payment of dividends by Ecofibre is at the discretion of the Directors and will be a function of a number of factors, including the general business environment, Ecofibre's operating results and financial condition, future

funding requirements, capital management initiatives, potential strategic growth opportunities, taxation considerations, the level of retained earnings and available franking credits and any contractual, legal or regulatory restrictions on the payment of dividends by the Company.

There can be no assurance that Ecofibre will achieve profitability in the future to pay dividends or the degree to which dividends will be franked.

### 5.1.33 Dependence on key personnel

Ecofibre's success depends to a significant extent on the ability, performance and experience of its key personnel. The loss of key personnel or an inability to recruit or retain suitable replacement or additional personnel may impact Ecofibre's ability to develop and implement its strategies, which may have an adverse effect on its future financial performance.

There can be no assurance that Ecofibre will be able to attract or retain sufficiently qualified scientific and management personnel or maintain its relationship with key scientific organisations and contractors. The loss of key technical and management personnel and the associated corporate knowledge of those people could have a detrimental impact on Ecofibre and may adversely affect it by impeding the achievement of its research, product development and commercialisation objectives.

### 5.1.34 Liquidity and realisation risk

There is currently no public market through which Ecofibre's Shares may be sold. On Completion of the Offer, there can be no guarantee that an active market will develop or that the price of the Shares will increase. There may be relatively few or many potential buyers or sellers of the Shares on the ASX at any time. This may increase the volatility of the market price of the Shares and may prevent investors from acquiring more Shares or disposing of Shares they have acquired under the Offer. It may also affect the prevailing market price at which the Shareholders can sell their Shares. This may result in Shareholders who acquired Shares receiving a market price for their Shares at less or more than the Offer Price.

On completion of the Offer, Existing Shareholders will hold approximately 95% of the Shares (subject to the subscription amount). Around 65% of the Shares held by Existing Shareholders may be classified by ASX as restricted securities and may be subject to escrow for up to 24 months from the date of quotation, or 12 months from the date the Shares were acquired. The absence of any sale of these Shares by the Existing Shareholders during the escrow period may cause, or at least contribute to, limited liquidity in the market for the Company's Shares. This could affect the prevailing market price at which Shareholders are able to sell their Shares.

### 5.1.35 Trade policy

Access to Ecofibre's markets and customers may be limited in the future, depending on trade policy. Ecofibre's performance may, if it develops a significant export business, be adversely affected by such changes in trade policy and, in particular, the trade policies of the US and Australia.

### 5.1.36 Force majeure events

Force majeure events, or events beyond Ecofibre's control may occur within or outside Australia or the US that could affect the world economy, the operations of Ecofibre and the price of Ecofibre's Shares. These events include war, acts of terrorism, civil disturbance, political intervention and natural disasters.

### 5.1.37 Unforeseen risks

There may be other risks which Directors or management are unaware of at the time of issuing this Prospectus which may impact on Ecofibre, its operations and/or the valuation and performance of Ecofibre's Shares.

### 5.1.38 Combination of risks

Ecofibre may be subject to a combination of risks, including any of the risks outlined in this Section 5, which could affect Ecofibre's performance valuation, financial performance and prospects.



### 5.1.39 Transition from a Public Unlisted to Public Listed Company

As part of its listing, Ecofibre is implementing governance systems and processes that are appropriate to manage its compliance with legislative and ASX Listing Rules requirements. There is a risk that, prior to or as a consequence of these systems and processes being implemented, unforeseen circumstances may arise that could have an impact on Ecofibre's financial performance.

### 5.1.40 Litigation risks

The Company may, in the ordinary course of business, become involved in litigation and disputes, for example contractual disputes with service providers, distribution and sales agents, customers and other parties. Any such litigation or dispute could involve significant economic costs and damage to relationships with contractors, customers or other stakeholders. Such outcomes may have an adverse impact on the Company's business, reputation and financial performance.

So far as the Directors are aware, as at the date of this Prospectus, there is no current or threatened civil litigation, arbitration proceeding or administrative appeal, or criminal or governmental prosecutions, in which Ecofibre is directly or indirectly concerned, which are likely to have a material adverse impact on the business or the financial position of the Company. However, the Directors note the matters listed below.

On 30 November 2015, Ecofibre received a letter from a person purporting to represent The Hemp Corporation Pty Ltd (THCPL), although the writer was not recorded on ASIC records as a director of THCPL as at that date. The letter referred to discussions involving Ecofibre and THCPL and Ecofibre's lapsed arrangement with Odin Energy Limited and THCPL. The letter contained a claim for payment by Ecofibre to THCPL of \$490,000 in cash or Ecofibre Shares at an issue price of \$0.08 each. Ecofibre considers the claim devoid of merit, has not and does not intend to pay the sum demanded or any other sum to THCPL and will defend any proceedings brought by THCPL relating to the claim.

In December 2017, United Life Science, Inc. dba Ananda Hemp (ULS) (a Subsidiary of Ecofibre) notified a distributor (**Claimant**) that it was exercising its contractual right to terminate the parties' Sales Agency Agreement (**SA Agreement**). On April 24, 2018, the Claimant demanded arbitration against the Company (**Arbitration**), asserting a claim for damages based upon an alleged breach of the SA Agreement and alleged violation of the *Independent Wholesale Sales Representatives Contracts Relations Act of 1990* (the "Act", Cal. Civ. Code §1738.10, et seq.) The Claimant seeks general damages in an amount according to proof, including but not limited to commissions allegedly owed or due and late fees under the SA Agreement, attorney's fees and costs, and further claims that any damage award should be trebled under the Act. ULS denies that it breached the SA Agreement and has filed a cross-petition against the Claimant and maintains that it properly terminated the SA Agreement. ULS considers the claims devoid of merit, has not and does not intend to pay any sum to the Claimant and will defend the Arbitration proceeding.

## 5.2 General Risks

### 5.2.1 Securities investments and share market conditions

There are risks associated with any securities investment. The prices at which the securities trade may fluctuate in response to a number of factors.

Furthermore, the stock market may experience extreme price and volume fluctuations that may be unrelated or disproportionate to the operating performance of companies. These factors may materially adversely affect the market price of the securities of the Company regardless of the Company's operational performance. Neither the Company nor the Directors warrant the future performance of the Company, or any return of an investment in the Company.

Share market conditions are affected by many factors, including:

- (a) general economic outlook;
- (b) interest rates and inflation rates;
- (c) currency fluctuations;
- (d) changes in investor sentiment towards equities or particular market sectors;
- (e) political instability;

- (f) short selling and other trading activities;
- (g) the demand for, and supply of, capital; and
- (h) force majeure events.

## 5.2.2 Securityholders may be diluted

The Company may issue securities in the future and engage in capital fundraisings for the Company. A fundraising can be for a range of reasons including for an investment or business acquisition. The Listing Rules impose rules for the percentage of its capital that the Company is able to issue within a 12 month period, however security holders may still have their interest in the Company diluted as a result of securities being issued under future fundraisings.

## 5.2.3 Accounting policy changes

The accounting standards applying to Ecofibre may change. This may affect Ecofibre's reported earnings and financial position from time to time. However, such changes are likely to operate in the same way in relation to other companies, including Ecofibre's competitors.

## 5.2.4 Economic risk

Changes in both Australia and world economic conditions may adversely affect the financial performance of the Company. Factors such as inflation, currency fluctuations, interest rates, industrial disruption, general economic outlook and economic growth may impact on future operations and earnings.

## 5.2.5 Taxation changes for Shareholders

There may be tax implications arising from applications for securities offered under this Prospectus and on the future disposal of securities. For example, the Australian Federal Labor Party has recently announced proposals that could significantly impact the ability of investors to claim refunds for unused franking credits, and potential changes to the taxation of capital gains on assets.

Potential investors should consult their professional tax adviser before deciding whether to apply for Offer Shares.

## 5.3 Speculative investment

The above list of risk factors should not be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above risk factors, and others not expressly referred to, may materially affect the future financial and operational performance of the Company and the value of the securities offered under this Prospectus. There may be other risks of which the Directors are unaware of at the time of issuing this Prospectus which may impact on the Company, its business and/or the valuation and performance of the securities offered under this Prospectus.

Therefore, the securities offered under this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or market value.

Potential investors should consider that the investment in Ecofibre is highly speculative and should consult their professional advisers before deciding whether to apply for the securities offered under this Prospectus.

# 6

## KEY PERSONS and CORPORATE GOVERNANCE



## 6.1 Board of Directors

### 6.1.1 The Directors

The Company is managed by the Board of Directors. The Board's and management's focus will be to generate value for Shareholders.

The Board comprises three Directors as at the date of this Prospectus, namely:

- (a) Mr Barry Lambert, Non-Executive Chairman;
- (b) Mr Eric Wang, CEO and Managing Director; and
- (c) Mr Jonathan Meadmore, Non-Executive Director.

### 6.1.2 Director Profiles

The names and details of the Directors in office at the date of this Prospectus are:

#### **Barry Lambert**

Non-Executive Chairman

Barry founded ASX listed company, Count Limited, a financial services business, in 1980. Count was one of the largest independent advice providers in Australia and was acquired by Commonwealth Bank in 2011.

Barry was also asked to serve as Chairman of Class Limited and subsequently took Class through to listing on the ASX. Barry also served as Chairman of ASX listed Count Plus.

In 2016 and 2017, Barry and Joy Lambert made significant donations to establish the Lambert Initiative at Sydney University and Lambert Center at Thomas Jefferson University, respectively. Both of these entities are focused on the research and education of medicinal cannabis and hemp.

In 2017, Barry resigned as Chairman of Class Limited and Count Plus to focus on his role as Chairman of Ecofibre.

#### **Eric Wang**

Chief Executive Officer  
and Managing Director

Eric joined Ecofibre as the 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. More recently, he served as the Chief Operating Officer of Perpetual Limited and Director of the APO for AMP Limited.

Eric holds a Bachelor of Science from West Point and an MBA from the Tuck School at Dartmouth.

**Jonathan Meadmore**  
Non-Executive Director

Chairman Audit, Risk and Compliance Committee

Jon is a Brisbane-based partner of law firm, Colin Biggers & Paisley. He is the joint leader of the corporate group, having practiced law for over 25 years.

Jon holds a Bachelor of Business (Accounting) in addition to his law degree.

## 6.2 Senior Management

Ecofibre's senior management is summarised below:



### 6.2.1 Ecofibre

**Jonathan Brown**  
CFO and Company Secretary

Jonathan is a Chartered Accountant with 25 years' commercial experience. Jonathan is responsible for Ecofibre's financial strategy and corporate affairs.

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 and reconstruction.

Jonathan has a Bachelors Degree in Accounting and a Graduate Diploma in Advanced Accounting. He also holds a Graduate Diploma in Finance and Investment from FINSIA.

**Dr Alex Capano**  
Chief Science Officer

Dr. Capano holds a BSN and an MSN from the University of Pennsylvania, as well as a BS in neuroscience from the University of Miami. She earned her doctoral degree 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.

Dr Capano 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 at Thomas Jefferson University.

Dr. Capano is currently a faculty member of the Lambert Center and a Senior Fellow in the Institute of Emerging Health Professions. Her clinical practice as a family nurse practitioner includes primary care, with a focus on sexual and reproductive medicine.

**Alastair Bor**  
Chief Technology Officer

Alastair joined Ecofibre in July 2018 to drive scale, automation and technical capability across Ecofibre.

Alastair is an experienced executive, with a long track record of delivering innovation in both large private and public sector organizations. Alastair oversees both operational and information technology across Ecofibre.

Alastair has an MBA from the Tuck School at Dartmouth and previously worked at Booz, Allen & Hamilton, Perpetual Ltd and Transport for NSW in various senior executive technology and delivery roles.

**Adam Cantwell**  
Vice President,  
Global Operations

Adam has been with Ecofibre since 2009 and has over 20 years of experience in the project management of construction and agricultural operations.

Adam has deep experience in the growing, processing and harvesting techniques required to successfully produce hemp.

Adam is responsible for providing operational oversight and project management support across all functions and geographies of Ecofibre's business with a specific focus on hemp production and processing.

## 6.2.2 Ananda Health

**Charles 'Chuck'  
Schneider**  
Chief Revenue Officer

Chuck is responsible for managing sales of the Ananda Health business in the United States, with a specific focus on the independent pharmacy segment.

Chuck has 26 years' experience in the healthcare sector and has served in senior leadership positions in sales, marketing and business development with companies such as AbbVie, Allergan and Kos Pharmaceuticals.

Chuck has focused on serving the independent pharmacy sector, first as Chief Sales and Marketing Officer for American Pharmaceutical Ingredients and as Chief Revenue Officer at Pharmacy Development Services (PDS).

Chuck holds a Master of International Management from the Thunderbird School of Global Management.

### John Ryan

Chief Operating Officer

John joined Ecofibre in 2015 and is responsible for developing the Company's product range and establishing its market presence in the United States. His focus also includes the regulatory compliance aspects for Ananda Health.

John is also responsible for direct-to-consumer, retail and non-pharmacy wholesale sales.

Prior to joining Ecofibre, John ran his own venture capital investment and advisory firm which focused on the biotech sector. John holds Series 7 and 63 licences.

### Brian Furnish

Director  
Global Production

Brian is an 8th generation farmer and oversees all aspects of Ecofibre's nutraceutical growing and production operations in Kentucky.

Brian has deep experience in Washington, DC working with lawmakers and businesses to advance the legal status of hemp; in particular, the hemp provisions of the 2014 Farm Bill and 2015 Omnibus Law, as well as the 2018 Hemp Farming Act (see Annexure A).

In 2014 Brian was the Chairman of the Kentucky Hemp Commission and later was the inaugural President of the US Hemp Roundtable.

## 6.2.3 Ananda Food

### 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.

## 6.2.4 Hemp Black

### Mark Sunderland

Chief Innovation Officer,  
Hemp Black

Mark is the Robert J. Reichlin High-Performance Apparel Chair, Director of M.S. Global Fashion Enterprise and Director of B.S in Textile Material Technology at Thomas Jefferson University. Mark holds a BS and MS from Philadelphia University.

He is responsible for the leadership and development of commercial technologies related to the hemp-derived textiles industry. A leading textile engineer, strategist and entrepreneur in high performance materials and product development, Mark has over 30 years of experience in the field of engineered advance textile materials and apparel products.

Mark was COO/partner of a textile manufacturing company with a facility in Philadelphia and contracted manufacturers globally, producing fabrics and apparel for the advanced fabric performance and fashion apparel retail market. His specialties include technical fabrics, warp knits, weft knits, seamless, full and integrated knitting, weaving, soft composites and non-wovens.

## 6.2.5 Directors' Interest

Other than as set out below or elsewhere in this Prospectus, no Director or proposed Director holds at the date of this Prospectus, or held at any time during the last two years before the date of lodgement of this Prospectus with ASIC, any interest in:

- (a) the formation or promotion of the Company; or
- (b) any property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the Company or the Offer; or
- (c) the Offer;

and no amounts have been paid or agreed to be paid by any person and no benefits have been given or agreed to be given by any person to a Director or proposed Director to induce him or her to become, or to qualify as, a Director; or for services provided by a Director or proposed Director in connection with the formation or promotion of the Company or the Offer.

## 6.3 Directors' Interests in securities as at the date of this Prospectus

As at the date of this Prospectus, the interest of the Directors (and their respective associates and related parties) in securities of the Company are set out in the table below.

TOPIC	SHARES	
	Held	Held by Employee Share Scheme Trustee <sup>1</sup>
Mr Barry Lambert	65,800,440	-
Mr Eric Wang	13,301,253	7,200,000
Mr Jonathan Meadmore	498,000	-

Notes:

- 1 See Section 6.8 for more particulars of these Shares.
- 2 The table assumes that the Directors do not subscribe for Shares under this Prospectus.

## 6.4 Remuneration of Directors

### 6.4.1 Mr Barry Lambert

Mr Lambert has entered into an executive services agreement with the Company under which he will be engaged as non-executive Chairman. The agreement is summarised in Section 9.1.1(a).

Mr Lambert's cash remuneration is \$100,000 per annum including statutory superannuation. In the 2 years prior to the date of this Prospectus, Mr Lambert or entities controlled by him have received \$75,000 cash remuneration from the Company.

### 6.4.2 Mr Eric Wang

Mr Wang has entered into an executive services agreement with the Company under which he is employed as Managing Director at an annual salary of \$280,000 per annum plus statutory superannuation. The agreement is summarised in Section 9.1.1(b).

Mr Wang is not paid a separate director's fee for serving on the Board.



Mr Wang was issued 2,400,000 Shares on 28 December 2018 and a further 7,200,000 Shares are held by the ESS Trustee as potential long term incentives under the ESS (see Section 6.8) and will vest in tranches (Tranches) to Mr Wang 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 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 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 \$2.07 based on a rolling 30 VWAP during the period between 1 January 2024 and 31 December 2024.	30 June 2024

Should the company:

- (a) terminate Mr Wang's employment other than for cause; or
- (b) be subject to a successful takeover bid,

all the above mentioned Tranches of Shares in respect of which the Share Price Hurdles have been satisfied but the Vesting Date has not yet been reached, will immediately vest and be released to Mr Wang by the trustee. The remainder will be forfeited.

Should Mr Wang terminate his employment with the Company prior to satisfaction of both the Share Price Hurdle and Vesting Date for a particular Tranche, the Shares comprising that Tranche will be forfeited by Mr Wang.

The remuneration of Mr Wang will be reviewed every 12 months from the date his employment commenced.

In the 2 years prior to the date of this Prospectus, Mr Wang or entities controlled by him have received \$609,000 cash remuneration (including statutory superannuation) and 2,400,000 Shares from the Company.

### 6.4.3 Mr Jonathan Meadmore

Mr Jonathan Meadmore (through Colin Biggers & Paisley Lawyers) will be paid a Director's fee of \$90,000 per annum plus statutory superannuation for his role as a Non-Executive Director. The agreement is summarised in Section 9.1.1(c). In the 2 years prior to the date of this Prospectus, Mr Meadmore or entities controlled by him have received \$77,500 in cash remuneration from the Company.

Jonathan is a partner of Colin Biggers & Paisley Lawyers, a firm that has provided legal services to Ecofibre in relation to this Prospectus and other legal matters in the last two years (see Section 9.8 for interests of experts and advisors).

## 6.5 Other Directors' Fees

A Director may also be paid fees or other amounts as the Directors determine if a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. A Director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

## 6.6 Non-executive Director remuneration

Under the Constitution, the Board may decide the remuneration to which each non-executive Director is entitled for their services as a Director. However, the total amount of fees paid to all non-executive Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by Ecofibre in general meeting. This amount has been fixed at \$500,000 per annum.

Each non-executive Director has entered into the agreement with the Company summarised in Section 9.1.1.

## 6.7 Related Party Arrangements

The Company's policy in respect of related party arrangements is as follows:

- (a) a Director with a material personal interest in a matter is required to give notice to the other Directors before such a matter is considered by the Board; and
- (b) for the Board to consider such a matter, the Director who has a material personal interest is not present while the matter is being considered at the meeting and does not vote on the matter.

The Company has entered into the following related party transactions on arms' length terms:

- (a) executive services agreements or letters of appointment with each of its Directors on standard terms (refer to Section 9.1.1); and
- (b) Deeds of Indemnity, Insurance and Access with each of its Directors on standard terms. Aside from the engagement and services agreements with Directors described in Section 9.1.1(d), there are no other related party agreements or arrangements;
- (c) Grants of interests in Shares under the Company's ESS as set out in Section 6.8.2 and 6.4.2;
- (d) a convertible note agreement with the Lambert Superannuation Fund (refer to Section 9.1.1(e)); and
- (e) a line of credit and loan agreement with Barry Lambert (refer to Section 9.1.1(f)).

## 6.8 Employee Share Scheme

### 6.8.1 Plan rules

The Company has adopted an Employee Share Scheme (ESS or The Plan). The key terms under the ESS are summarised as follows:

(a) *Purpose*

The Plan is a long term incentive aimed at creating a stronger link between an employees' performance and reward, while increasing shareholder value in the Company.

(b) *Administration by trustee*

Unvested securities issued to participants are held on trust by the trustee on behalf of the Participant.

(c) *Who may participate*

The Plan is for directors, employees, contractors or their nominated entities or family members.

(d) *Operation of ESS*

The Board may at any time decide that the scheme should be operated in respect of any financial year and the Board may determine at its discretion the total number of Securities to be offered to each person entitled to participate (Eligible Person) and the terms, conditions and restrictions on which the Securities are offered.

(e) *Terms of Offers*

The Board determines the terms and conditions of offers to Participants, including number of securities, amounts payable, vesting periods and performance hurdles.

(f) *Contribution plans and loans*

Provided the Company is listed and the acquisition of any Securities under a Contribution Plan or loan arrangement falls within the scope of relief under CO 14/1000, the Company may invite an Eligible Person to acquire Securities in:

- (i) A Contribution Plan as long as the written terms and agreement comply with the relevant ASIC relief. A Contribution Plan is a plan under which a Participant may make monetary contributions in regular intervals to acquire Securities from their gross or net wages or remuneration or from any other monies.
- (ii) A loan agreement, as long as the written terms and agreement comply with the relevant ASIC relief. The loan arrangement must be free from any fees or interest and must not materially prejudice the interests of the Company, its subsidiaries, its shareholders, or its ability to pay its creditors.

(g) *Restrictions on securities*

To the maximum extent permitted by law the Board may restrict the participant's right to dispose, transfer, register or otherwise deal with securities issued under the plan (Restricted Securities). Once those restrictions have been satisfied in accordance with their terms, the trustee must transfer the securities at the direction of the employee.

(h) *Amendment of the ESS rules*

The Plan can be amended by the Board at any time, provided it does not reduce the rights of any participant, unless the amendment is to comply with the law or Listing Rules, to correct any manifest error or mistake, to enable contributions by a Group Company to qualify as income tax deductions, to enable any employer to reduce the amount of fringe benefits tax, to enable more favourable treatment to the Participants.

(i) *Winding up the ESS*

The Plan terminates if the Company is wound up, or the Board determines the plan is to be wound up.

(j) *ASIC Relief*

In order for the Company to comply with the fundraising and financial services laws relevant to the ESS, the Company may rely on the relevant ASIC Class Order, being ASIC Corporations Instrument 2014/1001, for an unlisted body and ASIC Corporations Instrument 2014/1000, for a listed body

## 6.8.2 Securities issued under the ESS

As at the date of this Prospectus, the following securities have been issued under the ESS:

Securities	Directors*			Other Participants		
	Vested	Unvested	Earliest vesting date	Vested	Unvested	Earliest vesting date
Shares	2,400,000	7,200,000	28 September 2018	1,745,091	10,125,339	14 September 2018

\*Issued to Mr Eric Wang - See Section 6.4.2.

## 6.9 US Employee Health Plans

The Company maintains health plans for its employees and pays the premiums on those plans. In certain circumstances, the Company is required to continue paying premiums for 12 months after an employee ceases employment.

## 6.10 ASX Corporate Governance Council Principles and Recommendations

The Company has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the Company's policies and procedures with openness and integrity, commensurate with the Company's needs.

To the extent applicable, the Company has adopted the 3rd edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (Recommendations).

