

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD  
A.C.N. 140 245 263  
AND CONTROLLED ENTITIES**

**ANNUAL REPORT - 30 JUNE 2017**

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The company's registered office and principal place of business is:  
8 Thynne Court  
Maleny, QLD, 4552

## **ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**

### **DIRECTORS' REPORT**

Your directors present their report on the financial statements of the company and consolidated entity for the year ended 30 June 2017.

#### **Directors**

Philip Warner and Eric Wang held office as directors during the financial year and up to the date of this report. Barry Lambert and Jon Meadmore were appointed as directors on 19 October 2017. Barry Lambert was appointed as chairman of the Board on this date.

#### **Principal activities**

The principal continuing activities of the consolidated entity during the financial year were breeding, growing, harvesting, processing and distributing hemp products.

#### **Significant changes in the state of affairs**

In the 2017 financial year, the consolidated entity:

- raised \$9,690,000 from the issue of new shares;
- invested in its operating capabilities through new equipment, staff, crops and ongoing research and development;
- acquired a 100% interest in Kentucky Industrial Hemp LLC;
- incorporated Ecofibre Uruguay SA; and
- completed the acquisition of minority interests in United Life Science Inc.

#### **Review of operations and results**

The operating loss of the consolidated entity for the year after income tax was \$8,648,754 (2016: profit of \$240,488).

During the current year no interim dividend (2016 - Nil) was paid. No provision has been made for a final dividend for the current year (2016 - Nil).

#### **Matters subsequent to the end of the financial year**

On 11 July 2017, Ecofibre Industries Operations Pty Ltd began to raise additional equity capital from existing and new shareholders.

At the date of signing of this report, the Company has raised \$3,918,045.

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD****DIRECTORS' REPORT (Continued)****Likely developments**

Likely developments in the consolidated entity's operations and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

**Environmental regulations**

The consolidated entity is subject to and is compliant with all aspects of environmental regulations for its hemp farming and research activities. The directors are not aware of any environmental law that is not being complied with.

**Proceedings on behalf of the company**

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

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

**Auditor's Independence Declaration**

The auditor's independence declaration has been received and can be found on page 3 of the annual report.

Signed in accordance with a resolution of the directors.



\_\_\_\_\_  
Director

Philip Warner



\_\_\_\_\_  
Director

Eric Wang

Brisbane,

14 November 2017

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE MEMBERS OF ECOFIBRE INDUSTRIES OPERATIONS PTY LTD AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief during the year ended 30 June 2017 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

*William Buck*

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

*J A Latif*

**J A Latif**  
A Member of the Firm

Dated 14 November 2017

**CHARTERED ACCOUNTANTS  
& ADVISORS**

Level 21, 307 Queen Street  
Brisbane QLD 4000  
GPO Box 563  
Brisbane QLD 4001  
Telephone: +61 7 3229 5100  
[williambuck.com](http://williambuck.com)

**Ecofibre Industries Operations Pty Ltd  
and controlled entities  
Independent auditor's report to members**

**Report on the Audit of the Financial Report**

**Opinion**

We have audited the financial report of Ecofibre Industries Operations Pty Ltd (the Company) and entities it controlled at year end or from time to time during the year (the Group), which comprises the statements of financial position as at 30 June 2017, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of Ecofibre Industries Operations Pty Ltd is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

**Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company and the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditors' report.

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

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### **Material Uncertainty Related to Going Concern**

We draw attention to Note 1(a) in the financial report, which indicates that the Group incurred a net loss after tax of \$8,648,754 and had net cash outflows from operating activities of \$6,848,875 for the year ended 30 June 2017. The Company incurred a net loss after tax of \$8,734,949 and had net cash outflows from operating activities of \$6,675,069. As of that date, the Group's total liabilities exceeded its total assets by \$786,598 and the Company's total liabilities exceeded its total assets by \$908,462. These events or conditions, along with other matters as set forth in Note 1(a), indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Other Information**

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

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

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

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

### **Responsibilities of the Directors for the Financial Report**

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

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

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

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

*William Buck*

**William Buck (Qld)**

ABN 21 559 713 106

A handwritten signature in black ink, appearing to read 'J A Latif', with a horizontal line underneath.

**J A Latif**

A Member of the Firm

Dated 14 November 2017

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**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD****DIRECTORS' DECLARATION**

The directors of the company declare that:

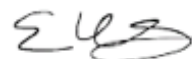
1. The financial statements and notes, as set out on pages 9 to 32 are in accordance with the Corporations Act 2001 and:
  - a) comply with Accounting Standards and the Corporations Regulations 2001;
  - b) comply with International Financial Reporting Standards as issued by the International Accounting Standards Board; and
  - c) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2017 and of their performance for the year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Philip Warner

Director



Eric Wang

Director

Brisbane,

14 November 2017

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2017**

		Consolidated		Parent	
	Note	2017 \$	2016 \$	2017 \$	2016 \$
Revenue	2(a)	574,922	266,078	449,590	157,075
Direct costs	3(a)	(3,232,634)	(901,094)	(3,077,923)	(931,246)
Gross profit		<u>(2,657,712)</u>	<u>(635,016)</u>	<u>(2,628,333)</u>	<u>(774,171)</u>
Other income	2(b)	1,624,632	4,282,381	1,624,594	4,382,379
Administrative expenses	3(b)	(6,998,100)	(3,289,683)	(7,117,346)	(3,400,418)
Interest expense		(483,115)	(79,821)	(483,115)	(74,012)
(Loss) profit before income tax		<u>(8,514,295)</u>	<u>277,861</u>	<u>(8,604,200)</u>	<u>133,778</u>
Income tax expense	4	(134,459)	(37,373)	(130,749)	-
(Loss) profit after income tax attributable to the members of the company		<u>(8,648,754)</u>	<u>240,488</u>