In light of the Company's size and nature, the Board considers that the current Board is a cost effective and practical method of directing and managing the Company. As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance policies and structures will be reviewed. The Company's main corporate governance policies and practices as at the date of this Prospectus are detailed below. The Company's full Corporate Governance Plan will be available in a dedicated corporate governance information section of the Company's website at [www.ecofibre.com](http://www.ecofibre.com).

### 6.10.1 Board of Directors

The Board is responsible for the corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives and monitors performance against those objectives. Clearly articulating the division of responsibilities between the Board and management will help manage expectations and avoid misunderstandings about their respective roles and accountabilities.

In general, the Board assumes (amongst others) the following responsibilities:

- (a) providing leadership and setting the strategic objectives of the Company;
- (b) appointing and when necessary, replacing the Executive Directors;
- (c) approving the appointment and when necessary replacement, of other senior executives;
- (d) undertaking appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director;
- (e) overseeing management's implementation of the Company's strategic objectives and its performance generally;
- (f) approving operating budgets and major capital expenditure;
- (g) overseeing the integrity of the Company's accounting and corporate reporting systems including the external audit;
- (h) overseeing the Company's process for making timely and balanced disclosure of all material information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's Securities;
- (i) ensuring that the Company has in place an appropriate risk management framework and setting the risk appetite within which the Board expects management to operate; and
- (j) monitoring the effectiveness of the Company's governance practices.

The Company is committed to ensuring that appropriate checks are undertaken before the appointment of a Director and the Company has in place written agreements with each Director which detail the terms of their appointment.

## 6.10.2 Composition of the Board

Election of Board members is substantially the province of the Shareholders in general meetings. The Board currently consists of one Executive Director and two Non-Executive Directors (of whom Mr Jon Meadmore is considered independent by the Board). As the Company's activities develop in size, nature and scope, the composition of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

## 6.10.3 Identification and management of risk

The Board's collective experience will assist in the identification of the principal risks that may affect the Company's business. Key operational risks and their management will be recurring items for deliberation at Board meetings.

## 6.10.4 Ethical standards

The Board is committed to the establishment and maintenance of appropriate ethical standards.

## 6.10.5 Independent professional advice

Subject to the Chairman's approval (not to be unreasonably withheld), the Directors, at the Company's expense, may obtain independent professional advice on issues arising in the course of their duties.

## 6.10.6 Remuneration arrangements

The remuneration of any Executive Director will be decided by the Board and must not be calculated as a commission on, or percentage of, operating revenue.

In addition, subject to any necessary Shareholder approval, a Director may be paid fees or other amounts as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director (e.g. non-cash performance incentives such as Options).

Directors are also entitled to be paid reasonable travel and other expenses incurred by them in the course of the performance of their duties as Directors.

The Board reviews and approves the Company's remuneration policy in order to ensure that the Company is able to attract and retain executives and Directors who will create value for Shareholders, having regard to the amount considered to be commensurate for an entity of the Company's size and level of activity as well as the relevant Directors' time, commitment and responsibility.

The Board is also responsible for reviewing any employee incentive and equity-based plans including the appropriateness of performance hurdles and total payments proposed.

## 6.10.7 Securities trading policy

The Board has adopted a policy that sets out the guidelines on the sale and purchase of Securities in the Company by its key management personnel (i.e. Directors and, if applicable, any employees reporting directly to the Executive Directors). The policy generally provides that the written acknowledgement of the Chairman (or the Board in the case of the Chairman) must be obtained prior to trading.

## 6.10.8 Diversity policy

The Board values diversity (in its broader sense) and recognises the benefits it can bring to the organisation's ability to achieve its goals. However, given the current stage of the Company's operations and number of employees, the Company has determined at this stage not to formally adopt a diversity policy. The Company will re-assess this as the Company grows.

## 6.10.9 Audit and Risk

The Board has established an Audit and Risk Committee. The Audit and Risk Committee Charter sets out the role, responsibilities, composition, structure and membership requirements of the Audit and Risk Committee and the procedures for inviting non-committee members to attend meetings.

The Committee's duties include:

- (a) reviewing the Company's annual and half year financial statements and related reports before submission to the Board and advising their board on their adoption;

- (b) reviewing the evaluation by management of the independence of the Company's auditors and assisting in the preservation of such independence; and
- (c) overseeing management's appointment of the Company's auditor.

Members of this Committee are Jon Meadmore (independent) and Barry Lambert (Chair).

## 6.11 Departures from Recommendations

Following Listing, the Company will be required to report any departures from the Recommendations in its annual financial report. The Company's departures from the Recommendations as at the date of this Prospectus are detailed in the table below.

Principles and Recommendation	Explanation for Departures
1.5 A listed entity should have a diversity policy and disclose that policy at the end of each reporting period	<p>The Company does not comply with Recommendation 1.5.</p> <p>The Company has not formally established a diversity policy given the current stage of its operations and small number of employees.</p>
2.1 The board of a listed entity should have a nomination committee	<p>The Company does not comply with Principle 2.1.</p> <p>The Company is not of a relevant size to consider formation of a nomination committee to deal with the selection and appointment of new Directors and as such a nomination committee has not been formed.</p>
2.2 The board of a listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	<p>The Company does not comply with Principle 2.2.</p> <p>The Board does not maintain a formal Board Matrix as the Board considers that such a matrix is not necessary given the current size and scope of the Company's operations.</p> <p>The Board may adopt such a matrix at a later time as the Company's operations grow and evolve.</p>
2.4 A majority of the board of a listed entity should be independent directors.	<p>The Company does not comply with Principle 2.4.</p> <p>Given the Company's present size and scope, it is currently not the Company's policy to have a majority of independent Directors.</p> <p>Directors have been selected to bring specific skills and industry experience to the Company. The Board has an expansive range of relevant industry experience, financial, legal and other skills and expertise to meeting its objectives.</p> <p>The Board currently has one independent Director, namely Mr Jon Meadmore.</p>
2.5 The chair of the board of a listed entity should be independent.	<p>The Company does not comply with Principle 2.5.</p> <p>The Board will seek to appoint an independent chair with the appropriate experience at a time that is appropriate for the Company.</p>

Principles and Recommendation	Explanation for Departures
<p>4.1 The board of a listed entity should have an audit committee of at least three members that are non-executive.</p>	<p>The Board has not established a separate audit committee. The Board has established a combined audit and risk committee, with Mr Jon Meadmore and Mr Barry Lambert as members.</p> <p>The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify having a separate audit committee.</p>
<p>7.1 The board of a listed entity should have a risk committee.</p>	<p>The Board has not established a separate Risk Committee and therefore does not comply. As stated, the Board has established a combined audit and risk committee, with Mr Jon Meadmore and Mr Barry Lambert as members.</p> <p>The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify having a separate risk committee.</p>
<p>8.1 The board of a listed entity should have a remuneration committee of at least three members, a majority of whom are independent.</p>	<p>The Company does not comply with Principle 8.1.</p> <p>The Board as a whole performs the function of the Remuneration committee which includes setting the Company's remuneration structure, determining eligibilities to incentive schemes, assessing performance and remuneration of senior management and determining the remuneration and incentives of the Board.</p> <p>The Board may obtain external advice from independent consultants in determining the Company's remuneration practices, including remuneration levels, where considered appropriate.</p> <p>The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify having a separate remuneration committee.</p>

# 7

## DETAILS OF THE OFFER



## 7.1 Offer

### 7.1.1 Details

This Prospectus invites investors to apply for up to 20,000,000 Shares at an issue price of \$1.00 each to raise up to \$20,000,000 (before associated costs) (Offer).

The Shares to be issued pursuant to the Offer are of the same class and will rank equally with the existing Shares on issue. The rights and liabilities attaching to the Shares are further described in Section 9.2.

Applications for Shares under the Offer must be made on the Application Form accompanying this Prospectus and received by the Company on or before 5:00 pm AEDT on the Closing Date. Persons wishing to apply for Shares under the Offer should refer to Section 7.9 for further details and instructions.

### 7.1.2 Minimum Subscription

The minimum subscription under the Offer is \$15,000,000, being 15,000,000 Shares at \$1.00 each. The Company will not issue any Shares under this Prospectus until the Minimum Subscription is satisfied.

If the Minimum Subscription has not been reached within 3 months from the date of the Original Prospectus, the Company will either repay your Application Monies or issue a supplementary prospectus or replacement (refresh) prospectus. If the Company issues a supplementary or replacement prospectus, to the extent required by law, the Company will allow you one month to withdraw your Application and, if you do so, the Company will repay your Application Monies. No interest will be paid on these moneys.

### 7.1.3 Maximum Subscription

The Maximum Subscription under the Offer is \$20,000,000, being 20,000,000 Shares at \$1.00 each.

### 7.1.4 Objectives of the Offer

The objectives of the Offer are to:

- (a) *Accelerate the establishment and commercialisation of Hemp Black*
  - (i) Fund the initial commercialisation of Ecofibre's Hemp Black hemp fibre technologies that have been developed by the Company in conjunction with TJU, including product development, sales and marketing, customer samples and other commercialisation expenses;
  - (ii) Fund the design, construction and commissioning of new premises in Georgetown, Kentucky. Once complete this facility will:
    - (A) become the production centre for Hemp Black fibres and feedstock;
    - (B) operate as a promotional and sales facility to showcase Hemp Black products and capabilities;
    - (C) establish a headquarters for Ecofibre's US operations;
    - (D) be promoted as a national destination to educate businesses, customers and politicians on the full potential of the hemp industry; and
    - (E) provide additional space to showcase and support the growth of Ananda Health.

- (b) *Provide additional working capital to accelerate the growth of Ananda Food*

Increase the general working capital of the Company to expand the seed growing area for Ananda Food to satisfy anticipated increase in demand for hemp food products, direct costs of production and administration expenses.

- (c) *List on the ASX*

List on ASX, which will provide Ecofibre with improved access to capital markets for future funding needs, provide liquidity for Shareholders and enhance the public and financial profile of Ecofibre, to facilitate further growth of its businesses.

### 7.1.5 Offer Period

The opening date for the Offer is 26 February 2019. The Offer will remain open until the Closing Date, which is 5.00pm on 11 March 2019 (unless varied).

The Directors may open and close the Offer on any other date and time, without prior notice. You are encouraged to submit your Application as early as possible.

No Shares will be issued on the basis of this Prospectus later than 13 months after the date of the Original Prospectus.

## 7.2 Offer not underwritten

The Offer is not underwritten.

## 7.3 Proposed use of funds

Following the Offer, it is anticipated that the following funds will be available to the Company:

Source of Funds	Minimum Subscription	Maximum Subscription
Existing cash as at 31 December 2018	5,928,000	5,928,000
Net proceeds from Offer	13,875,000	18,875,000
Pro forma cash as at 31 December 2018	19,803,000	24,803,000

The following table shows the intended use of funds in the two year period following Listing, at the Minimum Subscription and Maximum Subscription:

Use of funds raised under the offer	Minimum Subscription		Maximum Subscription	
Use of Proceeds	\$	%	\$	%
Accelerate the establishment and commercialisation of Hemp Black				
<ul style="list-style-type: none"> <li>product development, sales and marketing, customer samples and other commercialisation expenses;</li> </ul>	2,083,000	14%	2,083,000	10%
<ul style="list-style-type: none"> <li>Fund the design, construction and commissioning of new premises in Georgetown Kentucky</li> </ul>	7,792,000	52%	7,792,000	39%
Provide additional working capital to accelerate the growth of Ananda Food <sup>1</sup>	4,000,000	27%	4,000,000	20%
Provide additional general working capital <sup>2</sup>	-	-	5,000,000	25%
Costs of the Offer <sup>3</sup>	1,125,000	7%	1,125,000	6%
<b>Total funds allocated</b>	<b>15,000,000</b>	<b>100%</b>	<b>20,000,000</b>	<b>100%</b>

Notes:

- 1 To be applied mainly in Tasmania and New South Wales, principally to increase the area and volume of seed crops grown for Ananda Food and to fund the timing difference between payment of growers for annual crops and the collection of funds from the sale of resulting products in the 12 months after harvest.
- 2 May be applied to a further increase in the cropping area for Ananda Food if justified by higher market demand, investigating export markets for Ananda Food and if necessary and appropriate, any increase in the costs of production, sales and marketing or administration for Ananda Health, to the extent that the increased costs are not covered by increased cash flow from operations. The funds may also be applied to exploit new commercial opportunities as they arise.
- 3 Expenses paid or payable by the Company in relation to the Offer are set out in Section 9.10.

Assuming a Minimum Subscription of \$15,000,000, the proceeds of the Offer and existing cash on the balance sheet will be applied over the first two years following admission of Ecofibre to the Official List as follows:

Use of available funds on Completion of the Offer, \$15 million	FY2019		FY2020		TOTAL
	\$	%	\$	%	\$
Use of Proceeds					
Accelerate the establishment and commercialisation of Hemp Black					
<ul style="list-style-type: none"> <li>product development, sales and marketing, customer samples and other commercialisation expenses;</li> </ul>	500,000	3%	1,583,000	10%	2,083,000
<ul style="list-style-type: none"> <li>Fund the design, construction and commissioning of new premises in Georgetown Kentucky</li> </ul>	1,500,000	10%	6,292,000	42%	7,792,000
Provide additional working capital to accelerate the growth of Ananda Food*	2,100,000	14%	1,900,000	13%	4,000,000
Costs of the Offer	1,125,000	8%	-	-	1,125,000
<b>Total funds allocated</b>	<b>5,225,000</b>	<b>35%</b>	<b>9,775,000</b>	<b>65%</b>	<b>15,000,000</b>

\* For the Maximum Subscription of \$20 million, the company expects to use the additional \$5 million as general working capital for FY20.

The tables in this section are a statement of the Company's current intentions as at the date of this Prospectus. As with any budget, intervening events and new circumstances have the potential to affect the ultimate way funds will be applied and the Company may change how the funds are used.

## 7.4 Sufficiency of working capital

The Board believes that the funds raised from the Offer will provide the Company with sufficient working capital to achieve its stated objectives as detailed in this Prospectus.

## 7.5 Further equity funding

The use of further equity funding may be considered by the Board where it is appropriate to accelerate a specific project or strategy.

## 7.6 Capital Structure

On completion of the Offer, the capital structure of the Company will be as set out below:

### Shares

	Minimum Subscription	Maximum Subscription
Total number of Shares on issue as at the date of this Prospectus <sup>1</sup>	282,291,855	282,291,855
Shares to be issued from part-conversion of a Convertible Note at completion of the Offer <sup>2</sup>	7,057,296	7,057,296
Shares to be issued under Offer <sup>3</sup>	15,000,000	20,000,000
<b>Total number of Shares on completion of the Offer</b>	<b>304,349,151</b>	<b>309,349,151</b>

#### Notes:

1. Certain of the Shares currently on issue may be subject to ASX escrow provisions restricting their transferability as set out in Section 7.16. 17,997,630 Shares are held by the ESS plan trustee as at the date of this Prospectus. The terms of the ESS are summarised in Section 6.8.
2. See Section 9.1.1(e) for information about this Convertible Note and its conversion into Shares.
3. Shares issued under this Prospectus will rank equally with the existing Shares on issue. The rights attaching to the Shares are summarised at Section 9.2 of this Prospectus.

A Share Split was implemented on 6 February 2019 so that each existing Shareholder received a total of 3 shares for each Share held. Options on issue and the Convertible Note were adjusted proportionately. All capital structure charts in this Prospectus are on a post Share Split basis.

### Options

	Minimum Subscription	Maximum Subscription
Total number of Options on issue as at the date of this Prospectus <sup>1</sup>	20,971,937	20,971,937
<b>Total number of Options on completion of the Offer</b>	<b>20,971,937</b>	<b>20,971,937</b>

#### Notes:

1. The key rights attaching to the Options (TJU Option) are summarised at Section 9.1.3 of this Prospectus. The Company's agreements with TJU give TJU the option, subject to certain conditions, to subscribe for up to 20,971,937 Shares, representing between 6.89% (Minimum Subscription) and 6.78% (Maximum Subscription) of Shares on issue at Completion of the Offer.

### Convertible Note

The Company has a Convertible Note on issue, as set out in Section 9.1.1(e).

	Minimum Subscription	Maximum Subscription
Total number of Shares to be issued on full conversion of the Convertible Note as at the date of this Prospectus <sup>1</sup>	12,205,519	12,205,519
<b>Total number of Shares to be issued upon part conversion of the Convertible Note at completion of the Offer<sup>2</sup></b>	<b>7,057,296</b>	<b>7,057,296</b>

#### Notes:

1. Shares issued under the Convertible Note may be subject to ASX escrow provisions restricting their transferability as set out in Section 7.16.
2. The key terms of the Convertible Note is summarised at Section 9.1.1(e). The Company has received notice from the Convertible Note holder that it intends to exercise its right to convert \$1,811,373 of the outstanding balance of the note into 7,057,296 Shares at Completion of the Offer. The note may be converted at the holders' option into a maximum of 12,205,519 Shares, representing between 4.04% (Minimum Subscription) and 4.11% (Maximum Subscription) of Shares on issue at Completion of the Offer. The 7,057,296 Shares to be issued resulting from part conversion of the note at Completion of the Offer will represent between 2.32% (Minimum Subscription) and 2.28% (Maximum Subscription) of Shares on issue at Completion of the Offer.

## 7.7 Substantial Shareholders as at the date of this Prospectus

Shareholders (and their associates) holding an interest in 5% or more of the Shares on issue as at the date of this Prospectus are set out in the table below.

Shareholder Name	Number of Shares
Barjoy Pty Ltd and related entities*	65,800,440
Warneroo Pty Ltd and related entities**	56,151,702
Freshwater Superannuation Fund Pty Ltd and associated entities	30,291,114
Pacific Custodians Pty Ltd***	17,997,630

Note: Refer to Section 9.2 for a summary of the rights attaching to the Shares

\* This entity is controlled by Mr Barry Lambert, a Director and its Shares are aggregated for the purposes of this table with other entities related to Mr Barry Lambert, namely Lambert Superannuation Fund and various family holdings. The Company is advised that Barry and Joy Lambert as trustees of the Lambert Superannuation Fund, holder of a Convertible Note (see Section 9.1.1(e)) intend to partly convert \$1,811,373 of the outstanding balance of the note into 7,057,296 Shares immediately prior to Completion of the Offer.

\*\* This entity is controlled by Phil Warner, the founder of Ecofibre.

\*\*\* Trustee of the ESS

The Company will announce to ASX details of its top 20 Shareholders (following Completion of the Offer) prior to the Shares commencing trading on ASX.

## 7.8 Withdrawal

The Directors may at any time decide to withdraw this Prospectus and the Offer, in which case the Company will return all Application Monies (without interest) within 28 days of giving notice of their withdrawal.

## 7.9 Applications

### 7.9.1 General

Applications for Securities under the Offer can only be made using the Application Form accompanying this Prospectus or otherwise provided by the Company. For further information on how to complete the Application Form, Applicants should refer to the instructions set out on the form.

No brokerage, stamp duty or other costs are payable by Applicants. All Application Monies will be paid into a trust account.

#### (a) Option 1: Submitting an Application Form with a cheque

Investors may complete an Application Form which accompanies and forms part of this Prospectus. Investors must enclose a cheque, made payable to "Ecofibre Limited" and crossed "Not Negotiable" and mail or deliver both the Application Form (completed in accordance with the terms set out in the Application Form) and the cheque to the address set out on the Application Form by no later than the 5pm AEDT on the Closing Date.

#### (b) Option 2: Submitting an Application Form and paying with BPAY

For online applications, Investors can apply online with payment made electronically via BPAY®. Investors applying online will be directed to use an online Application Form and make payment by BPAY®. Investors will be given a BPAY® biller code and a customer reference number unique to the online Application once the online Application Form has been completed.

BPAY® payments must be made from an Australian dollar account of an Australian institution. Using the BPAY® details, Investors must:

- (i) access their participating BPAY® Australian financial institution either via telephone or internet banking;
- (ii) select to use BPAY® and follow the prompts; enter the biller code and unique customer reference number that corresponds to the online Application;

- (iii) enter the amount to be paid which corresponds to the value of Shares under the online Application;
- (iv) select which account payment is to be made from;
- (v) schedule the payment to occur on the same day that the online Application Form is completed. Applications without payment will not be accepted; and
- (vi) record and retain the BPAY® receipt number and date paid.

Investors should confirm with their Australian financial institution:

- (i) whether there are any limits on the Investor's account that may limit the amount of any BPAY® payment; and
- (ii) the cut off time for the BPAY® payment.

Investors can apply online by following the instructions at <https://www.ecofibre.com>. If payment is not made via BPAY®, the Application will be incomplete and will not be accepted. The online Application Form and BPAY® payment must be completed and received by no later than the Closing Date.

Completed Application Forms and any accompanying cheques must be received by the Company before 5.00pm AEDT on the Closing Date by either being posted or delivered to the following addresses:

By Post	Hand Delivered
<p><b>Link Market Services Limited</b></p> <p>Ecofibre Limited Initial Public Offer            Locked Bag A14            SYDNEY SOUTH NSW 1235</p>	<p><b>Link Market Services Limited</b></p> <p>Ecofibre Limited Initial Public Offer            1A Homebush Bay Drive            RHODES NSW 2138</p>

An original, completed and lodged Application Form together with a cheque, or an online payment through BPAY® constitutes a binding and irrevocable offer to subscribe for the number of Shares specified in the Application Form. The Application Form does not need to be signed to be valid. If the Application Form is not completed correctly or if the accompanying payment is for the wrong amount, it may still be treated by the Company as valid. The Directors' decision as to whether to treat such an Application as valid and how to construe amend or complete the Application Form is final; however an Applicant will not be treated as having applied for more Shares than is indicated by the amount of the cheque or amount paid with BPAY®.

It is the responsibility of Applicants outside Australia to obtain all necessary approvals for the allotment and issue of Securities pursuant to this Prospectus. The return of a completed Application Form with the requisite Application Monies (for applications under the Offer) will be taken by the Company to constitute a representation and warranty by the Applicant that all relevant approvals have been obtained and that the Applicant:

- (i) agrees to be bound by the terms of the relevant Offer;
- (ii) declares that all details and statements in the Application Form are complete and accurate;
- (iii) declares that, if they are an individual, they are over 18 years of age and have full legal capacity and power to perform all its rights and obligations under the Application Form;
- (iv) authorises the Company and its respective officers or agents, to do anything on their behalf necessary for the Shares to be issued to them, including to act on instructions of the Company's Share Registry upon using the contact details set out in the Application Form;
- (v) acknowledges that the information contained in, or accompanying, the Prospectus is not investment or financial product advice or a recommendation that Securities are suitable for them given their investment objectives, financial situation or particular needs; and
- (vi) acknowledges that the Securities have not, and will not be, registered under the securities laws in any other jurisdictions outside Australia and New Zealand and accordingly, the Securities may not be offered, sold or otherwise transferred except in accordance with an available exemption from, or in a transaction not subject to, the registration requirements of applicable securities laws.

The Offer may be closed at an earlier date and time at the discretion of the Directors, without prior notice. Applicants are therefore encouraged to submit their Application Forms as early as possible. However, the Company reserves the right to extend the Offer or accept late Applications.

## 7.9.2 Offer Applications

Applications under the Offer must be for a minimum of 2,000 Shares (\$2,000) and then in increments of 500 Shares (\$500).

## 7.10 CHESS and issuer sponsorship

The Company will apply to participate in CHESS. All trading on the ASX will be settled through CHESS. ASX Settlement, a wholly-owned subsidiary of the ASX, operates CHESS in accordance with the Listing Rules and the ASX Settlement Operating Rules. On behalf of the Company, the Share Registry will operate an electronic issuer sponsored sub-register and an electronic CHESS sub-register. The two sub-registers together make up the Company's principal register of Securities.

Under CHESS, the Company will not issue certificates to Security holders. Rather, holding statements (similar to bank statements) will be sent to Security holders as soon as practicable after allotment. Holding statements will be sent either by CHESS (for Security holders who elect to hold Securities on the CHESS sub-register) or by the Company's Share Registry (for Security holders who elect to hold their Securities on the issuer sponsored sub-register). The statements will set out the number of existing Securities (where applicable) and the number of new Securities allotted under this Prospectus and provide details of a Security holder's holder identification number (for Security holders who elect to hold Securities on the CHESS sub-register) or Security holder reference number (for Security holders who elect to hold their Securities on the issuer sponsored sub-register). Updated holding statements will also be sent to each Security holders at the end of each month in which there is a transaction on their holding, as required by the Listing Rules.

## 7.11 ASX Listing and Official Quotation

Within 7 days after the date of this Prospectus, the Company will apply to ASX for admission to the Official List and for the Shares, including those offered by this Prospectus, to be granted quotation on ASX (apart from any Shares that may be designated by ASX as restricted securities). The Company will not apply for quotation of the TJU Option on the ASX.

If ASX does not grant permission for quotation within three months after the date of the Original Prospectus (or within such longer period as may be permitted by ASIC) none of the Offer Shares will be allotted and issued. If no allotment and issue is made, all Application Monies will be refunded to Applicants (without interest) as soon as practicable or the Company will issue a supplementary prospectus or replacement prospectus and to the extent required by law, allow Applicants one month to withdraw their Applications and have their Application Monies refunded to them (without interest).

ASX takes no responsibility for the contents of this Prospectus. The fact that ASX may grant Official Quotation is not to be taken in any way as an indication of the merits of the Company or the Securities offered pursuant to this Prospectus.

## 7.12 Application Monies to be held in trust

Application Monies will be held in trust for Applicants in a non-interest bearing account until the allotment of the Securities under the Offer.

## 7.13 Allocation and issue of Shares

The Directors will allocate Shares under the Offer at their sole discretion with a view to ensuring an appropriate Shareholder base for the Company going forward (subject to any regulatory requirements).

There is no assurance that any Applicant will be allocated any Shares, or the number of Shares for which it has applied. The Company reserves the right to reject any Application or to issue a lesser number of Shares than those applied for. Where the number of Shares issued is less than the number applied for, surplus Application Monies will be refunded (without interest) as soon as reasonably practicable after the Closing Date.

Securities under the Offer are expected to be allotted on the Issue Date.

It is the responsibility of Applicants to determine their allocation prior to trading in the Securities issued under the Offer. Applicants who sell Securities before they receive their holding statements do so at their own risk.

## 7.14 Risks

Prospective investors should be aware that an investment in the Company should be considered highly speculative and involves a number of risks inherent in the various business segments of the Company. Section 5 details the key risk factors which prospective investors should be aware of. It is recommended that prospective investors consider these risks carefully before deciding whether to invest in the Company.

This Prospectus should be read in its entirety as it provides information for prospective investors to decide whether to invest in the Company. If you have any questions about the desirability of, or procedure for, investing in the Company please contact your stockbroker, accountant or other independent adviser.

## 7.15 Overseas Applicants

No action has been taken to register or qualify the Securities, or the Offer, or otherwise to permit the offering of the Securities, in any jurisdiction outside of Australia and New Zealand.

The distribution of this Prospectus within jurisdictions outside of Australia and New Zealand may be restricted by law and persons into whose possession this Prospectus comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of those laws.

This Prospectus does not constitute an offer of Securities in any jurisdiction where, or to any person to whom, it would be unlawful to issue this Prospectus.

It is the responsibility of any overseas Applicant to ensure compliance with all laws of any country relevant to his or her Application. The return of a duly completed Application Form will be taken by the Company to constitute a representation and warranty that there has been no breach of such law and that all necessary approvals and consents have been obtained.

## 7.16 Escrow arrangements

ASX will classify certain existing Securities on issue in the Company as being subject to the restricted securities provisions of the Listing Rules. Restricted Securities will be required to be held in escrow for up to 24 months and will not be able to be sold, mortgaged, pledged, assigned or transferred for that period without the prior approval of ASX. During the period in which these Securities are prohibited from being transferred, trading in Shares may be less liquid which may impact on the ability of a Security holder to dispose of their Securities in a timely manner.

None of the Shares issued pursuant to the Offer are expected to be restricted securities.

The Company anticipates that upon Listing, a maximum of 65% of the Company's Shares will be classified as restricted securities by ASX.

Prior to the Company's Shares being admitted to Official Quotation on the ASX, the Company will enter into escrow agreements with the recipients of any Restricted Securities in accordance with Chapter 9 of the Listing Rules and the Company will announce to ASX full details (quantity and duration) of the Securities required to be held in escrow prior to the Shares commencing trading on ASX.

## 7.17 Privacy disclosure

Persons who apply for Securities pursuant to this Prospectus are asked to provide personal information to the Company, either directly or through the Share Registry.



The Company and the Share Registry collect, hold and use that personal information to assess Applications for Securities, to provide facilities and services to Security holders and to carry out various administrative functions. Access to the information collected may be provided to the Company's agents and service providers and to ASX, ASIC and other regulatory bodies on the basis that they deal with such information in accordance with relevant privacy laws. If you do not provide the information required on the relevant Application Form, the Company may not be able to accept or process your Application.

An Applicant has a right to gain access to the information that the Company holds about that it, subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing to the Company's registered office.

## 7.18 Copies of Prospectus

The Company will provide electronic copies of this Prospectus (including any supplementary or replacement document) and the relevant Application Form by email to investors upon request and free of charge. Requests copies should be directed to the Ecofibre Limited Offer Information Line on 1800 828 558 (from within Australia) or +61 1800 828 558 (from outside Australia). No paper copies will be provided.

## 7.19 Enquiries

This Prospectus provides information for potential investors in the Company and should be read in its entirety. If, after reading this Prospectus, you have any questions about any aspect of an investment in the Company, please contact your stockbroker, accountant or independent financial adviser.

If you have any queries in relation to the Offer please contact the Ecofibre Limited Offer Information Line on 1800 828 558 (from within Australia) or +61 1800 828 558 (from outside Australia).

# 8

## INVESTIGATING ACCOUNTANT'S REPORT



11 February 2019

The Directors  
Ecofibre Limited  
PO Box 108  
VIRGINIA BC QLD 4014

Dear Sirs

## Ecofibre Limited - Investigating Accountant's Report ("Report")

### 8.1 Introduction

This Report has been prepared by William Buck (Qld) Pty Ltd at the request of the directors of Ecofibre Limited ACN 140 245 263 ("**Ecofibre**" or the "**Company**" or "**the Directors**") for inclusion in a prospectus (the "**Prospectus**") to be dated on or about 11 February 2019 and to be issued by the Company in respect of the initial public offering of fully paid ordinary shares in the Company (the "**Offer**") and listing of the Company on the Australian Securities Exchange.

All terms used in this Report have the same meaning as the terms used and defined in the Prospectus unless otherwise defined in this Report.

### 8.2 Financial Information

This Report deals with the financial information included in Section 4 of the Prospectus (the "**Financial Information**") which comprises:

- Historical Consolidated Statements of Profit or Loss and Other Comprehensive Income for the years ended 30 June 2017 and 30 June 2018, and half-year ended 31 December 2018;
- Historical Consolidated Statements of Financial Position as at 30 June 2017, 30 June 2018 and 31 December 2018;
- Historical Consolidated Statements of Cash Flows for the years ended 30 June 2017, 30 June 2018 and half-year ended 31 December 2018;

(together, the Historical Financial Information)

- Pro forma Historical Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 31 December 2018;
- Pro forma Historical Consolidated Statement of Financial Position as at 31 December 2018;

(together, the Pro forma Historical Financial Information)

- Assumptions adopted in compiling the Pro forma Historical Financial information; and
- Accounting policies adopted in the preparation of the Financial Information.

#### CHARTERED ACCOUNTANTS & ADVISORS

Level 21, 307 Queen Street  
Brisbane QLD 4000  
GPO Box 563  
Brisbane QLD 4001  
Telephone: +61 7 3229 5100  
Williambuck.com

The Historical Financial Information was extracted from the audited and reviewed general purpose financial statements of Ecofibre covering the financial years ended 30 June 2017, 30 June 2018 and half-year ended 31 December 2018.

The 30 June 2017 and 30 June 2018 financial statements of Ecofibre have been audited by William Buck (Qld). In respect of each of the audited financial statements, William Buck (Qld) issued an unqualified opinion. The 31 December 2018 half-year financial statements of Ecofibre have been reviewed by William Buck (Qld) and an unqualified review conclusion has been issued.

The pro-forma historical statement of comprehensive income and pro-forma Statement of Financial Position as at 31 December 2018 has been prepared to illustrate the financial position of the Company on completion of the Offer and has been prepared on the basis of the assumptions and material accounting policies as set out in Annexure C of the Prospectus.

The Directors of the Company are responsible for the preparation and presentation of the Financial Information including the assumptions and material accounting policies on which they are based. We disclaim any responsibility for any reliance on this Report or the Financial Information to which it relates for any purpose other than that for which it was prepared. This Report should be read in conjunction with the full Prospectus. The Directors are not making any forecasts with respect to the future earnings of the Company.

### 8.3 Scope

We have conducted an independent review of the Financial Information included in Section 4 of the Prospectus in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the Financial Information is not presented fairly in accordance with the assumptions and material accounting policies adopted and summarised in Annexure C of the Prospectus.

Our review has been conducted in accordance with Australian Auditing Standards on Review Engagements (“ASRE”) 2405 “Review of Historical Information other than a Financial Report” and guidance provided in accordance with the Australian Standard on Assurance Engagements (“ASAE”) 3450 “Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information”. We have made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances, which were limited primarily to:

- a) Analytical procedures on the Historical Financial Information;
- b) A review of working papers, accounting records and other documents of the Company and its auditors;
- c) A review of relevant working papers detailing the pro forma adjustments, the assumptions on which they were made and other supporting documentation, as appropriate;
- d) A comparison of consistency in application of the recognition and measurement principles prescribed in Australian Accounting Standards, Australian Accounting Interpretations, other mandatory or authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001 and the accounting policies adopted by the Company as disclosed in Annexure C of the Prospectus; and
- e) Enquiries with the Company’s Directors, management and advisors.

The procedures undertaken do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Financial Information.

#### **8.4 Conclusions**

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that:

- a) The Historical Financial Information is not presented fairly in accordance with the recognition and measurement requirements (but not the disclosure requirements) of Australian Accounting Standards, Australian Accounting Interpretations, other mandatory or authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001 and the accounting policies adopted by the Company;
- b) The Pro forma Historical Financial Information has not been properly prepared on the basis of the pro-forma transactions so as to present fairly the pro-forma financial position of the Company; and
- c) The assumptions and material accounting policies adopted and summarised at Annexure C of the Prospectus do not form a reasonable basis for the preparation of the pro forma statement of financial position set out in Section 4 of the Prospectus.

#### **8.5 Emphasis of Matter**

Without qualification to the conclusions expressed above, we draw attention to section 4 in the prospectus which indicates the Company in the financial year ended 30 June 2017 had total liabilities which exceeded total assets and was at that time reliant on its ability to raise sufficient capital to fund its operations and have sufficient funds to pay its debts as and when they fell due. This statement indicated the existence of a material uncertainty which at that time may have cast significant doubt about the Company's ability to continue as a going concern. No emphasis of matter regarding going concern was included in the audit report for the year ended 30 June 2018 or half-year review report for the period ended 31 December 2018.

#### **8.6 Subsequent Events**

Apart from the matters dealt with in this Report, and as disclosed in the Prospectus covering subsequent events, contingent liabilities and convertible note conversions, and having regard to the scope of our Report, to the best of our knowledge and belief, no other material transactions or events outside of the ordinary business of the Company have come to our attention that would require comments on, or adjustments to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

#### **8.7 Sources of Information**

We have made enquiries of the Directors of the Company and other parties as considered necessary during the course of our review. We have also referred to the Prospectus and material documents which relate to the operations of the Company.

We have no reason to believe that the information supplied is not reliable.

## 8.8 Declarations

William Buck (Qld) Pty Ltd has prepared this Report for inclusion in the Prospectus. We have not acted in any other capacity in relation to the Prospectus and have not been involved in the preparation of any part thereof.

William Buck (Qld), an entity associated with William Buck (Qld) Pty Ltd, has provided audit services to the Company for which professional fees at standard market rates have been received.

Apart from that noted above, William Buck (Qld) Pty Ltd does not have any interest in the outcome of the Offer other than a fee in connection with the preparation of this Report and participation in due diligence procedures for which normal professional fees will be received. No pecuniary or other benefit, direct or indirect, has been received by William Buck (Qld) Pty Ltd for, or in connection with, this Report.

Other than as disclosed above, Masood Ayoob, the other Directors of William Buck (Qld) Pty Ltd and the staff involved with the preparation of this Report have, at the date of this Report, no interest in or financial relationship with Ecofibre.

William Buck (Qld) Pty Ltd has consented to the inclusion of this Report in the Prospectus in the form and context it appears. At the date of this Report, the consent has not been withdrawn. William Buck (Qld) Pty Ltd has not authorised the issue of the Prospectus and accordingly makes no representation regarding, and takes no responsibility for, any other documents or material in, or omissions from, the Prospectus.

Yours faithfully

**William Buck (Qld) Pty Ltd**

ABN 32 126 090 168

A handwritten signature in black ink, appearing to read 'Masood Ayoob', written over a horizontal line.

**Masood Ayoob**

Director

# 9

## ADDITIONAL INFORMATION



## 9.1 Material Contracts

The material contracts entered into by the Company are set out below.

### 9.1.1 Director agreements

#### (a) Executive Employment Agreement - Mr Barry Lambert

The Company has entered into an employment agreement with Mr Barry Lambert as Non-Executive Director. Mr Lambert is the Chairman of the Company.

The engagement of Mr Lambert under the agreement commenced 19 October 2017 and continues until 1 November 2020, unless terminated by either party. Either the Company or Mr Lambert may terminate the agreement upon 24 hours' written notice.

Mr Lambert's current cash remuneration is \$100,000 per annum including statutory superannuation.

#### (b) Executive Service Agreement - Mr Eric Wang

The Company has entered into an executive employment agreement with Mr Eric Wang as Managing Director.

The engagement of Mr Wang under the agreement commenced on 8 December 2017 and continues until terminated by either party. The Company may terminate the employment without notice upon limited events akin to misconduct or incapacity. Additionally, the Company may terminate the agreement without cause upon 6 months' written notice.

Mr Wang may terminate without cause on 6 months' written notice.

Mr Wang's cash remuneration will consist of \$280,000 per annum plus statutory superannuation.

Mr Wang will not be paid a separate director's fee for serving on the Board.

Additionally, Mr Wang has interests in the Company's securities as set out in Section 6.4.2.

The remuneration of Mr Wang will be reviewed every 12 months from the date his employment commenced.

Mr Wang is subject to a restraint of trade restricting competition with the Company for up to 24 months for termination of his employment. It covers Kentucky and Australia.

#### (c) Consultancy Agreement with Colin Biggers & Paisley Pty Ltd for the services of Mr Jon Meadmore

The Company has entered into a consultancy agreement with Colin Biggers & Paisley, to engage Mr Jonathan Meadmore as a Non-Executive Director on commercial terms. The current consultancy fee is \$7,500 per month. The agreement commenced on 19 October 2017 and terminates 1 November 2020.

The Consultancy Agreement with Mr Meadmore may be terminated by either party on 24 hours' notice.

#### (d) Deeds of Indemnity, Insurance and Access

The Company has entered into a Deed of Access, Indemnity and Insurance with each officer of the Company and its subsidiaries. The deeds entitle each officer to access board papers, be indemnified from liability and to have the Company take out Directors' and Officers' insurance to the extent the Company is able to obtain it. The Company may also make a payment in relation to legal costs incurred by these persons in defending an action for a liability, or resisting or responding to actions taken by a government agency or a liquidator. Each such deed applies to the extent permitted by law.

#### (e) Convertible Note

The Company has issued a Convertible Note to Barry Lambert and Joy Lambert as trustees for the Lambert Superannuation Fund (**Note Holder**). The key terms of the Convertible Note are summarised below:



Lambert Superannuation Fund Note	
Date of issue	7 January 2017
Loan Value	As at the date of this Prospectus, the outstanding balance of the note is \$3,157,211, including accrued but unpaid interest. The current outstanding principal value is \$3,132,750.
Conversion of the Note	The balance of the note may be converted into Shares in the Company at \$0.257 per Share at the instance of the note holder.
Maximum Number of Shares into which the note may be converted	12,205,519 Shares, based on the current outstanding principal value.
Interest Rate	The Company will pay interest on the outstanding principal balance of the note bi-annually at 7.5% per annum, until the note is repaid or converted in full.
Maturity Date	The note must be repaid or converted into Shares by 7 January 2021.
Current Status of Conversion	An election has been made to convert the loan into Shares in tranches.

Specifically the Note Holder has advised that it will partly convert \$1,811,373 of the outstanding balance of the note into 7,057,296 Shares at Completion of the Offer, and the balance in September 2019.

(f) **Line of Credit and Loan Agreement - Barry Lambert**

The Company has entered into a loan agreement with Barry Lambert (Lender) for the provision of a loan facility of up to \$6.5 million to the Company.

The line of credit must be drawn down in a minimum of \$500,000 tranches each for a period of between 1 month and 6 months. The Company must give the Lender at least 2 business days' notice of its intention to drawdown on the facility.

The loan balance bears interest at 7.5% per annum.

Any balance is repayable the earlier of 14 days after the listing of the Company's Shares on the ASX or 30 June 2019. The facility is not currently drawn down.

### 9.1.2 Directors' and officers' insurance

Ecofibre has entered into contracts of insurance to insure the Directors, officers and executives of the Company and its subsidiaries against liability to the extent permitted by law. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium paid by the Company under this contract.

### 9.1.3 Ecofibre's agreements with TJU

(a) **Research and Share Subscription Agreement**

Research services to be provided

The Company and TJU have entered into a Research and Share Subscription Agreement (RSSA) under which TJU agrees to provide research services to Ecofibre.

Term of RSSA

The term of the RSSA is 1 July 2017 to 1 December 2022.

#### Nature and value of research services and resulting IP

The nature, content and monetary value of research services must, pursuant to the RSSA, be agreed by the parties for specific periods (**Research Periods**) during the term of the RSSA and set out in one or more discrete Research Period Agreements (**RPA**) for the relevant periods.

The aggregate value that Ecofibre will pay TJU for research services and IP generated under the RSSA (Project IP) will not exceed USD5 million (Project Value).

If Ecofibre, under the RPA:

- (i) acquires ownership of Project IP, Ecofibre will pay TJU for the fair market value of the Project IP; or
- (ii) acquires a licence of Project IP (with ownership by TJU), TJU will be paid the fair market value of the licensed Project IP less the amount Ecofibre paid TJU for the research services giving rise to the Project IP, subject to the Project Value not being exceeded.

#### Payment for research services and IP

Pursuant to the RSSA, Ecofibre will pay TJU for research services and Project IP set out in each RPA either, at TJU's election, in cash or by the issue of Shares (Consideration Shares) at an issue price of AU \$0.537 per Consideration Share, applying an exchange rate of USD 1 to AUD 1.3071332, equating to a maximum of 12,178,260 Shares for the USD 5 million aggregate project value. To date, Ecofibre has paid USD 1,389,600 for research services and TJU has subscribed for 3,384,582 Consideration Shares. A further 8,793,678 consideration Shares could therefore be potentially issued as consideration for future research services and IP under the RSSA.

#### Additional Lump sum payment

Under the RSSA, Ecofibre agreed to pay an additional amount of USD 400,000 to TJU to fund research on Ananda Hemp products, subject to agreement by Ecofibre on the type of study to be conducted.

#### TJU option

In addition to payment in cash or Consideration Shares for each RPA, TJU is also granted an option (TJU Option) to subscribe for 12,178,260 Shares at the same issue price and exchange rate applying to Consideration Shares, provided that TJU must first have elected to receive the full Project Value in Consideration Shares.

#### TJU's aggregate interest in Ecofibre Shares

TJU's right to subscribe for Consideration Shares as payment for research services and for Shares under the TJU Option equate to an aggregate right to subscribe for up to 20,971,937 Shares, representing between 6.89% (Minimum Subscription) and 6.78% (Maximum Subscription) of Shares on issue at Completion of the Offer.

### **(b) Research Period Agreement and IP Licence**

Pursuant to the RSSA, Ecofibre and TJU entered into a RPA dated June 2018. This RPA sets out a programme of research services to be provided by TJU for the period 7 January 2017 to 30 June 2018.

#### IP Arrangements

The parties each retained their own IP developed outside of the RPA, while Project IP developed pursuant to the RPA is vested in TJU with an exclusive licence (Ecofibre Licence) to Ecofibre for global commercial exploitation of the Project IP.

TJU retains the right to use the licensed Project IP for educational and research purposes and mandatory US government rights, subject to appropriate confidentiality provisions.

#### Term of the Licence

The licence will subsist until the later of:

- (i) The licence is terminated by Ecofibre; or
- (ii) the licence is terminated by TJU as a result of a material breach that Ecofibre has failed to remedy on 30 days' notice; or

(iii) if:

- (A) any patent is successfully obtained covering the IP developed under the RSSA and RPA's thereunder, the lapse of the last patent covering licensed Project IP, the term of which is 20 years; or
- (B) 10 years from the date of first commercial sale of a product based on the Project IP.

#### Contingent Royalty

If TJU cannot subscribe for Consideration Shares as payment under the RSSA for the licensed Project IP, Ecofibre will pay TJU a royalty on the gross sale price of products based on the licensed Project IP, at a rate to be determined by neutral third party.

#### First refusal for IP improvements

Ecofibre has a right of first refusal relating to improvements to the licensed Project IP, which is maintained during the term of the licence by payment by Ecofibre of an option fee of USD7,000 every 5 years.

### 9.1.4 Master Agreement - research based collaboration agreement - Southern Cross University

Ecofibre has entered into a research and collaboration agreement with Southern Cross University. The agreement has a 5 year term which commenced on 26 September 2016. The agreement provides for research collaboration between the parties on specific projects. At the commencement of each project period, the parties will agree:

- (a) the project research and services;
- (b) the project fee; and
- (c) the milestones, deliverables and delivery dates.

Pursuant to the agreement, Ecofibre commenced two research projects in December 2016, the subject matter of which is confidential.

Either party may terminate the agreement upon 60 days' notice, except for projects that have already been commenced, and upon 30 days' notice for a breach that cannot be remedied.

### 9.1.5 Distribution and sales agency agreements

The Company or its Subsidiaries are party to a number of agreements for the sale and distribution of Ecofibre's products in Australia and the United States.

These agreements:

- (a) generally, grant non-exclusive rights to distribute Ecofibre 's products;
- (b) generally, do not require the distributors to purchase any minimum volume of products;
- (c) include warranties and indemnities in favour of the distributors (including with respect to defective products and product liability);
- (d) do not prevent the distributor from distributing the same or similar products from other suppliers; and
- (e) may be terminated by the distributor or supplier.

The agreements do not generally guarantee any minimum volumes.

In some cases, the Company's agreements with distributors and sales agents provide for payment by the Company of a percentage of sales revenue generated by the relevant distributor or sales agent as commission.

In some cases, the Company must maintain product liability insurance to stipulated levels and indemnify the counterparties from liability relating to defective products, product recalls and other sources of liability.

### 9.1.6 Pharmacy Broker Agreements

On 2 January 2018, a subsidiary of the Company engaged a broker to provide a range of services in respect of the sale of nutraceutical products to independent pharmacies in the US.

The term of the contract is 7 years and provides for a commission of 3% of collected revenue from independent pharmacies in the US, subject to a cap of USD 100,000 per quarter.

Further agreements with additional brokers for discrete sales channels are likely to be executed on similar terms.

### 9.1.7 Supplier agreements

The Company or its Subsidiaries are party to a number of supply arrangements for the supply of materials and services used by Ecofibre for the manufacture of products in Australia and the US. Some are of an informal nature and do not generally lock either the Company or the supplier into any minimum quantity of supplies. Others, in formal agreements, refer to discrete elements of Ecofibre's supply chain.

Ecofibre considers its supply chain as confidential.

### 9.1.8 Grower Agreements

The Company's agreements with growers in Australia and the US typically require the grower to acquire planting seed from the Company and to plant, cultivate and sometimes harvest and deliver the crop of hemp to the Company. Ecofibre retains ownership and title to the crop, planting seed and the harvest and the grower is prohibited from encumbering the seed, grain or crop.

The Company pays the growers in fixed instalments at stipulated dates, a rate per unit of harvest yield, or a combination of the two.

### 9.1.9 Building Construction Agreement

On 18 December 2018, Ecofibre entered into a conditional contract to purchase 6.2 acres of land in Georgetown Kentucky for USD 160,000. The contract is conditional upon local government approval and approval of an incentive by the Kentucky Economic Development Finance Authority.

The Company intends to use the land to construct a US head office and production facility for Hemp Black, as well as accommodate future growth in Ananda Health's nutraceuticals business, with construction costs estimated at \$7.8 million. The Company proposes to enter into a construction contract with a suitable builder once the conditions to completion of the land purchase are satisfied.

### 9.1.10 Leases

#### (a) Queensland and New South Wales

The Company has entered into a lease for a property in Queensland, Australia for commercial and industrial use. The term is 3 years, commencing 1 November 2017 with 2 options to renew for 3 years.

Ananda Food Pty Ltd has entered into a lease for a property in New South Wales for commercial and industrial use. The term is 3 years, commencing 1 June 2018, with an option to renew for 2 years.

Possible material exposures of the tenant under each lease include:

- (i) **Building outgoings:** being a "whole-of-land" lease, the tenant is liable to all charges and expenses (including but not limited to rates, land tax, cost of maintenance and repair, insurance premiums, costs of services, accounting and audit fees) which may arise in respect of the premises.
- (ii) **Permitted use:** the landlord does not warrant the fitness or suitability of the premises for use. The tenant is liable for the costs of all applications for permits to enable the use of the premises for the permitted use.
- (iii) **Repair & maintenance obligations:** the tenant is required to comply with numerous repair and maintenance obligations.

- (iv) **Mortgagee's consent:** the landlord is not required, but may be requested to seek the mortgagee's consent or acknowledgement of the lease to the tenant, which may leave the Company exposed to having the lease disclaimed in the event that the landlord is in default under its mortgage and a receiver has been appointed to sell the premises.
- (v) **Notice to remedy breach:** in the event of non-payment of rent, the landlord may terminate, re-enter or forfeit the lease immediately without first being required to give a 14 days' notice to remedy.
- (vi) **Damage or destruction:** in the event of any damage or destruction to part or whole of the premises which renders the tenant unable to continue to occupy the premises, the tenant is not liable to pay rent, or the rent is reduced in proportion to the reduction in usability.
- (vii) **Make-Good:** undertaking of make-good works is likely to be a significant cost to the tenant, and is most likely to be a material liability of the tenant.
- (viii) **Tenant's Works:** any structural alterations or alterations to mechanical plant and equipment must be performed by a contractor nominated by the landlord, at the tenant's cost.

(b) **Cynthiana, Kentucky, USA**

Ecofibre Kentucky has entered into a lease for a property in Cynthiana, Kentucky, USA for commercial and industrial use. The term is 3 years, commencing on August 1, 2017.

Material provisions of the lease include:

- (i) **Building outgoings:** If the lessee carries on more than 10 hours per day and 6 days per week of warehousing operations, or it exercises its right to additional warehouse space, pro-rata utilities will be assessed to lessee. If manufacturing of any kind occurs, lessee will incur additional utility charges.
- (ii) **Repair & maintenance obligations:** The lessor responsible only for structural repairs to the premises. The lessee must keep premises in good working order and repair during the full term of the lease.
- (iii) **Damage or destruction:** If the premises is more than 50% destroyed, the lessor may terminate the lease and the lessor is not liable to the lessee for damage.
- (iv) **Lease payment:** The rent is USD60,000 per year, payable in advance in monthly instalments (USD5,000) a month.

(c) **Carlsbad, California, USA**

Ananda fka United Life Science, Inc. entered into a lease for a property in Carlsbad, California, USA for commercial and industrial use. The term is 3 years and 2 months.

Material provisions of the lease include:

- (i) **Building outgoings:** the Lessee is liable for its share of all common area charges and expenses (including but not limited to rates, land tax, cost of maintenance and repair, insurance premiums, costs of services, accounting and audit fees) which may arise in respect of the premises. The lessee must pay:
  - (1) any real property taxes that arise solely due to alterations, trade fixtures or utility installations placed upon the premises by lessee or at lessee's request; and
  - (2) for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the premises, together with any taxes thereon.
- (ii) **Permitted use:** The lessee may use the premises for sales and marketing of health and wellness products. The landlord does not warrant the fitness or suitability of the premises for use. The lessee is required to comply with all applicable requirements (including Americans with Disabilities Act, etc.).
- (iii) **Repair & maintenance obligations:** The lessee must comply with numerous repair and maintenance obligations.
- (iv) **Breaches:** The lease provides that if there is a breach, the lessor may "with or without further notice or demand" terminate lessee's possession, continue the lease and recover the rent, or pursue any other remedy.

- (v) Tenant's Works: The lessee is responsible for keeping the premises, utility installations, and alterations in good order, condition, and repair.
- (vi) Lease payment: The rent is USD 3,150 per month, plus (common area) operating expenses, with annual increases.

(d) **Philadelphia, Pennsylvania**

Hemp Black Inc. fka Satival Inc. entered into a lease for a property in Philadelphia, Pennsylvania, USA for commercial use. The term is 3 years.

Material provisions of the lease include:

- (i) Building outgoings: the Lessee is liable for its share of all common area charges and expenses (including but not limited to rates, land tax, cost of maintenance and repair, insurance premiums, costs of services, accounting and audit fees) which may arise in respect of the premises. The lessee must pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the premises, together with any taxes thereon.
- (ii) Permitted use: The lessee may use the premises for an office.
- (iii) Damage or destruction: If the premises is damaged and repairs are 25% or more than the value of the premises, the lessor may terminate the lease.
- (iv) Repair & maintenance obligations: The lessee must comply with numerous repair and maintenance obligations.
- (v) Lease payment: The rent is USD 2,500 per month, plus (common area) operating expenses, with annual increases.

## 9.2 Rights Attaching to Shares

The rights to ownership of the Shares are:

- (a) set out in the Company's Constitution; and
- (b) in certain circumstances, regulated by the Corporations Act, the Listing Rules and the general law.

A summary of the more significant rights attaching to Shares is set out below. The summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice.

(a) **General Meetings**

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company. Personal representatives of a Shareholder have to satisfy the board at least 48 hours before the meeting of their right to attend to represent a Shareholder.

Shareholders may requisition meetings in accordance with section 249D of the Corporations Act and the Constitution of the Company.

(b) **Voting Rights**

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, at general meetings of Shareholders or classes of Shareholders:

- (i) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- (ii) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the Share, but in respect of partly paid Shares shall have a vote equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable in respect of those Shares (excluding amounts credited).

(iii) Directors may approve methods for electronic voting at meetings.

**(c) Dividend Rights**

Subject to and in accordance with the Corporations Act, the Listing Rules, the rights of any preference Shareholders and to the rights of the holders of any shares created or raised under any special arrangement as to dividend (currently, there are none), the Directors may from time to time declare a dividend to be paid to the Shareholders entitled to the dividend which shall be payable on all Shares according to the proportion that the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited) in respect of such Shares.

The Directors may from time to time pay to the Shareholders any interim dividends as they may determine. No dividend shall carry interest as against the Company. The Directors may set aside out of the profits of the Company any amounts that they may determine as reserves, to be applied at the discretion of the Directors, for any purpose for which the profits of the Company may be properly applied.

**(d) Winding-Up**

If the Company is wound up, the liquidator may, with the authority of a special resolution of the Company, divide among the Shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders.

The liquidator may, with the authority of a special resolution of the Company, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit.

**(e) Shareholder liability**

As the Shares under the Prospectus are fully paid Shares, they are not subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

**(f) Transfer of Shares**

Generally, Shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act or the Listing Rules.

**(g) Alteration of Constitution**

In accordance with the Corporations Act, the Constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting. In addition, at least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.

**(h) Listing Rules**

If the Company is admitted to trading on the Official List, then despite anything in the Constitution, if the Listing Rules prohibit an act being done, the act must not be done. Nothing in the Constitution prevents an act being done that the Listing Rules require to be done. If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be). If the Listing Rules require the Constitution to contain a provision and it does not contain such a provision, the Constitution is deemed to contain that provision. If the Listing Rules require the Constitution not to contain a provision and it contains such a provision, the Constitution is deemed not to contain that provision. If a provision of the Constitution is inconsistent with the Listing Rules, the Constitution is deemed not to contain that provision to the extent of the inconsistency.

## 9.3 Rights attaching to Options

The Company has issued an option to acquire Shares to Thomas Jefferson University, on the terms summarised in section 9.1.3.

## 9.4 Employee Securities Trust Deed

The Company has entered into an employee securities trust deed with Pacific Custodians Pty Limited for the purpose of the ESS. Under the agreement Pacific Custodians Pty Limited is appointed as trustee for the sole purpose of acquiring and holding securities and providing beneficial interests in those securities under the ESS and to conduct incidental activities.

## 9.5 Company Tax Status and Financial Year

Ecofibre is taxed in Australia as a public company. Its financial year ends on 30 June annually.

## 9.6 Dividend Policy

Any future determination as to the payment of dividends will be at the discretion of the Directors and will depend upon matters such as the availability of distributable earnings, our operating results and financial condition, future capital requirements, general business and other factors considered relevant by the Directors. No assurances in relation to the payment of dividends, or any franking credits that may be attached to such dividends, can be given.

## 9.7 No prospective financial forecasts

The Directors have considered the matters outlined in ASIC Regulatory Guide 170 and believe that they do not have a reasonable basis to forecast future earnings, because the proposed future operations of the Company do not have an operating history from which reliable forecasts can be made. Accordingly, any forecast or projection information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.

Notwithstanding the above, this Prospectus includes, or may include, forward looking statements including, without limitation, forward looking statements regarding the Company's financial position, business strategy, and plans and objectives for its business and future operations (including development plans and objectives), which have been based on the Company's current expectations. These forward-looking statements are, however, subject to known and unknown risks, uncertainties and assumptions that could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward looking statements are based on numerous assumptions regarding the Company's present and future business strategies and environment in which the Company will operate in the future.

Matters not yet known to the Company or not currently considered material to the Company may impact on these forward looking statements. These statements reflect views held only as at the date of this Prospectus. In light of these risks, uncertainties and assumptions, the forward-looking statements in this Prospectus might not occur. Investors are therefore cautioned not to place undue reliance on these statements.

## 9.8 Interests of Experts and Advisers

Except as disclosed in this Prospectus, no expert, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of the Prospectus, nor any firm in which any of those persons is or was a partner nor any company in which any of those persons is or was associated with, has now, or has had, in the two year period ending on the date of the Original Prospectus, any interest in:

- (a) the formation or promotion of the Company; or
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; or
- (c) the Offer.

Colin Biggers & Paisley Pty Ltd acted as solicitors to the Offer. In respect of this work, the Company will pay approximately \$400,000 exclusive of GST. Subsequently fees and out of scope matters will be paid in accordance with normal hourly rates. Colin Biggers & Paisley Pty Ltd has been paid aggregate fees of \$107,000 (excluding director's fees for Jonathan Meadmore and fees already paid in relation to the Offer) for services to the Company in the 2 years prior to the date of the Original Prospectus.



Frost Brown Todd LLC provided legal services in respect of US law to the Company in relation to the Offer. In respect of this work, the Company will pay approximately \$150,000. Subsequently fees and out of scope matters will be paid in accordance with normal hourly rates. Frost Brown Todd has been paid aggregate fees of USD217,000 for services to the Company in the 2 years prior to the date of the Original Prospectus.

Dechert LLP provided legal services in respect of US intellectual property law to the Company in relation to the Offer. In respect of this work, the Company will pay approximately \$25,000. Subsequently fees and out of scope matters will be paid in accordance with normal hourly rates. Dechert has been paid aggregate fees of USD38,000 for services to the Company in the 2 years prior to the date of the Original Prospectus.

William Buck (Qld) Pty Ltd has prepared the Investigating Accountant's Report in this Prospectus and has provided taxation advisory services in relation to this Prospectus. In respect of this work, the Company will pay approximately \$55,000 exclusive of GST. William Buck (Qld) Pty Ltd has been paid fees for business advisory services to the Company in the 2 years prior to the date of the Original Prospectus amounting to \$17,000.

MCM CPAs & Advisors LLP has provided US taxation advisory services to the Company in respect of the Offer. For this work, the Company will pay approximately \$40,000. MCM has not been paid any fees for services to the Company in the 2 years prior to the date of the Original Prospectus.

## 9.9 Consents

The following parties have given their written consent to be named in this Prospectus and for the inclusion of statements made by those parties as described below in the form and context in which they are included, and have not withdrawn such consent before lodgement of this Prospectus with ASIC.

- (a) Colin Biggers & Paisley Pty Ltd has consented to being named as the Solicitors to the Offer in this Prospectus.
- (b) Frost Brown Todd LLC has consented to being named as the US Solicitors to the Offer in this Prospectus.
- (c) William Buck (Qld) Pty Ltd has consented to being named as the Investigating Accountant to the Company and the inclusion of the Investigating Accountant's Report in this Prospectus.
- (d) William Buck (Qld) has consented to being named as the Company's auditor in this Prospectus.
- (e) Link Market Services Limited has consented to being named as the Share Registry to the Offer.

Each of the parties referred to above in this section:

- (a) does not make, or purport to make any statement in this Prospectus, or on which a statement made in this Prospectus is based other than as specified in this section;
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and a statement included in the Prospectus with the consent of that party as specified in this section; and
- (c) has not caused or authorised the issue of this Prospectus.

## 9.10 Expenses of the Offer

The cash expenses connected with this Prospectus payable by us are estimated to be approximately \$1,125,000 at Minimum and Maximum Subscription. These expenses are summarised below.

Item	Minimum Subscription	Maximum Subscription
ASX quotation and ASIC lodgment fee	\$252,700	\$255,000
Legal and other advisor fees	\$600,000	\$600,000
Investigating Accountant's fees	\$42,000	\$42,000
Tax Advisory Fees	\$53,000	\$53,000
Prospectus Typesetting and printing	\$30,000	\$30,000
Other consultants	\$137,300	\$135,000
Miscellaneous	\$10,000	\$10,000
<b>Total</b>	<b>\$1,125,000</b>	<b>\$1,125,000</b>

## 9.11 Litigation

So far as the Directors are aware, as at the date of this Prospectus, there is no current or threatened civil litigation, arbitration proceeding or administrative appeal, or criminal or governmental prosecutions, in which Ecofibre is directly or indirectly concerned, which are likely to have a material adverse impact on the business or the financial position of the Company. However, the Directors note the matters listed below.

On 30 November 2015, Ecofibre received a letter from a person purporting to represent The Hemp Corporation Pty Ltd (THCPL), although the writer was not recorded on ASIC records as a director of THCPL as at that date. The letter referred to discussions involving Ecofibre and THCPL and Ecofibre's lapsed arrangement with Odin Energy Limited and THCPL. The letter contained a claim for payment by Ecofibre to THCPL of \$490,000 in cash or Ecofibre Shares at an issue price of \$0.08 each. Ecofibre considers the claim devoid of merit, has not and does not intend to pay the sum demanded or any other sum to THCPL and will defend any proceedings brought by THCPL relating to the claim.

In December 2017, United Life Science, Inc. dba Ananda Hemp (ULS) (a Subsidiary of Ecofibre) notified a distributor (Claimant) that it was exercising its contractual right to terminate the parties' Sales Agency Agreement (SA Agreement). On April 24, 2018, the Claimant demanded arbitration against the Company (Arbitration), asserting a claim for damages based upon an alleged breach of the SA Agreement and alleged violation of the Independent Wholesale Sales Representatives Contracts Relations Act of 1990 (the "Act", Cal. Civ. Code §1738.10, et seq.) The Claimant seeks general damages in an amount according to proof, including but not limited to commissions allegedly owed or due and late fees under the SA Agreement, attorney's fees and costs, and further claims that any damage award should be trebled under the Act. ULS denies that it breached the SA Agreement and has filed a cross-petition against the Claimant and maintains that it properly terminated the SA Agreement. ULS considers the claims devoid of merit, has not and does not intend to pay any sum to the Claimant and will defend the Arbitration proceeding.

## 9.12 Taxation considerations

### 9.12.1 Summary of tax issues for Australian tax resident investors

The comments in this section 9.12 provide a general outline of Australian tax issues for Australian tax resident shareholders who acquire shares under this Prospectus and that hold Shares in Ecofibre on capital account for Australian income tax purposes. The categories of Shareholders considered in this summary are limited to individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation funds that hold their shares on capital account.

This summary does not consider the consequences for foreign resident Shareholders, insurance companies, banks, Shareholders that hold their shares on revenue account or carry on a business of trading in shares, Shareholders who are exempt from Australian tax, or Shareholders who are subject to the Taxation of Financial Arrangements rules contained in Division 230 of the Income Tax Assessment Act 1997.

The summary in this section is general in nature and is not exhaustive of all Australian tax consequences that could apply in all circumstances of any given Shareholder. The individual circumstances of each Shareholder may affect the taxation implications of the investment of the Shareholder.

It is strongly recommended that all Shareholders consult their own independent tax advisers regarding the income tax (including capital gains tax), stamp duty and GST consequences of acquiring, owning and disposing of Shares, having regard to their specific circumstances.

The summary in this section is based on the relevant Australian tax law in force, established interpretations of that law and understanding of the practice of the relevant tax authority at the time of issue of this Prospectus. The summary does not take into account the tax law of countries other than Australia. Tax laws are complex and subject to ongoing change. The tax consequences discussed in these summaries do not take into account or anticipate any changes in law (by legislation or judicial decision) or any changes in the administrative practice or interpretation by the relevant authorities. If there is a change, including a change having retrospective effect, the income tax, stamp duty and GST consequences should be reconsidered by Shareholders in light of the changes. The precise implications of ownership or disposal of the Shares will depend upon each Shareholder's specific circumstances.

This summary does not constitute financial product advice as defined in the Corporations Act.

### 9.12.2 Dividends: Australian resident individuals and complying superannuation entities

Where dividends on a Share are paid by Ecofibre, those dividends will constitute assessable income of an Australian tax resident Shareholder. Australian tax resident Shareholders who are individuals or complying superannuation entities should include the dividend in their assessable income in the year the dividend is paid, together with any franking credits attached to that dividend.

The rate of tax payable by each Australian Shareholder that is an individual will depend on the individual circumstances of the Shareholder and his/her prevailing marginal rate of income tax.

Shareholders who are individuals or complying superannuation entities should be entitled to a tax offset equal to the franking credits attached to the dividend subject to being a qualified person (refer further comments below). The tax offset can be applied to reduce the tax payable on the Shareholder's taxable income. Where the tax offset exceeds the tax payable on the Shareholder's taxable income, such Shareholders should be entitled to a tax refund.

Where a dividend paid by Ecofibre is unfranked, the Shareholder will generally be taxed at his or her prevailing marginal rate on the dividend received with no tax offset.

### 9.12.3 Dividends: Corporate Shareholders

Corporate Shareholders are also required to include both the dividend and associated franking credits in their assessable income. A tax offset is then allowed up to the amount of the franking credits on the dividend.

An Australian resident corporate Shareholder should be entitled to a credit in its own franking account to the extent of the franking credits attached to the dividend received. Such corporate Shareholders can then pass on the benefit of the franking credits to their own shareholder(s) on the payment of franked dividends.

Excess franking credits received by a corporate Shareholder cannot give rise to a refund, but may in certain circumstances be converted into carry forward tax losses.

### 9.12.4 Dividends: Trusts and partnerships

Australian tax resident Shareholders who are trustees (other than trustees of complying superannuation entities) or partnerships should include the dividend and franking credits in determining the net income of the trust or partnership.

A beneficiary, trustee or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the net income of the trust or partnership as the case may be.

### 9.12.5 Shares held at risk

To be eligible for the benefit of franking credits and tax offset a Shareholder must satisfy both the holding period and related payment rules. This requires that a Shareholder hold the Shares in Ecofibre "at risk" for more than 45 days continuously (not including the date of acquisition and disposal).

Any day on which a Shareholder has a materially diminished risk of loss or opportunity for gain in respect of the Shares (for example through transactions such as granting options or warrants over Shares or entering into a contract to sell the Shares) will not be counted as a day on which the Shareholder held the Shares "at risk". In addition, a Shareholder must not be obliged to make a related payment in respect of any dividend, unless they hold the Shares "at risk" for the required holding period around the dividend dates.

Where these rules are not satisfied the Shareholder will not be able to include an amount for the franking credits in their assessable income and will not be entitled to a tax offset.

This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed \$5,000. Special rules apply to trusts and beneficiaries.

Shareholders should obtain their own professional tax advice to determine if these requirements, as they apply to them, have been satisfied.

On 14 May 2013, the former Federal Government announced changes that may apply to deny tax offsets to certain dividend washing arrangements. On 29 May 2014, legislation was introduced into Parliament to enact the proposed amendment.

Shareholders should consider the impact of this proposed change together with the broader integrity provisions that apply to the claiming of tax offsets given their own personal circumstances.

### 9.12.6 Capital gains tax (CGT) implications for Australian tax residents on disposal

The disposal of a share by a Shareholder will be a CGT event. A capital gain will arise where the capital proceeds on disposal exceed the cost base of the share (broadly, the amount paid to acquire the share plus any transaction costs incurred in relation to the acquisition or disposal of the shares). In the case of an arm's length on-market sale, the capital proceeds will generally be the cash proceeds received from the sale of the shares.

A CGT discount may be applied against the net capital gain where the Shareholder is an individual, complying superannuation entity or trustee, and the Shares have been held for more than 12 months prior to the CGT event. Where the CGT discount applies, any capital gain arising to individuals and entities acting as trustees (other than a trust that is a complying superannuation entity) may be reduced by one-half after offsetting current year or prior year capital losses. For a complying superannuation entity, any capital gain may be reduced by one-third, after offsetting current year or prior year capital losses.

Where the Shareholder is the trustee of a trust that has held the Shares for more than 12 months before disposal, the CGT discount may flow through to the beneficiaries of the trust if those beneficiaries are not companies. Shareholders that are trustees should seek specific advice regarding the tax consequences of distributions to beneficiaries who may qualify for discounted capital gains.

A capital loss will be realised where the reduced cost base of the share exceeds the capital proceeds from disposal. Capital losses may only be offset against capital gains realised by the Shareholder in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other forms of assessable income.

### 9.12.7 Tax File Numbers

Shareholders are not required to quote their tax file number (TFN), or where relevant their ABN, to Ecofibre.

However, if a valid TFN, ABN or exemption details are not provided, Australian tax may be required to be deducted by Ecofibre from distributions and/or unfranked dividends at the maximum marginal tax rate plus the Medicare levy.

Australian tax should not be required to be deducted by Ecofibre in respect of fully franked dividends.

A Shareholder that holds Shares as part of an enterprise may quote their ABN instead of their TFN. Non-residents are exempt from this requirement.

### 9.12.8 GST implications

No GST should be payable by Shareholders in respect of the acquisition or disposal of their Shares in Ecofibre, regardless of whether or not the Shareholder is registered for GST.

Shareholders may not be entitled to claim full input tax credits in respect of any GST included in the costs they have incurred in connection with their acquisition of the Shares. Separate GST advice should be sought by Shareholders in this respect relevant to their particular circumstances.

No GST should be payable by Shareholders on receiving dividends distributed by Ecofibre.

### 9.12.9 Stamp duty

Shareholders should not be liable for stamp duty in respect of the acquisition of their Shares, unless they acquire, either alone or with an associated/related person, an interest of 90% or more in Ecofibre. Under current stamp duty legislation, no stamp duty would ordinarily be payable by Shareholders on any subsequent transfer of their Shares whilst Ecofibre remains listed.

## 9.13 Electronic Prospectus

Pursuant to Regulatory Guide 107 ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an Electronic Prospectus on the basis of a paper Prospectus lodged with ASIC and the issue of Shares in response to an electronic application form, subject to compliance with certain provisions. If you have received this Prospectus as an Electronic Prospectus please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please email the Company and the Company will send to you, for free, either a hard copy or a further electronic copy of this Prospectus or both.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the Electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered. In such a case, the Application Monies received will be dealt with in accordance with section 722 of the Corporations Act.

## 9.14 Shareholding qualifications

Directors are not required under the Constitution to hold any Shares.

## 9.15 Documents available for inspection

Copies of the following documents are available for inspection during normal business hours at the registered office of the Company:

- (a) this Prospectus; and
- (b) the Constitution.

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## DIRECTORS' RESPONSIBILITY AND CONSENT

The Directors state that they have made all reasonable enquiries and on that basis have reasonable grounds to believe that any statements made by the Directors in this Prospectus are not misleading or deceptive and that in respect to any other statements made in the Prospectus by persons other than Directors, the Directors have made reasonable enquiries and on that basis have reasonable grounds to believe that persons making the statement or statements were competent to make such statements, those persons have given their consent to the statements being included in this Prospectus in the form and context in which they are included and have not withdrawn that consent before lodgement of this Prospectus with the ASIC, or to the Directors knowledge, before any issue of the Shares pursuant to this Prospectus.

Each Director has consented to the lodgement of this Prospectus with the ASIC in accordance with section 720 of the Corporations Act and has not withdrawn that consent.

Dated: 22 February 2019



Barry Lambert  
Chairman



**anandafood**

Farm To Family

www.anandafood.com







“

Ecofibre is a provider of hemp products in the United States and Australia.

# 11

## GLOSSARY



## Glossary

Where the following terms are used in this Prospectus they have the following meanings:

<b>2018 Farm Bill</b>	Agriculture Improvement Act of 2018 (US)
<b>A\$ or \$</b>	Australian dollars unless otherwise stated.
<b>AASB</b>	Australian Accounting Standards Board.
<b>AEDT</b>	Australian Eastern Daylight Time.
<b>Applicant</b>	a person or entity who submits a valid Application Form pursuant to this Prospectus.
<b>Application</b>	a valid application made on an Application Form to subscribe for Offer Shares pursuant to this Prospectus.
<b>Application Form</b>	an application form attached to this Prospectus.
<b>Application Monies</b>	money received by the Company under the Offer, being the Offer Price multiplied by the number of Offer Shares applied for.
<b>Ananda Food</b>	Ananda Food Pty Ltd (ACN 107 362 863).
<b>Ananda Health</b>	Ananda Hemp Inc. and its Ananda Health business
<b>Ananda Hemp</b>	Ananda Hemp Inc.
<b>ASIC</b>	the Australian Securities and Investments Commission.
<b>ASX</b>	the ASX Limited ACN 008 624 691 or the securities exchange operated by it (as the case requires).
<b>ASX Settlement</b>	ASX Settlement Pty Ltd ACN 008 504 532.
<b>ASX Settlement Operating Rules</b>	the ASX Settlement Operating Rules, being the operating rules of the settlement facility provided by ASX Settlement.
<b>Board</b>	the board of directors of the Company.
<b>CAGR</b>	compound annual growth rate.
<b>Cannabidiol or CBD</b>	defined in Section 2.3.
<b><i>Cannabis sativa L.</i></b>	<i>Cannabis sativa Linnaeus</i>
<b>CGT</b>	Capital Gains Tax
<b>CHESS</b>	ASX's Clearing House Electronic Sub-Register System. See Section 7.10.
<b>Closing Date</b>	5.00pm AEDT on 11 March 2019 or an amended date or time determined by the Board.
<b>Company</b>	Ecofibre Limited ACN 140 245 263 and where the context requires, includes its Subsidiaries.
<b>Completion of the Offer</b>	Completion in respect of the allotment and issue of Shares by the Company.
<b>Constitution</b>	the constitution of the Company.
<b>Controlled Substances Act</b>	Title 21, United States Code (USC) Controlled Substances Act - Section 801-971
<b>Convertible Note</b>	The Convertible Note issued to Barry and Joy Lambert as trustees for the Lambert Superannuation Fund - see Section 9.1.1(e).
<b>Corporations Act</b>	the Corporations Act 2001 (Cth).
<b>Director</b>	a director of the Company.
<b>EBITDA</b>	Earnings before interest, taxation, depreciation and amortisation.
<b>Ecofibre</b>	Ecofibre Limited ACN 140 245 263 and where the context requires, includes its Subsidiaries.
<b>ESS</b>	the Company Employee Share Scheme summarised in Section 6.8.
<b>Existing Shareholders</b>	Ecofibre's Shareholders immediately prior to Completion of the Offer.

<b>FY</b>	Financial year.
<b>Germplasm</b>	seeds from which hemp varieties are grown.
<b>Group</b>	Ecofibre
<b>Hemp</b>	Industrial hemp
<b>Black</b>	Hemp Black Inc. and its Hemp Black business
<b>IFRS</b>	International Financial Reporting Standards.
<b>Indicative timetable</b>	the indicative timetable for the Offer in this Prospectus.
<b>IP</b>	Intellectual Property
<b>Issue Date</b>	the date, as determined by the Directors, on which the Shares offered under Offer are issued, which is anticipated to be the date identified in the Indicative Timetable.
<b>Listing</b>	the admission of the Company to the Official List and the quotation of its Shares on ASX.
<b>Rules</b>	the listing rules of ASX.
<b>Maximum Subscription</b>	the maximum amount to be raised under this Prospectus being \$20,000,000.
<b>Minimum Subscription</b>	the minimum amount to be raised under this Prospectus being \$15,000,000.
<b>Offer</b>	the offer of Shares made under this Prospectus.
<b>Offer Period</b>	the period between the Opening Date and the Closing Date
<b>Offer Price</b>	\$1 per Offer Share.
<b>Offer Shares</b>	Shares offered under this Prospectus.
<b>Official List</b>	the official list of the ASX
<b>Opening Date</b>	26 February 2019 or an amended date determined by the Board.
<b>Option</b>	an option to subscribe for and be issued, a Share.
<b>Original Prospectus</b>	the prospectus dated 11 February 2019 and lodged with ASIC on that date, and which this Prospectus replaces.
<b>Prospectus</b>	this document (including the electronic form of this prospectus).
<b>R&amp;D</b>	research and development.
<b>Securities</b>	means any securities, including Shares and Options, issued or granted by the Company.
<b>Section</b>	a section of this Prospectus.
<b>Share</b>	a fully paid ordinary share in the Company.
<b>Shareholder</b>	a registered holder of Shares in the Company.
<b>Share Registry or Registry</b>	Link Market Services Limited.
<b>Share Split</b>	the Share Split that occurred before the date of this Prospectus, as set out in Section 4.7.4.
<b>Subsidiary or Subsidiaries</b>	a subsidiary of Ecofibre Limited.
<b>THC</b>	defined in Section 2.3.
<b>TJU</b>	Thomas Jefferson University.
<b>TJU Option</b>	the Option held by TJU summarised in Section 9.1.3.
<b>US</b>	United States of America.
<b>USD</b>	United States Dollars.
<b>VWAP</b>	Volume Weighted Average Price.



# Annexures

- A - Legal Opinion on Hemp Operations in The United States
- B - Legal Opinion on Hemp Operations in Australia
- C - Summary of Ecofibre's Significant Accounting Policies



## ANNEXURE A

### Legal Opinion on Hemp Operations in the United States

**OPINION ON THE LEGAL STATUS OF HEMP BUSINESS OPERATIONS**  
**UNDER U.S. FEDERAL AND STATE LAWS**

*Prepared for Ecofibre Limited*

**February 20, 2019**

**INTRODUCTION**

You have asked us to opine on the legality of the business operations of Ecofibre Limited (“you” or “Ecofibre”) as they relate to hemp. As outlined below, it is our informed opinion that Ecofibre operates within the bounds of the laws of the Commonwealth of Kentucky, as well as U.S. federal laws regulating the growth, manufacture, distribution, and sale of hemp and hemp-derived products.

**Description of Ecofibre’s operations and products**

Organized in 2009, Ecofibre is an industrial hemp company operating in Australia and the United States. In the United States, Ecofibre operates alongside multi-generational farmers with its primary business operations in Kentucky. Ecofibre produces high-quality hemp products, including products containing cannabidiol (CBD) extracted from hemp (the “Products”). The Products include a line branded as “Ananda Pets,” which is a full-spectrum hemp extract containing CBD and intended for cats and dogs.

The Products derive from hemp lawfully grown, cultivated, processed and marketed pursuant to licenses issued by the Kentucky Department of Agriculture (KDA) as part of the Kentucky Industrial Hemp Research Pilot Program (“IHRPP”). The Products are produced by Kentucky Industrial Hemp, LLC (d/b/a Ecofibre Kentucky) and Ananda Hemp Inc., both of which are U.S.-based subsidiaries of Ecofibre using the trade name “Ananda”. Kentucky Industrial Hemp, LLC operates under the terms of a processor/handler licensing agreement with the KDA as part of IHRPP and currently has contracts with seven growers licensed by the KDA.<sup>1</sup> The processor/handler license authorizes Kentucky Industrial Hemp, LLC, and Ananda Hemp Inc. as its agent, to market and sell hemp and hemp-derived products in the Commonwealth of Kentucky. Moreover, U.S. federal law now explicitly prohibits states and Native American tribes from interfering with the interstate transportation or shipment hemp and hemp-derived products.

Ananda Hemp Inc. is a Nevada corporation in good standing and organized and existing under Nevada law. Kentucky Industrial Hemp, LLC is a limited liability company in good standing and

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<sup>1</sup> Attached as Appendix A to this opinion are a copy of the processor/handler licensing agreement and a list of the other required governmental licenses and permits.

organized and existing under Kentucky law which has adopted the assumed name of Ecofibre Kentucky.

You have indicated that the CBD contained in the Products is extracted from hemp lawfully grown and cultivated by Ananda as part of IHRPP. You have also indicated that the Products contain no more than three-tenths percent (0.3%) tetrahydrocannabinol (THC) content on a dry weight basis.

### **SHORT ANSWER**

As outlined below, it is our informed opinion that Ecofibre operates within the bounds of federal laws regulating hemp, and that the Products are legal as a matter of federal law. It is also our informed opinion that Ecofibre operates within the bounds of the state laws of Kentucky, where Ananda grows and cultivates the hemp from which the Products derive and also manufactures the Products themselves.

Specifically, we believe the Products are legal as a matter of federal law because they constitute hemp as defined in the Agriculture Improvement Act of 2018 (“2018 Farm Bill”). As a result, the Products may be legally transported, shipped, and distributed in interstate commerce without interruption or interference by federal or state law enforcement or regulatory officials. In fact, any effort by Kentucky or any other state (or Native American tribe) to enforce against the Products in interstate commerce would contravene federal law.

We note, however, that topical and ingestible products containing CBD fall within the regulatory jurisdiction of the U.S. Food and Drug Administration (FDA). The Products, because they contain CBD, may be subject to enhanced scrutiny or enforcement action. In addition, the Ananda Pets Products may be subject to regulation by the FDA because they contain CBD, just like a CBD product intended for human use.

The Products are legal under Kentucky law because they derive from hemp grown and cultivated by a licensed grower pursuant to an agricultural pilot program authorized under the Agricultural Act of 2014 (“2014 Farm Bill”) and do not contain more than 0.3% THC.

### **LEGAL ANALYSIS AND OPINION**

#### **I. FEDERAL LAW**

On December 20, 2018, the 2018 Farm Bill was signed into law with bipartisan Congressional support and became effective immediately. The provisions of the 2018 Farm Bill relevant to Ecofibre’s hemp operations in the United States can be summarized as follows:

- The 2018 Farm Bill permanently removes “hemp” from scheduled control under the federal Controlled Substances Act (“CSA”) 21 U.S.C. 801 (“CSA”). Moving forward, hemp is deemed to be an agricultural commodity. As such, federal law enforcement and regulatory officials can no longer mistake hemp for its more controversial cousin, marijuana, also a subspecies of the cannabis plant.



- “Hemp” is federally redefined as “the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis.” For the first time, the now-expanded definition of hemp specifically includes derivatives, extracts, and cannabinoids, including the non-psychoactive cannabinoid cannabidiol (CBD). As a result, popular hemp products, such as hemp-derived CBD, are also removed from scheduled control under the CSA. Due to this redefinition, the Drug Enforcement Administration (DEA) no longer has any possible claim to interfere with hemp or hemp-derived products in interstate commerce. This should comfort federally regulated institutions—pharmacies, banks, merchant services, credit card companies, e-commerce sites, and advertising platforms, for instance—as well as private retailers, in conducting commerce involving hemp and hemp-derived products.
- The 2018 Farm Bill explicitly protects interstate commerce involving hemp and hemp-derived products and prohibits states and Native American tribes from interfering with the interstate transportation or shipment of hemp and hemp-derived products. Any effort by state or tribal law enforcement or regulatory officials to enforce against hemp or hemp-derived products in interstate commerce would contravene federal law.
- States, including the District of Columbia and any territory or possession of the United States, as well as Native American tribes, may assume primary regulatory authority over the production of hemp in their jurisdictions through a regulatory or tribal plan approved by the U.S. Department of Agriculture (USDA). If a state or tribe does not establish (or have approved) such a regulatory plan, hemp production in that jurisdiction is subject to the regulatory plan established by USDA.
- The 2018 Farm Bill does not, however, preempt state or local law. As such, through their regulatory plans, states or tribes may impose separate (and greater) restrictions or requirements on hemp production in their jurisdiction.

Prior to enactment of the 2018 Farm Bill, the 2014 Farm Bill controlled the production of hemp at the federal level. Under this regime, states—through their departments of agriculture—were authorized to establish agricultural pilot programs for the production of hemp for research purposes, including marketing studies. The 2014 Farm Bill sanctioned, but did not require, states to establish agricultural pilot programs for the growth and cultivation of hemp for research purposes.

Federal appropriations riders passed subsequent to the 2014 Farm Bill prohibited federally appropriated agencies, including DEA, from enforcing against hemp and hemp-derived products in interstate commerce, a protection that, as discussed above, the 2018 Farm Bill preserves.

At least forty-one states established such programs, some of them with broader permissions (and more sophisticated regulatory frameworks) than others. Because the 2018 Farm Bill did not

predetermine the structure of an agricultural pilot program, a patchwork of state regulatory regimes emerged. In other words, the permissions and limitations of states' agricultural pilot programs varied.

In addition to states establishing agricultural pilot programs under the 2014 Farm Bill, states have enacted laws and/or promulgated regulations legalizing activities involving hemp outside the context of an agricultural pilot program, including commercial distribution and sale of hemp and hemp-derived products.

Like the 2018 Farm Bill, the 2014 Farm Bill did not preempt state or local law, leaving up to each state whether to sanction the production of hemp in its jurisdiction. For this reason—under the jurisdiction of state or local law—in a handful of states, officials have taken law enforcement or regulatory action against the commercial distribution and/or retail sale of otherwise federally legal hemp-derived products, including CBD. Currently, there are at least seventeen identifiable states whose laws and/or regulations provide explicit protection for the retail sale of hemp-derived CBD. The remaining states neither explicitly permit nor explicitly prohibit the retail sale of hemp-derived CBD; in fact, many of these states do not mention CBD anywhere in their statutes or regulations. As discussed above, any continued action against the interstate transportation or shipment of hemp-derived products would contravene federal law.

It is anticipated that states that established agricultural pilot programs under the 2014 Farm Bill will rely on these existing regimes in submitting a regulatory plan under the 2018 Farm Bill—as Kentucky did when it submitted its regulatory plan for approval by USDA on December 20, 2018. As discussed above, such a plan may regulate hemp and hemp products more restrictively than the 2018 Farm Bill. Thus, variances in states' laws and regulations on hemp are likely to persist.

### **Food and Drug Administration**

While the 2018 Farm Bill sidelines the DEA, the FDA retains its authority to regulate ingestible and topical products, including those that contain hemp and hemp extracts, such as CBD. Much public attention has focused on a non-binding Q&A posted on the FDA's website a few years ago,<sup>2</sup> which the FDA Commissioner reiterated in a statement issued the day the 2018 Farm Bill became law.<sup>3</sup> The Q&A suggests that CBD products cannot be marketed as foods or dietary supplements. This position, however, is unsettled and unsupported by law or regulations. More importantly, the FDA's current position is *not* a final determination.

As background, the Food, Drug, and Cosmetic Act ("Food and Drug Act"), as amended by the Dietary Supplement Health and Education Act of 1994 ("DSHESA"),<sup>4</sup> defines a "dietary supplement" as a product intended to supplement the diet that contains one or more of the

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<sup>2</sup> U.S. Food & Drug Administration, "FDA and Marijuana: Questions and Answers," FDA.GOV, <https://www.fda.gov/NewsEvents/PublicHealthFocus/ucm421168.htm> (hereinafter the "Q&A").

<sup>3</sup> U.S. Food & Drug Administration, "Statement from FDA Commissioner Scott Gottlieb, M.D., on signing of the Agriculture Improvement Act and the agency's regulation of products containing cannabis and cannabis-derived compounds," FDA.GOV, <https://www.fda.gov/NewsEvents/Newsroom/PressAnnouncements/ucm628988.htm>.

<sup>4</sup> Dietary Supplement Health and Education Act of 1994, Pub. L. No. 104-417.

following: (a) a vitamin; (b) a mineral; (c) an herb or other botanical; (d) an amino acid; (e) a dietary substance for use by man to supplement the diet by increasing the total dietary intake; or (f) a concentrate, metabolite, constituent, extract, or combination of any ingredient described in clause (a) through (e).<sup>5</sup> Thus, the law permits a wide range of dietary ingredients in dietary supplements, including CBD—a botanical extract (*Cannabis sativa L.*). CBD also falls under clause (e), as it is a dietary substance for use by man to supplement the diet by increasing the total dietary intake.

The FDA has taken the position—via Warning Letters sent to hemp-CBD companies,<sup>6</sup> as well as the Q&A—that because substantial clinical trials studying CBD as a new drug were made public prior to the marketing of any food or dietary supplements containing CBD, dietary supplements or food are precluded from containing this ingredient (“IND Preclusion”).<sup>7</sup>

However, we firmly disagree that the referenced clinical trials are in fact “substantial,” as the trials were extremely limited in scope, and funding and the publication of these trials were limited. The FDA also seems to misinterpret the IND Preclusion in that it believes the preclusion date is simply the date in which the FDA authorized CBD as an investigational new drug (IND), without giving deference to the remaining portion of the statute, which requires that substantial clinical investigation be commenced and that such substantial clinical investigation be made public. In addition, the Q&A does not have the effect of law but instead merely reflects the FDA’s opinion, which the agency suggests may change as evidenced from the FDA’s own request for further input on the topic.

Rather, we believe that hemp-derived CBD products were marketed as dietary supplements and/or foods prior to any *substantial* drug investigations being undertaken, or made public, and that based on the definition of “dietary supplement” under DSHEA, CBD is in fact a permissible dietary ingredient. Moreover, Warning Letters and agency Q&A documents are by no means final agency determinations.

It is of significant import that, to date, the FDA has not taken any hemp-derived CBD products off the market, prohibited the sale of such products, or ordered a product recall. Further, the primary motivation for the Warning Letters issued in 2015, 2016, and 2017 concerned the improper use of disease-remediation claims by supplement/food companies. No Warning Letter has been issued to a company that merely sold legitimate hemp-derived CBD products without making inappropriate disease-remediation claims, and we are not aware of any Warning Letters being issued since enactment of the 2018 Farm Bill.

Furthermore, current scientific research confirms that hemp-derived CBD is safe in food, supplements, and beverages and has provided general health and wellness benefits to millions of Americans. Because hemp contains only a negligible amount of THC, hemp-derived CBD products are non-psychoactive and safe. Moreover, hemp-derived CBD does not have the potential

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<sup>5</sup> 21 U.S.C. § 321(ff).

<sup>6</sup> U.S. Food & Drug Administration, “Warning Letters and Test Results for Cannabidiol-Related Products,” FDA.GOV, <https://www.fda.gov/NewsEvents/PublicHealthFocus/ucm484109.htm>.

<sup>7</sup> 21 U.S.C. § 321(ff)(3)(B)(ii).

for abuse or addiction, and there is no potential for diversion. We are also not aware of any serious adverse events associated with the consumption of CBD.

Food and supplements that contain hemp-derived CBD are already subject to a comprehensive regulatory framework that addresses both the safety and quality of these products. In fact, the current Good Manufacturing Practices (“GMPs”) for food and supplements (21 CFR Part 117 and Part 111, respectively) are equally, if not more, robust than the regulations governing the manufacture and production of cannabis products in most states.

Indeed, the World Health Organization (WHO) Expert Committee on Drug Dependence recommended in August 2018 that “preparations considered to be pure CBD should not be scheduled within the International Drug Control Conventions.” Some key findings from the WHO:

- “There are no case reports of abuse or dependence relating to the use of pure CBD.”
- “No public health problems have been associated with CBD use.”
- “CBD has been found to be generally well tolerated with a good safety profile.”
- “There is no evidence that CBD is liable to similar abuse and similar ill-effects as substances...such as cannabis or THC.”<sup>8</sup>

Perhaps more significantly, a May 2018 memorandum from Health and Human Services Assistant Secretary Brett Giroir concludes that “CBD and its salts . . . could be removed from control under the CSA.”

After a thorough scientific review and analysis, the FDA opined:

- “There is little indication that CBD has abuse potential or presents a significant risk to the public health.”
- “No evidence for a classic drug withdrawal syndrome for CBD, and no evidence that CBD causes physical or psychic dependence.”
- “CBD does not appear to have abuse potential under the CSA.”
- “There is no signal for the development of substance use disorder in individuals consuming CBD-containing products.”
- “It is unlikely that CBD would act as an immediate precursor to THC for abuse purposes.”<sup>9</sup>

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<sup>8</sup> World Health Organization, “Fortieth meeting of the Expert Committee on Drug Dependence,” WHO.INT, [https://www.who.int/medicines/access/controlled-substances/ecdd\\_40\\_meeting/en/](https://www.who.int/medicines/access/controlled-substances/ecdd_40_meeting/en/).

<sup>9</sup> Department of Health & Human Services, Letter from Dr. Brett P. Giroir, Assistant Secretary for Health, Department of Health & Human Services, to Robert W. Patterson, Acting Administrator, Drug Enforcement

Finally, shortly after enactment of the 2018 Farm Bill, FDA Commissioner Scott Gottlieb released a letter restating the FDA's current position, opining that it is a violation of federal law to introduce CBD ingredients "into the food supply or market them as dietary supplements."<sup>10</sup> While that portion of the statement provoked a few breathless media reports, it was old news.

Of greater significance, the Gottlieb statement also indicated the FDA was receptive to permanent and formal acceptance of hemp-derived CBD as a food additive or nutritional supplement. For the very first time, the FDA is seriously considering using its authority to issue a regulation that will specifically allow hemp-derived ingredients in foods and supplements:

*[P]athways remain available for the FDA to consider whether there are circumstances in which certain cannabis-derived compounds might be permitted in a food or dietary supplement. Although such products are generally prohibited to be introduced in interstate commerce, the FDA has authority to issue a regulation allowing the use of a pharmaceutical ingredient in a food or dietary supplement. We are taking new steps to evaluate whether we should pursue such a process.*

Furthermore, as it makes this decision, the FDA is reaching out to the industry and the public:

*Given the substantial public interest in this topic and the clear interest of Congress in fostering the development of appropriate hemp products, we intend to hold a public meeting in the near future for stakeholders to share their experiences and challenges with these products, including information and views related to the safety of such products. We'll use this meeting to gather additional input relevant to the lawful pathways by which products containing cannabis or cannabis-derived compounds can be marketed, and how we can make these legal pathways more predictable and efficient. We'll also solicit input relevant to our regulatory strategy related to existing products, while we continue to evaluate and take action against products that are being unlawfully marketed and create risks for consumers. At the same time, we recognize the potential opportunities that cannabis or cannabis-derived compounds could offer and acknowledge the significant interest in these possibilities. We're committed to pursuing an efficient regulatory framework for allowing product developers that meet the requirements under our authorities to lawfully market these types of products.*

The U.S. Hemp Roundtable, the industry's leading national business advocacy association—and on whose Board of Directors Ecofibre serves—will be actively involved in the negotiation process. With the partnership of other industry organizations, such as the American Herbal Products Association and the Hemp Industries Association, the pursuit of this approval path will be one of the Roundtable's top priorities for 2019.

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Administrator (May 16, 2018), [https://hempindustrydaily.com/wp-content/uploads/2018/10/DHS-DEA-letter-2018-0014-0002.pdf?\\_ga=2.205388819.221633313.1538568567-731547511.1538568567](https://hempindustrydaily.com/wp-content/uploads/2018/10/DHS-DEA-letter-2018-0014-0002.pdf?_ga=2.205388819.221633313.1538568567-731547511.1538568567).

<sup>10</sup> U.S. Food & Drug Administration, *supra* note 3.

There was also more good news from the FDA on December 20. That day, the FDA issued a statement opining that the “*agency has no questions*” about the conclusion that hulled hemp seed, hemp seed protein powder, and hemp seed oil are generally recognized as safe (“GRAS”) under their intended conditions of use.<sup>11</sup> While the GRAS evaluation was made at the request of a specific company, Fresh Hemp Foods, “the GRAS conclusions can apply to ingredients from other companies, if they are manufactured in a way that is consistent with the notices and they meet the listed specifications. Some of the intended uses for these ingredients include adding them as source of protein, carbohydrates, oil, and other nutrients to beverages (juices, smoothies, protein drinks, plant-based alternatives to dairy products), soups, dips, spreads, sauces, dressings, plant-based alternatives to meat products, desserts, baked goods, cereals, snacks and nutrition bars.”

There is still work to be done. But incautious media reports that broadly suggest that hemp-derived CBD is federally illegal are inaccurate. With the backing of consensus scientific research, and the evolving viewpoints of the FDA, the clear and permanent recognition of the legality of hemp-derived CBD is increasingly likely.

### **Ananda Pets**

In addition to regulating food and drug products intended for human consumption, the Food and Drug Act applies to products intended for animals. We are not aware of any hemp-derived drug that the FDA has approved for pet application.

As for food, the Food and Drug Act provides that it is illegal to use an unapproved food additive in pet food.<sup>12</sup> Neither hemp nor CBD is currently listed as an approved animal food additive in a listing promulgated under the Food and Drug Act.<sup>13</sup> Nor, however, is either hemp or CBD listed as a substance prohibited from use in animal food or feed.<sup>14</sup>

Unlike products intended for human use, the Food and Drug Act does not create a class of dietary supplements for animals. The FDA has taken the position that the sections of the Food and Drug Act that apply to human dietary supplements do not apply to animal products:

*The Dietary Supplement and Health Education Act (DSHEA) of 1994, has affected the way FDA regulates “food for humans,” i.e., among other things, it restricts substances from being food additives or drugs if the product meets the definition of a dietary supplement. However, the agency’s assessment of the law is that it was not intended and does not apply to animal feed, including pet food. This assessment was published in the Federal Register on April 22, 1996 (61 FR 17706). Thus,*

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<sup>11</sup> U.S. Food & Drug Administration, “FDA responds to Three GRAS Notices for Hemp Seed-Derived Ingredients for Use in Human Food,” APP.INFO.FDA.GOV, <http://app.info.fda.gov/e/es?s=2027422842&e=174367&elqTrackId=78D8A052C380BCBFF284D754BEBE9730&elq=920ad70cfc794cdd98d105ed04048730&elqaid=6391&elqat=1>.

<sup>12</sup> U.S. Food & Drug Administration, “FDA’s Regulation of Pet Food,” FDA.GOV, <https://www.fda.gov/AnimalVeterinary/ResourcesforYou/ucm047111.htm#GRAS>.

<sup>13</sup> See generally 21 C.F.R. §§ 573.120-523.1020.

<sup>14</sup> See generally *id.* §§ 589.1000-589.2001.

*products marketed as dietary supplements or "feed supplements" for animals still fall under the FFDCFA prior to DSHEA, i.e., they are considered "foods" or "new animal drugs" depending on the intended use[.]*<sup>15</sup>

Accordingly, the Ananda Pets Products are likely to be categorized as a food or drug product, even though they are marketed as a "supplement."

As discussed herein, the FDA's current stance on the introduction of hemp-derived CBD in food (whether for human or animal use) and marketing hemp-derived CBD as a dietary supplement is unsettled and unsupported by federal law.<sup>16</sup> Nonetheless, these remain the positions of the FDA. We acknowledge that, if the FDA were to categorize them as food or feed, the Ananda Pets Products may be subject to enforcement under the Food and Drug Act as containing an unapproved additive.

While we are not aware of any enforcement action taken by the FDA against hemp-derived CBD products intended for animal use, the current legal status of products for animal use is subject to uncertainty at the federal level akin to that of products for human use.

### **Kentucky Industrial Hemp Research Pilot Program**

Pursuant to the 2014 Farm Bill, KDA established IHRPP for the growth and cultivation of hemp for research purposes.<sup>17</sup> With IHRPP remaining active until USDA approves Kentucky's regulatory plan submission, valid research purposes include the study of methods of cultivating, processing, or marketing hemp, including through sales of hemp and hemp-derived products in intrastate and interstate commerce. Only persons licensed by KDA, or their agents or designees, may legally grow, cultivate, handle, or process hemp in Kentucky. Properly licensed persons, and their agents and designees, may also handle and process hemp-derived products in Kentucky. Kentucky law defines hemp as having the same meaning as in the 2014 Farm Bill, and its definition of hemp products includes all products derived from, or made by, processing hemp plants or plant parts.

KDA has promulgated numerous regulations for IHRPP. These regulations specify, among other things, requirements for licensure and restrictions on hemp activities. Upon application, KDA may issue a hemp grower license. A licensed grower may grow, handle, store, and market hemp under the terms established in a licensing agreement entered with KDA. The licensing agreement restricts seed acquisition, land use, and sale and transfer, and authorizes KDA to conduct random inspection of growing sites and sampling of pre- and post-harvest hemp plants and parts. The licensing agreement also provides for the confiscation and destruction of non-compliant hemp plants, including plants that exceed permissible THC concentrations.

KDA may also issue a hemp processor/handler licensee for IHRPP. A licensed processor/handler

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<sup>15</sup> U.S. Food and Drug Administration, "Product Regulation," [fda.gov, https://www.fda.gov/AnimalVeterinary/Products/AnimalFoodFeeds/ucm050223.htm](https://www.fda.gov/AnimalVeterinary/Products/AnimalFoodFeeds/ucm050223.htm).

<sup>16</sup> See U.S. Food & Drug Administration, *supra* note 3.

<sup>17</sup> KRS §§ 260.850-260.869.

may process, handle, store, and market hemp under the terms established in a licensing agreement entered with KDA. The licensing agreement restricts seed acquisition, land use, and sale and transfer, and authorizes KDA to conduct random inspection of processing sites and facilities and sampling of hemp material. The licensing agreement also provides for the confiscation and destruction of non-compliant hemp material including plant parts that exceed permissible THC concentrations.

In general, Kentucky has established and developed one of the United States' leading agricultural pilot programs for hemp, with broad and explicit permissions for activities involving hemp and hemp products. In 2018, IHRPP, now in its fourth year, included 198 growers who covered more than 3,200 acres. Further, KDA has promulgated a robust regulatory framework that ensures IHRPP's alignment and compliance with the 2014 Farm Bill and 2018 Farm Bill. It is expected that Kentucky's regulatory plan submission, which relies heavily on IHRPP, will gain approval from USDA.

## II. STATE LAW

In general, states' laws on hemp vary. At least forty-one states, including Kentucky, have authorized the growth and cultivation of hemp for commercial or research purposes. Many of these states, like Kentucky, established agricultural pilot programs pursuant to the 2014 Farm Bill, to which explicit federal law protections attached. Regardless of their existing laws (and whether they established agricultural pilot programs), however, states may not interfere with the interstate transportation or shipment of hemp or hemp-derived products. Any effort by state law enforcement or regulatory officials to enforce against hemp or hemp-derived products in interstate commerce would contravene the 2018 Farm Bill, which became effective December 20, 2018.

As part of its agricultural pilot program regime, Kentucky has among the most favorable hemp laws in the United States. These laws deem hemp an agricultural commodity and permit broad activities involving hemp and hemp-derived products "to the maximum extent permitted by federal law"—both within and outside the construct of IHRPP.<sup>18</sup> Under Kentucky law, a licensee of IHRPP (or any agent of a licensee) may "cultivate, handle, or process hemp or hemp products in [Kentucky]."<sup>19</sup>

In addition to establishing a 2014 Farm Bill-compliant agricultural pilot program, Kentucky legalized the distribution and sale of hemp and hemp-derived products by excluding them from the definition of marijuana.<sup>20</sup> Specifically, the definition of marijuana excludes hemp in the possession, custody, or control of an IHRPP licensee; hemp products; and any CBD product derived from hemp.<sup>21</sup> Kentucky law defines hemp products to include all "products derived from, or made by, processing hemp plants or plant parts."<sup>22</sup>

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<sup>18</sup> *See id.* § 260.852.

<sup>19</sup> *Id.* § 260.858(2).

<sup>20</sup> *Id.* § 218A.010(27).

<sup>21</sup> *Id.*

<sup>22</sup> *Id.* § 260.850(6).



## **Ananda Pets**

The legal status of the Ananda Pets Products is also uncertain at the state level. We are aware of laws or policies prohibiting hemp parts in pet food in certain states, including, without limitation, Colorado, Minnesota, Texas, Utah, Washington, and Wisconsin. There may be other states or jurisdictions that similarly control or prohibit hemp parts in animal food products.

States' laws on these issues can be influenced by the Association of American Feed Control Officials (AAFCO). AAFCO "is a voluntary membership association of local, state, and federal agencies charged by law to regulate the sale and distribution of animal feeds and animal drug remedies."<sup>23</sup> Although AAFCO has no binding regulatory authority, it makes recommendations through drafting model bills, regulations, and policies for enactment or promulgation by state legislatures and regulatory agencies to improve uniformity.

On March 5, 2017, AAFCO issued the following guidelines on hemp derivatives in animal food:

*Hemp production is increasing in the United States. In 2015 AAFCO asked the hemp industry to come forward and present information for the scientific review to establish definitions for animal foods made from the hemp plant. We expected information on hemp seed oil, hemp seed meal, and whole hemp seeds. To date, the industry has not provided any data showing that ingredients derived from the hemp plant are safe and useful in animal food. AAFCO is encouraging the industry to submit their data promptly. Regulatory members continue to ask for the information prior to distribution of hemp seed products in their state. To allow an entire industry to enter the market without the appropriate safety data is unfair to other ingredient manufacturers that are doing their due diligence. There are some potential safety concerns related to the presence of certain compounds, including THC (tetrahydrocannabinol) and CBD (cannabidiol), in parts of the hemp plant that must be addressed.*

*One thing has become clear as we have had discussions with the hemp industry, materials and products that are CBD infused need to be treated as drugs. There is no nutritional intended use for this compound. This means that several parts of the hemp plant will not be appropriate for animal feeding.*

*Quoting from the FDA and Marijuana website: "FDA has therefore concluded that it is a prohibited act to introduce or deliver for introduction into interstate commerce any food (including any animal food or feed) to which cannabidiol has been added."<sup>24</sup>*

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<sup>23</sup> AAFCO, AAFCO.ORG, <https://www.aafco.org/>.

<sup>24</sup> AAFCO, "AAFCO Guidelines on Hemp in Animal Food," [aafco.org](https://www.aafco.org/Portals/0/SiteContent/Announcements/AAFCO_Guidelines_on_Hemp_in_Animal_Food_2.pdf?v2) (Mar. 5, 2017), [https://www.aafco.org/Portals/0/SiteContent/Announcements/AAFCO\\_Guidelines\\_on\\_Hemp\\_in\\_Animal\\_Food\\_2.pdf?v2](https://www.aafco.org/Portals/0/SiteContent/Announcements/AAFCO_Guidelines_on_Hemp_in_Animal_Food_2.pdf?v2).

Since AAFCO issued its guidelines, numerous agencies and institutions have confirmed that hemp-derived CBD is safe in food, supplements, and beverages. We are not aware of any serious adverse events associated with the consumption of CBD. Indeed, the World Health Organization (WHO) recently evaluated CBD and determined that “CBD is generally well tolerated with a good safety profile” and that “there is no evidence of recreational use of CBD or any public health-related problems associated with the use of pure CBD.”<sup>25</sup> Because hemp contains only a negligible amount of THC, hemp-derived CBD products are non-psychoactive, and CBD does not have the potential for abuse or addiction, and there is no potential for diversion.

We understand that an approval process is underway for hemp in pet food products. Ingredients used in animal food in the United States undergo a scientific review prior to being allowed for sale or distribution. The most comprehensive list of ingredients defined for animal food use is found in the AAFCO’s *Official Publication*, which does not currently list hemp.<sup>26</sup> However, we understand that a diverse group of industry stakeholders, including product manufacturers and veterinarians, has aligned to ensure hemp obtains approval for use in pet food and feed.<sup>27</sup> Gaining approval can take three to five years, but there is hope that ongoing research may expedite this process.

### III. APPLICATION

#### A. FEDERAL LAW

It is our opinion that Ecofibre operates within the bounds of U.S. federal laws and regulations on hemp. The Products derive from hemp and contain CBD extracted from hemp but do not contain more than 0.3% THC; they clearly constitute hemp as defined in the 2018 Farm Bill, which permanently removes hemp from scheduled controlled under the CSA. As a result, the Products may be legally shipped and transported in interstate commerce.

Under the 2018 Farm Bill, the FDA retains exclusive jurisdiction over the regulation of ingestible and topical hemp-derived products, as the 2018 Farm Bill does not amend or modify the Food and Drug Act (among other federal laws). While it is our opinion that Products are legal as a matter of federal law, they may be subject to enforcement under the Food and Drug Act. For instance, we are aware of enforcement actions by FDA against hemp-derived products that are falsely mislabeled or that make inappropriate dietary, medical, or nutritional claims. Marketing a product containing CBD for use in the care, mitigation, treatment, or prevention of disease may qualify the product as a drug controlled by the Food and Drug Act. In addition, introducing a drug into interstate commerce without FDA approval would violate the Food and Drug Act. We are cognizant of the FDA’s guidance on the use of hemp parts in human and animal food products (and human dietary supplements).

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<sup>25</sup> World Health Organization, *supra* note 8.

<sup>26</sup> AAFCO, “AAFCO Publications,” AAFCO.ORG, <https://www.aafco.org/Publications>.

<sup>27</sup> See “True Leaf Supports Effort to Petition FDA for Hemp-Based Pet Food,” MARKETS.BUSINESSINSIDER.COM (Dec. 21, 2018), <https://markets.businessinsider.com/news/stocks/true-leaf-supports-effort-to-petition-fda-for-hemp-based-pet-food-1027830350>.

We note, however, that the FDA's current stance on the introduction of hemp-derived CBD in food (whether for human or animal use) and marketing hemp-derived CBD as a dietary supplement is unsettled and unsupported by federal law.<sup>28</sup> We also note that the FDA has expressed receptiveness to adopting a regulatory framework to permit the marketing of hemp-derived products. Nonetheless, the formal position of the FDA remains that CBD has not been approved for ingestible and topical use by humans and animals, and we acknowledge that the FDA may disagree with our interpretation of federal law.

## **B. STATE LAW**

### **Kentucky**

The Products are also legal as a matter of Kentucky law. The Products derive from hemp lawfully grown and cultivated by a licensed grower as part of IHRPP, which KDA established pursuant to the 2014 Farm Bill, and are manufactured by a licensed processor/handler as part of IHRPP. These licensed activities comply with Kentucky's regulatory framework for the growth and cultivation of hemp and manufacture of hemp-derived products. Further, the Products are protected as hemp products and hemp-derived CBD products under Kentucky law. As such, they are removed from scheduled control as marijuana and may be legally distributed and sold as a matter of Kentucky law.

### **Other States**

As discussed above, while federal law permissions are clear, states may regulate and enforce against hemp differently, including more restrictively than the 2018 Farm Bill. Currently, there are at least seventeen identifiable states whose laws and/or regulations provide explicit protection for the retail sale of hemp-derived CBD. The remaining states neither explicitly permit nor explicitly prohibit the retail sale of hemp-derived CBD; in fact, many of these states do not mention CBD anywhere in their statutes or regulations.

Additionally, states may have separate restrictions for the Ananda Pets Products. Indeed, we are aware of laws or policies prohibiting hemp parts in pet food in a handful of states.

We are aware of law enforcement or regulatory actions against legitimate hemp-derived products in certain states, including states in which hemp is explicitly legal under state or local law. But, these actions do not appear to be a priority at the state or local levels. As discussed above, any action against the interstate transportation or shipment of the Products would contravene federal law.

## **CONCLUSION**

It is our informed opinion that the Products result from business activities that comply with U.S. federal laws regulating hemp, as well as the laws of Kentucky, where Ecofibre, through its U.S.-

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<sup>28</sup> See U.S. Food & Drug Administration, *supra* note 3.

based subsidiary grows and cultivates the hemp from which the Products derive and also manufactures the Products themselves. As a result, we believe the Products are legal as a matter of federal law and Kentucky law and may be legally transported or shipped in interstate commerce without interruption or interference by federal or state law enforcement or regulatory officials. In fact, any effort by Kentucky or any other state to enforce against these Products in interstate commerce would contravene federal law.

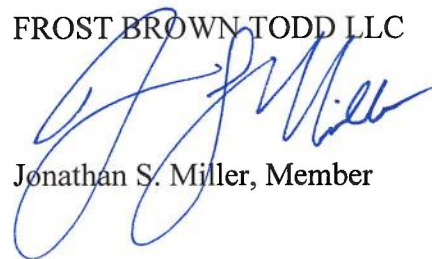
However, the federal and state legal environments for hemp and hemp-derived products are changing, particularly in the immediate aftermath of the 2018 Farm Bill. Products containing hemp, including Ecofibre's Products, are currently subject to a variety of federal, state, and local laws that treat hemp differently, sometimes conflict, and are subject to varying enforcement policies. Further, given evolving pronouncements by federal and state agencies on hemp-related issues, including the introduction of hemp plants in food products for human and animal use and dietary supplements, the Products may be subject to enforcement action, including under the Food and Drug Act.

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The legal advice and opinions set forth herein are an expression of our professional judgment and not a guaranty of a result. The undersigned are only licensed to practice law in Kentucky and have not included attorneys licensed in any other state in the preparation of this opinion. Rather, our analysis is based on our understanding of federal laws and regulations on hemp and the laws and regulations of the state(s) considered herein, and also our familiarity with other legal authorities. It is also important to understand that due to the confusing nature of current law enforcement agency policies and priorities, as discussed above, it is impossible to predict with absolute certainty how local, state, or federal law enforcement officials will treat hemp or derivative products, particularly products containing.

Sincerely,

FROST BROWN TODD LLC



Jonathan S. Miller, Member

0134859.0641452 4850-0995-6486v6

## Appendix A

### **Required Licenses and Permits**

The following license, which also covers an agent of a licensee, is required to grow or cultivate hemp in Kentucky:

- Kentucky Department of Agricultural Industrial Hemp Research Pilot Program grower license. A copy of Kentucky Industrial Hemp, LLC's processor/handler licensing agreement with the KDA is included.

The following license, which also covers an agent of a licensee, is required to process or handle hemp in Kentucky:

- Kentucky Department of Agricultural Industrial Hemp Research Pilot Program processor/handler license

The following permit is required to operate a food processing or storage establishment for hemp food products in Kentucky:

- Permit to operate food processing or storage established from the Kentucky Cabinet for Health and Family Services

To engage in the manufacturing/processing, packing, or holding of hemp intended for food for human or animal consumption requires registering as a Food Facility with the U.S. Food and Drug Administration.

To distribute hemp food products in the City or County of Denver, Colorado, the distributor must obtain approval from the Denver Environmental Health Department, Public Health Inspections Division. The Utah Department of Agriculture's agricultural pilot program rules require all hemp products distributed or available for distribution in Utah to be officially registered annually. We are unaware whether Ananda distributes the Products in these jurisdictions.



## ANNEXURE B

### Legal Opinion on Hemp Operations in Australia

22 February 2019

The Directors  
Ecofibre Limited  
PO Box 108  
Virginia QLD 4014 AUSTRALIA

Dear Directors

## **ASX Listing Application - Ecofibre Limited**

We act for Ecofibre Limited (**Company**) as legal advisers in relation to its initial public offering replacement prospectus (**Prospectus**) and application for admission to the official list of the Australian Securities Exchange (**ASX**) and quotation of its Shares on ASX.

We understand that for admission to the official list of the ASX and quotation of its shares on ASX, the Company is required to provide a legal opinion regarding:

- (a) the legal status of industrial hemp products and hemp as a food under Australian Federal and State laws (New South Wales, Queensland and Tasmania); and
- (b) the transportation, import and export of industrial hemp products under Australian Federal and State laws (New South Wales, Queensland and Tasmania).

We understand that currently, New South Wales, Queensland and Tasmania are relevant to the Company's operations, as set out in the Prospectus.

### **1. Executive Summary**

#### **1.1 Status of hemp as food in Australia**

- (a) The cultivation or supply of low-THC hemp in New South Wales, Queensland and Tasmania is permitted under Australian Federal and State law; and
- (b) the sale of low-THC hemp as a food or ingredient in food is permitted by Federal and State law,

subject to meeting certain requirements.

#### **1.1 Status of Ecofibre's operations in Australia**

- (a) Provided that Ecofibre obtains and maintains the prescribed licences and approvals from the relevant States and subject to the qualifications and assumptions set out in paragraph 10, the Company has a legal right to operate its business in New South Wales, Queensland and Tasmania.

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- (a) There should be no regulatory impediments to the Company expending its funds as proposed in this Prospectus.
- (b) There should be no legal impediments to the Company carrying out its proposed operations in Australia as described in this Prospectus.

## 2. Background

### 2.1 The Offer

On 22 February 2019, the Company lodged a replacement prospectus with the Australian Securities and Investments Commission (**ASIC**) (**Prospectus**). Under the Prospectus, the Company is offering to issue between 15,000,000 and 20,000,000 shares at an issue price of \$1.00 to raise between \$15,000,000 and \$20,000,000 (**Offer**).

The Company intends to apply for admission to the official list of ASX and for quotation of its shares on ASX pursuant to the Offer.

### 2.2 Company licences

At the date of this letter, the Company has advised that it has the licences and approvals for its business set out in the Schedule to this letter.

## 3. Commonwealth of Australia Criminal Code

Under the *Commonwealth of Australia Criminal Code*, it is an offence to cultivate or sell a 'controlled plant', manufacture, traffic or possess a 'controlled drug' or import a 'border controlled drug/plant' (Part 9.1).

The *Criminal Code Regulations 2002* provides that any plant of the genus *cannabis* is:

- (a) a 'controlled plant' (subsection 5B(1));
- (b) a 'border controlled plant' (subsection 5E(1));
- (c) both a 'controlled drug' (subsection 5B(1)) and 'border controlled drug' (subsection 5B(1)) (50 and 51 of Schedule 3, 34 to 36 of Schedule 4).

The provisions provide further that such cultivation or sale are not an offence if permitted under another law of the Commonwealth of Australia, or a State or Territory where the activities take place (Subdivision 313.1 and subsection 10.5 of the Criminal Code).

## 4. The Food Standards Australia New Zealand Act 1991 (FSANZ Act) and the Australian New Zealand Food Standards Code (ANZFSC)

The FSANZ Act establishes Food Standards Australia New Zealand (**FSANZ**) as an independent statutory agency that develops standards to regulate the use of ingredients, colourings, additives, vitamins, minerals and processing aids under the ANZFSC.

Standard 1.1.1 of the ANZFSC provides that a food for sale must not be and must not have as an ingredient or component, a prohibited or restricted plant.<sup>1</sup> Cannabis was listed as a prohibited or restricted plant in Standard 1.4.4: 'Prohibited and restricted plants and fungi' (**Standard 1.4.4**).

On 3 May 2017, the Board of FSANZ made a variation to the ANZFSC providing an exception to Standard 1.4.4: '*Prohibited and restricted plants and fungi*'. Standard 1.4.4-

<sup>1</sup> See paragraphs 1.1.1-10(5)(a) and 1.1.1-10(6)(e) of the ANZFSC.



6: 'Exception to *Cannabis sativa* seeds and seed products' was introduced, permitting hemp seeds to be used as a food for sale or used as an ingredient in a food for sale if:

- (a) the seeds:
  - (i) are of low tetrahydrocannabinol (**THC**) *Cannabis sativa* (where the leaves and flowering heads do not contain more than 1% delta 9-THC); and
  - (ii) contain no more than 5mg/kg of total THC; and
  - (iii) if the food is for retail sale - are non-viable (seeds that are not able to germinate<sup>2</sup>) and hulled; and
- (b) the only cannabinoids in or on the seeds are naturally present.

It is further provided that foods for sale that contain hemp food products must not be labelled or otherwise presented for sale in a form which expressly or by implication suggests that the product has a psychoactive effect.<sup>3</sup>

The label for the food for sale must not include:

- (a) a nutrition content claim about cannabidiol; or
- (b) a health claim about cannabidiol; or
- (c) an image or representation of any part of the *Cannabis sativa* plant (including the leaf of that plant) other than the seed; or
- (d) the words 'cannabis', 'marijuana' or words of similar meaning,

but may include the word '*hemp*'.

It should be noted that the cultivation of plants with a THC content of greater than 1% (New South Wales and Queensland), 0.35% (Victoria, Tasmania and Western Australia) and 0.5% (Australian Capital Territory) is an offence under relevant Australian state drug legislation.

We understand that the Company is looking to manufacture, transport, import and export industrial hemp, and discuss the state (New South Wales, Queensland and Tasmania) legislation and regulations relating to industrial hemp commercial production, transport and licensing below.

## 5. Framework in NSW

### 5.1 Licensing

Licensing is regulated by the *Hemp Industry Act 2008* (NSW) (**HI Act**) and the *Hemp Industry Regulation 2016* (NSW) (**HI Regulation**). It allows farmers to grow low-THC hemp crops for fibre, seed and oil production.

Section 5 provides that the Secretary may, upon application in prescribed form, grant a licence authorising a person to cultivate or supply low-THC hemp for any one or more of the following purposes:

- (a) for commercial production;

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<sup>2</sup> See paragraph 1.4.4-6(5) of the ANZFSC.

<sup>3</sup> See Standard 1.4.4-7(2) of the ANZFSC.

- (b) for use in any manufacturing process;
- (c) for scientific research, instruction, analysis or study;
- (d) for any other purpose prescribed by the regulations.

The HI Regulation provides that an application for a licence to cultivate low-THC hemp for commercial production, a manufacturing process or scientific purposes requires information including:<sup>4</sup>

- (a) a description of the location of the property where cultivation will take place;
- (b) a plan of the property depicting where the low-THC hemp will be cultivated or stored;
- (c) details of the owner of the property and evidence of the owner's consent to the use of the property to cultivate low-THC hemp, if the applicant is not the owner;
- (d) in the case of manufacturing, a description of the location of the property that is to be used for manufacturing (if known), and a description of the process to which the low-THC hemp will be subject (if known).
- (e) in the case of supply for commercial production, a description of the location of the property that is to be used for commercial production (if known);
- (f) in the case of supply for scientific purposes, a description of the location of the property that is to be used for the proposed scientific purpose, and a description of the proposed research, instruction, analysis or study; and
- (g) the estimated quantity of low-THC hemp to be supplied annually.

Upon receiving an application for a licence, the Secretary may carry out such investigations and inquiries as the Secretary considers necessary to determine the application. This includes:<sup>5</sup>

- (a) conducting a criminal record check in relation to both the applicant and any person who is a close associate of the applicant; and
- (b) requiring the applicant or a close associate of the applicant to provide the Secretary with such information, records, and authorities as are relevant to the investigation.

The Secretary may only involve a close associate of the applicant if the Secretary believes they are likely to be concerned in, or associated with, the cultivation or supply of low-THC hemp under the licence.<sup>6</sup>

A "close associate" is defined to include a person who:<sup>7</sup>

- (a) holds (or will hold) any relevant financial interest (i.e., a share in the capital of the business), or is or will be entitled to exercise any relevant power (i.e., participate in directorial, managerial or executive decisions or elect a person to a relevant position), in the business of the licence applicant or holder, and by virtue of that

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<sup>4</sup> Regulation 4 of the HI Regulation.

<sup>5</sup> Section 8 of the HI Act.

<sup>6</sup> Section 9 of the HI Act.

<sup>7</sup> Section 4 of the HI Act.

interest or power is or will be able (in the opinion of the Secretary) to exercise a significant influence over or with respect to the conduct of that business; or

- (b) holds (or will hold) any relevant position (i.e. director, manager, secretary or executive position) whether in his or her own right or on behalf of any other person, in the business of the licence applicant or holder.

A licence granted under the HI Act remains in force for a period of 5 years from the date on which it was granted, renewed or transferred, unless it is sooner revoked or suspended.<sup>8</sup>

It is a condition of a licence that the licensee keep a register containing prescribed details regarding employees or other persons involved in the cultivation or supply of low-THC hemp, dates consignments are supplied or obtained, weights and varieties of consignments, details of destruction or disposal of seeds or plants and other details for sowing, planting, harvesting and supply.<sup>9</sup>

An application for the renewal of a licence may be made to the Secretary by the holder of the licence. The application should be received by the Secretary no later than 28 days before the date on which the licence is due to expire, and should include such information and particulars as prescribed by the regulations.<sup>10</sup>

## 5.2 Transport

Although 'transport' is not referenced in the HI Act (or in any other relevant legislation) a licence to 'supply' may be obtained, and the definition of supply:

*"includes sell and distribute, and also includes agreeing to supply, or offering to supply, or keeping or having in possession for supply, or **sending, forwarding, delivering or receiving for supply**, or authorising, directing, causing, suffering, permitting or attempting any of those acts or things."* (Our emphasis)

## 6. Framework in Queensland

### 6.1 Licensing

Commercial production of industrial hemp is regulated by the *Drugs Misuse Act 1986* (Qld) (**DM Act**) and the *Drugs Misuse Regulation 1987* (Qld) (**DM Regulation**).

A licence is required for the growing of industrial hemp. Industrial hemp plants must be grown from seed certified to produce plants with no more than 0.5% THC concentration.

A person who wishes to obtain a licence must be a fit and proper person to hold the licence. They must apply for the licence by:<sup>11</sup>

- (a) submitting an application showing, among other things, the person is eligible to obtain the licence; and
- (b) paying the fee prescribed under a regulation; and
- (c) giving the chief executive the other information required under section 54 or 56.

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<sup>8</sup> Section 11 of the HI Act.

<sup>9</sup> Regulation 11 of the HI Regulation.

<sup>10</sup> Section 13 of the HI Act.

<sup>11</sup> Section 53 of the DM Act.

There are three industrial hemp licences available in Queensland:

(a) **Grower Licence**

A Grower Licence is required to commercially produce industrial hemp plants and seed, including for supply to researchers with Category 1 and Category 2 Research Licences.

A Grower Licence allows the holder to:<sup>12</sup>

- (i) possess and supply industrial cannabis and produce industrial cannabis plants and seed from certified cannabis seed;
- (ii) possess and supply industrial cannabis seed to a category 1 or 2 researcher, another grower or an analyst; and
- (iii) produce and supply class A or B research cannabis plants and seed.

**class A research cannabis plant** means a cannabis plant that has a THC concentration in its leaves and flowering heads of 3% or more.

**class A research cannabis seed** means—

- (i) seed harvested from a class A research cannabis plant; or
- (ii) seed that, if grown, will produce a class A research cannabis plant.

**class B research cannabis plant** means a cannabis plant that has a THC concentration in its leaves and flowering heads of more than 1% but less than 3%.

**class B research cannabis seed** means—

- (i) seed harvested from a class B research cannabis plant; or
- (ii) seed that, if grown, will produce a class B research cannabis plant.

(b) **Category 1 Research Licence:**

A Category 1 Research Licence is required to conduct research into the use of industrial hemp as a commercial fibre and seed crop (for example, field trials using fertilisers or irrigation and different planting rates).

A Category 1 Research Licence allows the holder to:<sup>13</sup>

- (i) possess and supply industrial cannabis and class A and B research cannabis plants and seed;
- (ii) produce industrial cannabis and class A and B research cannabis plants and seed;
- (iii) supply processed cannabis to a manufacturer.

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<sup>12</sup> Section 52 of the DM Act.

<sup>13</sup> Section 50 of the DM Act.

(c) **Category 2 Research Licence:**

A Category 2 Research Licence is required to conduct plant breeding programs to develop new or improved strains of hemp for use by commercial growers.

A Category 2 Research Licence allows the holder to:<sup>14</sup>

- (i) possess and supply industrial cannabis and class B research cannabis plants and seed;
- (ii) produce industrial cannabis and class B research cannabis plants and seed;
- (iii) supply processed cannabis to a manufacturer.

In order to be eligible for a Category 1 or 2 Research Licence, a person must satisfy the chief executive that he or she has the necessary educational or other qualifications and experience to engage in plant breeding or other research involving the use of industrial cannabis or class A or class B research cannabis, or if the applicant is a corporation, that the person employed by the corporation to carry out plant breeding under the licence has the requisite educational or other qualifications.<sup>15</sup>

The chief executive must consider certain factors relating to the applicant's suitability, including:<sup>16</sup>

- (i) whether the person is a fit and proper person to hold a licence;
- (ii) whether the person's close associates are fit and proper persons to hold a licence;
- (iii) whether the person held a licence or permit that was suspended or cancelled under the DM Act, the *Narcotic Drugs Act 1967* (Cth) or a corresponding law of another State;
- (iv) whether a close associate of the person held a licence or permit that was suspended or cancelled under the DM Act, the *Narcotic Drugs Act 1967* (Cth) or a corresponding law of another State;
- (v) the person's criminal history and whether the person is capable of satisfactorily performing the activities of a licensee;
- (vi) the criminal history of any close associate of the person; and
- (vii) if the applicant is a corporation, whether each executive officer of the corporation is a fit and proper person to hold a licence.

Participants in the industrial hemp industry other than growers or researchers (such as employees and inspectors) do not need to obtain a licence.

Industrial hemp seed suppliers are not required to have a license, but they must:<sup>17</sup>

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<sup>14</sup> Section 51 of the DM Act.

<sup>15</sup> Section 58 of the DM Act.

<sup>16</sup> Section 57 of the DM Act.

<sup>17</sup> Regulation 4 of Schedule 7 of the DM Regulation.

- (i) keep industrial hemp seed locked in a secure place;
- (ii) keep records on all seed held and supplied; and
- (iii) ensure seed is labelled in accordance with requirements.

Seed suppliers can apply to the Chief Executive to be recognised as a seed supplier. This requires them to have a current recognised quality assurance program that conforms to an industry standard or code of practice, and be a member of the Queensland Seed Industry Association, or a similar organisation in another state.<sup>18</sup>

Denaturers process industrial cannabis seeds to prevent seed germination. They are authorised to supply denatured seed to a person who is authorised to possess processed cannabis.<sup>19</sup> Denatured seeds, or processed cannabis, are used in manufacturing seed or oil products, including products for human consumption.

Denaturers must:<sup>20</sup>

- (i) keep industrial cannabis seed that has not yet been denatured in a securely locked place; and
- (ii) maintain records of seed received.

## 6.2 Transport

The DM Regulation refers to "carriers" in Division 3, which applies only if the carrier is engaged or employed by any of the following to transport consigned cannabis:<sup>21</sup>

- (a) a category 1 or category 2 researcher;
- (b) a grower;
- (c) a DPI researcher;
- (d) an inspector; or
- (e) a seed supplier.

Under regulations 13 and 14 of the DM Regulation, the carrier is authorised to transport and possess the cannabis for the time necessary to transport the product and give it to the person to whom it is consigned and has effect only while the carrier is acting in accordance with the terms of the carrier's engagement or employment.

## 7. Framework in Tasmania

### 7.1 Licensing

The *Industrial Hemp Act 2015 (Tas) (IH Act)* and the *Industrial Hemp Regulations 2016 (Tas) (IH Regulations)* regulate the industrial hemp industry in Tasmania.

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<sup>18</sup> Regulation 27 of Division 8 of the DM Regulation.

<sup>19</sup> Regulation 22 of Division 7 of the DM Regulation.

<sup>20</sup> Regulation 1 of Schedule 7 of the DM Regulation.

<sup>21</sup> Section 12 of the DM Regulation.

The Secretary must take into account an applicant's criminal history when assessing an application to obtain a licence.

An industrial hemp licence may authorise a person to possess, cultivate or supply industrial hemp for commercial production, use in any manufacturing process, food production or scientific research.<sup>22</sup> Licences can be issued if the Secretary of the Department of Primary Industries, Parks, Water and Environment is satisfied that the applicant is a fit and proper person to be involved in the industrial hemp industry.

There are five types of industrial hemp licences in Tasmania:

- (a) A licence to supply provides authorisation to:
  - (i) deliver, sell, trade, give or distribute industrial hemp seed and other plant material; and
  - (ii) possess and store viable industrial hemp seed for commercial purposes.
- (b) A licence to cultivate provides authorisation to:
  - (i) possess viable industrial hemp seed;
  - (ii) cultivate industrial hemp from certified seed;
  - (iii) harvest industrial hemp seed and other plant material;
  - (iv) dry harvest industrial hemp seed and other plant material;
  - (v) store harvested industrial hemp material; and
  - (vi) supply industrial hemp seed and other plant material for commercial purposes.
- (c) A licence to manufacture provides authorisation to:
  - (i) possess viable industrial hemp seed for processing purposes;
  - (ii) clean and/or treat viable industrial hemp seed to make it non-viable;
  - (iii) clean and/or dehull viable industrial hemp seed, including for food production; and
  - (iv) clean and/or press viable industrial hemp seed, including for food production for commercial purposes.
- (d) A licence to research provides authorisation to supply, cultivate or manufacture industrial hemp as outlined above for research purposes.
- (e) A combined licence provides authorisation to undertake multiple activities to supply, cultivate or manufacture industrial hemp under a single licence for research or commercial purposes.

A licence lasts for up to 5 years and there are no licence fees. The licence holder must only cultivate at the premises described on the licence and Intent to Grow form. A licensee may apply to amend a licence to add new areas.

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<sup>22</sup> Section 13 of the IH Act.

Licences can be issued for a combination of activities. Every year, the licensee must complete an Intent To Grow form. An Intent to Grow form is required to be submitted for each crop prior to sowing. This form details all aspects of the crop, including property details, variety, seed source, date sown and purpose of the crop.

An industrial hemp licence is not required to possess, manufacture or supply:

- (a) non-viable (incapable of germination and growing) industrial hemp seeds;
- (b) products derived from industrial hemp seeds (e.g. industrial hemp seed oil);
- (c) harvested industrial hemp stalks that have been stripped of their leaves, flowers and seeds; or
- (d) processed products derived from industrial hemp stalks (e.g. textiles, building materials).

A special licence is available under section 14 of the IH Act, which authorises a person to possess, cultivate or supply hemp, that is not industrial hemp, for the purpose of scientific research, instruction, analysis or study.

## 7.2 Transport

There is no reference to transportation requirements or regulations in both the IH Act and IH Regulations. However, the legislation could reasonably be interpreted to read 'supply' as including transportation.

## 8. Importation and Exportation of Industrial Hemp - Australia

Under regulation 5 of the *Customs (Prohibited Imports) Regulations 1956 (Cth) (CPI Regulations)*, a licence is required to import all cannabis products into Australia, regardless of the THC levels.<sup>23</sup> There is no distinction in the CPI Regulations between cannabis and low-THC hemp. Importation of any cannabis products intended for human consumption is prohibited.

The person importing the drug must be a holder of:

- (a) a licence to import drugs granted by the Secretary (or an authorised person) (**Importation Licence**); and
- (b) permission to import the drug granted by the Secretary (or an authorised person) (**Importation Permission**).

In order to obtain an Importation Licence, the applicant must:<sup>24</sup>

- (a) provide all information in writing as requested by the Secretary;
- (b) be a fit and proper person to be granted a licence to import drugs; and
- (c) ensure that the premises on which he proposes to keep the drugs are secure for that purpose.

In order to obtain an Importation Permission, the applicant must:<sup>25</sup>

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<sup>23</sup> See Regulations 5(1) and 5(20) and items 34, 35 and 36 of Schedule 4 of the CPI Regulations.

<sup>24</sup> See Regulation 5(7) of the CPI Regulations.

<sup>25</sup> See Regulation 5(10) of the CPI.



- (a) furnish all information reasonably required in relation to the application; and
- (b) be the holder of all required State or Territory licences for supply (if the drugs are to be used for supply).

## 9. Other States

For the sake of completeness, we note that the industrial hemp industry is regulated in Victoria, South Australia, Western Australia and the Australian Capital Territory by the following Acts:

- (a) *Drugs, Poisons and Controlled Substances Act 1981 (Vic)*;
- (b) *Industrial Hemp Act 2017 (SA)*;
- (c) *Industrial Hemp Act 2004 (WA)*; and
- (d) *Hemp Fibre Industry Facilitation Act 2004 (ACT)*.

The regimes in the above states and territories are broadly analogous to the licencing regimes in Queensland, New South Wales and Tasmania. The Northern Territory is the only jurisdiction not to permit industrial hemp under a formal regulatory regime. However, we understand that legislation to change this position is being drafted and is expected to be passed in 2019.

It therefore appears that there are no current legislative obstacles to the Company expanding its current operations beyond Queensland, New South Wales and Tasmania.

## 10. Qualifications and Assumptions

This legal opinion is based upon the following assumptions and qualifications:

- (a) The Company only operates (and intends on operating) in New South Wales, Queensland and Tasmania, Australia. Any operations in other domestic or foreign jurisdictions require compliance with the requirements for that jurisdiction, which may include further licences, permits or authorisations.
- (b) The Company only purchases, possesses, processes, produces, supplies or deals with cannabis with a concentration of THC of no more than 1% in New South Wales and Queensland and 0.35% in Tasmania.
- (c) Employees, officers, directors and agents of the Company have disclosed all material information regarding the operations of the Company.
- (d) All statements made regarding the business of the Company in the Prospectus are true and correct.
- (e) All factual matters stated in any document or response provided to us or reviewed by us are true and correct.
- (f) All information provided by employees, officers, directors and agents of the Company have been true and accurate in all material respects and contain no material omissions.
- (g) All factual matters material to the opinions, statements and assumptions expressed in this opinion are reliant on statements from the employees, officers, directors and agents of the Company.

- (h) There has been no historical non-compliance by any member of the Ecofibre Group with the requirements under its licences, authorisations and permits, and any applicable law or regulation relating to its operations or proposed operations.
- (i) This opinion and the information that informs this opinion are based on the information and confirmations provided by the Company, its directors and officers during due diligence and as disclosed in the Prospectus.
- (j) We do not express or imply any opinion as to the laws of any other jurisdiction.
- (k) Our opinion does not consider any change in the facts, law or policy addressed in our opinion. We disclaim any obligation to update this opinion for any change in the facts or law occurring after the date of this opinion that may affect this opinion.
- (l) We have not conducted any searches in any official registry or with any public authorities in relation to any matter, including without limitation, any legal, governmental or regulatory proceedings pending in relation to any member of the Company and any licences, consents, approvals and permits issued to any member of the Company.
- (m) Any statement made in this opinion that is based on a statement made in the Prospectus is not a confirmation of the truth or accuracy of that statement;
- (n) We have acted and been involved only in our capacity as Australian legal advisor to the Company in relation to the Offer.
- (o) This opinion does not express an opinion on any matter requiring skill or expertise of a non-legal nature, including business, operational, commercial, financial, market-related, statistical or accounting matters.
- (p) The statements made and opinions in our letter are based on the knowledge (as to matters of fact not law) of those partners and solicitors of Colin Biggers & Paisley only who have acted for the Company in connection with the Offer. We have not made any inquiries of other partners or solicitors of the firm who may have knowledge acquired in the course of acting on other matters for the Company or for other clients of the firm.
- (q) The statements made and opinions in this letter are given only to the extent that a law firm, having the role described above, could reasonably be expected to have become aware of relevant facts and to have identified the implications of those facts.

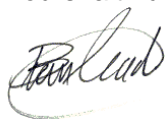
## 11. Opinion

Subject to the Company obtaining and maintaining the licences set out in paragraphs 4, 5, 6 and 7 of and the Schedule to this letter, the Company has a legal right to operate its business in Australia with no legal or regulatory impediments provided it obtains the requisite licences and approvals set out in sections 4, 5, 6 and 7 above.

The cultivation and/or supply of low-THC hemp is legal in New South Wales, Queensland and Tasmania and the sale of low-THC hemp as a food is legal under Australian Federal and State law.

22 February 2019  
Ecofibre Limited

Yours faithfully

A handwritten signature in black ink, appearing to read 'Brent Van Staden', written in a cursive style.

**Brent Van Staden**

Partner

Email: [brent.vanstaden@cbp.com.au](mailto:brent.vanstaden@cbp.com.au)

Direct Line: 07 3002 8767

## Schedule - Ecofibre's Licences

Licence reference	Issuing Authority	Term	Licence details
1820871	Department of Health, Therapeutic Goods Administration	1 January 2019 to 31 December 2019.	<p>Ecofibre Industries Operations Pty Ltd [now Ecofibre Limited], is licensed to import under and is subject to the provisions of Regulation 5 of the <i>Customs (Prohibited Imports) Regulations 1956</i>, drugs as defined in that Regulations and as specified in the Fourth Schedule to those Regulations, subject to the provision that a permit to import be obtained for each consignment.</p> <p>The Regulations and Fourth Schedule define drugs including cannabinoids, cannabis (including extracts and tinctures of cannabis) and cannabis resin.</p>
1820872	Department of Health, Therapeutic Goods Administration	1 January 2019 to 31 December 2019.	<p>Ecofibre Industries Operations Pty Ltd [now Ecofibre Limited], is licensed to export under and is subject to the provisions of Regulations 10, 10A, 10B, 10C, 10D, 10E and 10F of the <i>Customs (Prohibited Exports) Regulations 1958</i>, drugs as defined in that Regulation and as specified in the Eighth Schedule to those Regulations, subject to the provision that a permit to export be obtained for each consignment.</p> <p>The Regulations and Eighth Schedule define drugs including cannabinoids, cannabis (including extracts and tinctures of cannabis) and cannabis resin.</p>
G077	Department of Agriculture, & Fisheries, Biosecurity Queensland	19 November 2018 to 5 September 2021	<p>The licence authorises the licensee, Ecofibre Industries Operations Pty Ltd [now Ecofibre Limited], to perform activities (authorised activities) as stated in Schedule A - Grower Licence Authorisation.</p> <p>The licence identifies the places and activity where the licensee may carry out the activities under the licence.</p>

Licence reference	Issuing Authority	Term	Licence details
			<p>Schedule A states, that the licence authorises the licensee, in accordance with the licence:</p> <ul style="list-style-type: none"> <li>(a) to possess industrial cannabis plants and seed;</li> <li>(b) to produce industrial cannabis plants and seed from certified cannabis seed;</li> <li>(c) to supply industrial cannabis seed to category 1 or category 2 researcher, a grower, or a person authorised under a regulation under section 48 of the Drugs Misuse Act 1986 (Qld);</li> <li>(d) to possess class A or class B research cannabis seed for use under the supervision of a category 1 or category 2 researcher, as part of a field trial the category 1 or category 2 research is conducting on land owned or leased by the grower;</li> <li>(e) to produce class A or class B research cannabis plants and seed under the supervision of a category 1 or category 2 researcher, as part of a field trial the category 1 or category 2 research is conducting on land owned or leased by the grower;</li> <li>(f) to supply to a category 1 or category 2 researcher class A or class B research cannabis plants and seed produced on land owned or leased by the grower as part of a field trial conducted under the supervision of the category 1 or category 2 researcher;</li> <li>(g) to supply industrial cannabis seed to a person who holds a cannabis research licence or a medicinal cannabis licence under the Narcotic Drugs Act 1967 (Cth), or a person in another State who is authorised under the law of that State to possess cannabis seed that, if grown, will produce cannabis plants with a THC concentration in their leaves</li> </ul>

Licence reference	Issuing Authority	Term	Licence details
			<p>and flowering heads that the person in the other State may possess; and</p> <p>(h) if the licensee holds a licence under the Customs Act 1901 (Cth) authorising the licensee to export cannabis, to supply industrial cannabis seed to a person in another country who is authorised under the law of that country to possess the seed; and</p> <p>(i) to supply processed cannabis to a person authorised under a regulation under section 48 of the Drugs Misuse Act 1986 (Qld) to possess processed cannabis.</p> <p>A category 1 and category 2 researcher is defined in the Act.</p>
R1-005	Department of Agriculture, & Fisheries, Biosecurity Queensland	Licence effective 19 November 2018 and Licence expiry date 5 September 2021	<p>The licence authorises the licensee, Ecofibre Industries Operations Pty Ltd [now Ecofibre Limited], to perform activities (authorised activities) as stated in Schedule A(1) - Category 1 Researcher Licence Authorisation and Schedule A(2) - Additional Research Licence Authorisation.</p> <p>The licence identifies the places and activity where the licensee may carry out the activities under the licence.</p> <p>Schedule A(1) - Category 1 Researcher Licence Authorisation information is set out in the Addendum.</p> <p>Schedule A(2) - Additional Research Licence Authorisation information is set out in the Addendum.</p>
H18/17092	Department of Health, New South Wales	Authority commences on the day it is signed and dated, being 23 March 2018, and expires on 31 March 2021, or otherwise on a date that the authority is cancelled.	<p>The authority instrument authorises, the authorised person, Ecofibre Industries Operations Pty Ltd, and persons acting under their supervision, to possess the prohibited drugs up to the maximum quantity:</p> <ul style="list-style-type: none"> <li>• cannabis oil/resin – one hundred (100) millilitres</li> <li>• cannabis leaf (plant material) – one (1) kilogram</li> <li>• cannabis leaf (seed) - twenty (20) kilograms</li> </ul>

Licence reference	Issuing Authority	Term	Licence details
			<ul style="list-style-type: none"> <li>cannabinoid (analytical standards) - ten (10) milligrams, only for the purpose of transporting the prohibited drugs from 80 Yarraman Place Virginia, Qld to Southern Cross University, Military Road, East Lismore NSW.</li> </ul>
52905	Department of Primary Industries, Biosecurity & Food Safety	Licence valid from 24 December 2018 to 23 December 2023	<p>The licensee, Ananda Food Pty Ltd, is authorised to supply or cultivate low-THC hemp for the following activities:</p> <ul style="list-style-type: none"> <li>cultivate low-THC for commercial production;</li> <li>supply low-THC for commercial production,</li> </ul> <p>on or in the premises specified in the licence.</p>
IH 003	Department of Primary Industries, Parks, Water and Environment, Tasmania	Licence valid from 27 September 2018 to 30 April 2023	<p>The licensee, Ananda Food ABN 94107362863, is authorised for <u>commercial</u> purposes relating to non-therapeutic use to:</p> <ul style="list-style-type: none"> <li>licence to cultivate;</li> <li>licence to supply; and</li> <li>licence to manufacture,</li> </ul> <p>at the Tasmanian Seed Dressing &amp; Storage, 299-367 Oaks Road, Carrick Tasmania Australia.</p> <p>For cultivation activities to commence under the licence, the licensee is required to hold an approved "Intent to Grow". Ananda Food has notified, that it does not intend to grow under IH 003 and IHR 004 in the 2018/19 growing season.</p> <p>Under the <i>Industrial Hemp Act 2015</i> (Tas), the terms "commercial production" and "scientific research, instruction, analysis or study" are referred to for the purpose of an industrial hemp licence authorising a person to possess, cultivate or supply. The terms are not defined under the Act.</p>
IH 004	Department of Primary Industries, Parks, Water and Environment, Tasmania	Licence valid from 27 September 2018 to 30 April 2023	<p>The licensee, Ananda Food ABN 94107362863, is authorised for <u>research</u> purposes relating to non-therapeutic use to:</p> <ul style="list-style-type: none"> <li>licence to cultivate;</li> <li>licence to supply; and</li> <li>licence to manufacture,</li> </ul>

Licence reference	Issuing Authority	Term	Licence details
			at the Tasmanian Seed Dressing & Storage, 299-367 Oaks Road, Carrick Tasmania Australia. Under the <i>Industrial Hemp Act 2015</i> (Tas), the terms "commercial production" and "scientific research, instruction, analysis or study" are referred to for the purpose of an industrial hemp licence authorising a person to possess, cultivate or supply. The terms are not defined under the Act.

### Schedule A(1) - Category 1 Researcher licence authorisation

Pursuant to section 50 of the *Drugs Misuse Act 1986* (Qld) (Act), this licence authorises the licensee, in accordance with the licence:

- (a) to possess for research purposes -
  - (i) industrial cannabis plants and seed; and
  - (ii) class A and class B research cannabis plants and seed; and
- (b) to produce, for use in plant breeding programs for developing new commercial strains of industrial cannabis-
  - (i) industrial cannabis plants and seed; and
  - (ii) class A and class B research cannabis plants and seed; and
- (c) to supply-
  - (i) class A and class B research cannabis plants and seed to a category 1 researcher or a person authorised under a regulation under section 48 of the Act to possess class A and class B research cannabis plants and seed; or
  - (ii) class B research cannabis plants and seed to a category 2 researcher; and
- (d) to supply class A and class B research cannabis seed to a grower for use, under the licensee's supervision, as part of a field trial the licensee is conducting on land owned or leased by the grower; and
- (e) to supply industrial cannabis plants or seed to -
  - (i) a category 1 or category 2 researcher; or
  - (ii) a grower;
  - (iii) a person authorised under a regulation under section 48 of the Act to possess industrial cannabis plants or seed; and



- (f) to supply class A or class B research cannabis seed or industrial cannabis seed to -
  - (i) a person who holds a cannabis research licence or a medicinal cannabis licence under the Narcotic Drugs Act 1967 (Cwlth); or
  - (ii) a person in another State who is authorised under the law of that State to possess cannabis seed that, if grown, will produce cannabis plants with a THC concentration in their leaves and flowering heads that the person in the other State may possess; and
- (g) if the licensee holds a licence under the Customs Act 1901 (Cwlth) authorising the licensee to export cannabis - to supply class A or class B research cannabis seed or industrial cannabis seed to a person in another country who is authorised under the law of that country to possess the seed; and
- (h) to supply processed cannabis to a person authorised under a regulation under section 48 of the Act to possess processed cannabis.

## **Schedule A(2) - Authorisation to Engage with a Partner/Other Party and Conditions of Engagement**

In addition to the authorisation under Schedule A.(1) and pursuant to section 63(2)(b) of the *Drugs Misuse Act 1986* (Qld) (Act), this licence authorises the licensee to undertake the following activity, in accordance with the licence and in accordance with the conditions in this schedule:

**Activity:** to supply the specified cannabis material in the approved quantities and for the approved purposes to the approved party at the specified location, as follows-

### 1. **Specified cannabis material, quantities and purposes**

<b>Specified Cannabis Material</b>	<b>Approved Maximum Quantities per Consignment</b>	<b>Approved Purposes</b>
Class A, Class B and Industrial Cannabis plant material including leaf material.	1 kilogram (kg)	Destructive analysis, including analytical testing

### 2. **Condition**

In accordance with section 64(1) of the Act, the following conditions are considered necessary or desirable for the proper performance of the activity under the authorisation in this schedule --

- (a) The licensee may only supply the specified cannabis material to the approved party whilst the approved party remains authorised under the law of New South Wales to possess the specified cannabis material.
- (b) The licensee is authorised to carry out the activity solely for the purposes of conducting research into the use of industrial cannabis as a commercial fibre and seed crop.



## ANNEXURE C

### Summary of Ecofibre's Significant Accounting Policies

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 and financial liabilities 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 unless otherwise stated.

**a. Principles of consolidation**

The consolidated financial statements incorporate the results and assets and liabilities of all entities controlled by Ecofibre Limited ("parent entity") and results of all controlled entities. 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 consolidated 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.

**b. 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 and 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 when the foreign operation or net investment is disposed of.

### **c. Revenue recognition**

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

#### *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 returns and trade discounts.

#### *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.

### **d. Income tax**

In the United States, 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 tax 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.

**e. Acquisition of assets**

The cost method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up at the date of acquisition plus incidental costs directly attributable to the acquisition.

**f. 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. Receivables**

All trade debtors are recognised at the amounts receivable as they are due for settlement within 60 days.

Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for impaired debts is raised when material doubt as to collection exists.

**h. Inventories**

Inventories and agricultural produce are valued at the lower of cost and net realisable value on an average 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.

**i. Biological assets**

Biological assets are measured on initial recognition at their fair value less costs to sell.

**j. Impairment of assets**

At the end of each reporting period, the company and consolidated entity review the carrying values of their tangible and intangible assets to determine whether there is any indication that those assets have

been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

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

## **k. 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 7 years.

## **l. Financial instruments**

### *Recognition*

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

### *Loans and receivables*

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

### *Financial liabilities*

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

### *Impairment*

At the end of each reporting period, the consolidated entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

**m. 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.

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

The costs 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:

- (a) 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.
- (b) 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.

**o. 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.

**p. 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.

**q. 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.

**r. Adoption of new revised accounting standards**

New and or revised accounting standards issued between the prior financial year and current reporting date did not have a significant impact on the company.



**s. New Accounting Standards and Interpretation 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 and half-year reporting period. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

*AASB 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

**t. 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 either the 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 for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome at 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.












## Public Offer Application Form

This is an Application Form for Shares in Ecofibre Limited under the Public Offer on the terms set out in the Replacement Prospectus dated 22 February 2019. You may apply for a minimum of 2,000 Shares and multiples of 500 thereafter. This Application Form and your cheque or bank draft must be received by **5.00pm (AEDT) on 11 March 2019**.

**If you are in doubt as to how to deal with this Application Form, please contact your accountant, lawyer, stockbroker or other professional adviser. The Prospectus contains information relevant to a decision to invest in Shares and you should read the entire Prospectus carefully before applying for Shares.**

Shares applied for

Price per Share

Application Monies

**A** , , ,  at **A\$1.00** **B** A\$ , ,

(minimum 2,000, thereafter in multiples of 500)

**PLEASE COMPLETE YOUR DETAILS BELOW** (refer overleaf for correct forms of registrable names)

+

Applicant #1

Surname/Company Name

**C**

Title

First Name

Middle Name

Joint Applicant #2

Surname

Title

First Name

Middle Name

Designated account e.g. <Super Fund> (or Joint Applicant #3)

TFN/ABN/Exemption Code

First Applicant

Joint Applicant #2

Joint Applicant #3

**D**

TFN/ABN type – if NOT an individual, please mark the appropriate box

Company

Partnership

Trust

Super Fund

**PLEASE COMPLETE ADDRESS DETAILS**

PO Box/RMB/Locked Bag/Care of (c/-)/Property name/Building name (if applicable)

**E**

Unit Number/Level

Street Number

Street Name

Suburb/City or Town

State

Postcode

Email address (only for purpose of electronic communication of shareholder information)

CHESS HIN

**F** **X**

+

*If you have a Broker Sponsored account and would like your securities to be allocated to this account, it is important that you enter your HIN at this step. Failure to do so will result in your securities being allocated to a new Issuer Sponsored account. You will not be able to change this until after the stock exchange listing takes place and you will need to request your broker to do this for you.*

Telephone Number where you can be contacted during Business Hours

Contact Name (PRINT)

**G** ()

Cheques or bank drafts should be made payable to “**Ecofibre Limited**” in Australian currency and crossed “Not Negotiable”.

Cheque or Bank Draft Number

BSB

Account Number

**H**

Total Amount **A\$**

**LODGEMENT INSTRUCTIONS**

You must return your application so it is received before 5.00pm (AEDT) on 11 March 2019 to:  
Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235.



# Your Guide to the Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the form.

The Shares to which this Application Form relates are Ecofibre Limited Shares. Further details about the shares are contained in the Replacement Prospectus dated 22 February 2019 issued by Ecofibre Limited. The Prospectus will expire 13 months after the date of the Original Prospectus. While the Prospectus is current, Ecofibre Limited will send electronic copies of the Prospectus, any supplementary document and the Application Form, free of charge on request.

The Australian Securities and Investments Commission requires that a person who provides access to an electronic application form must provide access, by the same means and at the same time, to the relevant Prospectus. This Application Form is included in the Prospectus.

The Prospectus contains important information about investing in the Shares. You should read the Prospectus before applying for Shares.

- A** Insert the number of Shares you wish to apply for. The Application must be for a minimum of 2,000 Shares and thereafter in multiples of 500. You may be issued all of the Shares applied for or a lesser number.
- B** Insert the relevant amount of Application Monies. To calculate your Application Monies, multiply the number of Shares applied for by the issue price. Amounts should be in Australian dollars. Please make sure the amount of your cheque or bank draft equals this amount.
- C** Write the full name you wish to appear on the register of Shares. This must be either your own name or the name of a company. Up to three joint Applicants may register. You should refer to the table below for the correct registrable title.
- D** Enter your Tax File Number (TFN) or exemption category. Business enterprises may alternatively quote their Australian Business Number (ABN). Where applicable, please enter the TFN or ABN for each joint Applicant. Collection of TFN(s) and ABN(s) is authorised by taxation laws. Quotation of TFN(s) and ABN(s) is not compulsory and will not affect your Application. However, if these are not provided, Ecofibre Limited will be required to deduct tax at the highest marginal rate of tax (including the Medicare Levy) from payments.
- E** Please enter your postal address for all correspondence. All communications to you from Ecofibre Limited and the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.
- F** If you are already a CHES participant or sponsored by a CHES participant, write your Holder Identification Number (HIN) here. If the name or address recorded on CHES for this HIN is different to the details given on this form, your Shares will be issued to Ecofibre Limited's issuer sponsored subregister.
- G** Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application.
- H** Please complete the details of your cheque or bank draft in this section. The total amount of your cheque or bank draft should agree with the amount shown in section B.  
Make your cheque or bank draft payable to **"Ecofibre Limited"** in Australian currency and cross it "Not Negotiable". Your cheque or bank draft must be drawn on an Australian bank. Sufficient cleared funds should be held in your account, as cheques returned unpaid are likely to result in your Application being rejected.

## LODGEMENT INSTRUCTIONS

This Application Form and your cheque or bank draft must be mailed or delivered so that it is received before 5.00pm (AEDT) on 11 March 2019 at:

### Mailing Address

Link Market Services Limited  
Ecofibre Limited Initial Public Offer  
Locked Bag A14  
Sydney South NSW 1235

### Hand Delivery

Link Market Services Limited  
Ecofibre Limited Initial Public Offer  
1A Homebush Bay Drive  
Rhodes NSW 2138  
**(do not use this address for mailing purposes)**

## PERSONAL INFORMATION COLLECTION NOTIFICATION STATEMENT

Personal information about you is held on the public register in accordance with Chapter 2C of the *Corporations Act 2001*. For details about Link Group's personal information handling practices including collection, use and disclosure, how you may access and correct your personal information and raise privacy concerns, visit our website at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) for a copy of the Link Group condensed privacy statement, or contact us by phone on +61 1800 502 355 (free call within Australia) 9am–5pm (Sydney time) Monday to Friday (excluding public holidays) to request a copy of our complete privacy policy.

## CORRECT FORMS OF REGISTRABLE NAMES

Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons or companies. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
<b>Individual</b> Use given names in full, not initials	Mrs Katherine Clare Edwards	K C Edwards
<b>Company</b> Use Company's full title, not abbreviations	Liz Biz Pty Ltd	Liz Biz P/L or Liz Biz Co.
<b>Joint Holdings</b> Use full and complete names	Mr Peter Paul Tranche & Ms Mary Orlando Tranche	Peter Paul & Mary Tranche
<b>Trusts</b> Use the trustee(s) personal name(s)	Mrs Alessandra Herbert Smith <Alessandra Smith A/C>	Alessandra Smith Family Trust
<b>Deceased Estates</b> Use the executor(s) personal name(s)	Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C>	Estate of late Harold Post or Harold Post Deceased
<b>Minor (a person under the age of 18 years)</b> Use the name of a responsible adult with an appropriate designation	Mrs Sally Hamilton <Henry Hamilton>	Master Henry Hamilton
<b>Partnerships</b> Use the partners' personal names	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
<b>Long Names</b>	Mr Hugh Adrian John Smith-Jones	Mr Hugh A J Smith Jones
<b>Clubs/Unincorporated Bodies/Business Names</b> Use office bearer(s) personal name(s)	Mr Alistair Edward Lilley <Vintage Wine Club A/C>	Vintage Wine Club
<b>Superannuation Funds</b> Use the name of the trustee of the fund	XYZ Pty Ltd <Super Fund A/C>	XYZ Pty Ltd Superannuation Fund

# CORPORATE DIRECTORY

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## **Company**

Ecofibre Limited  
ASX Code : EOF

## **Directors**

Barry Lambert  
Eric Wang  
Jonathan Meadmore

## **Company secretary**

Jonathan Brown

## **Registered Office**

Level 12, 680 George Street  
Sydney NSW 2000

## **Company contact details**

PO Box 108  
Virginia BC QLD 4014  
Tel. 07 3265 7630  
Email: admin@ecofibre.com

## **Share Registry**

Link Market Services  
Level 21  
10 Eagle Street  
Brisbane QLD 4000

## **Investigating Accountant**

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

## **Legal Adviser - Australian Legal**

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

## **Legal Advisor - United States Legal**

Frost Brown Todd  
Suite 2800, 250 West Main Street, Lexington,  
Kentucky 40507-1749

[www.ecofibre.com](http://www.ecofibre.com)



# ECOFIBRE



anandaPROFESSIONAL



HEMP BLACK



anandahemp



anandafood

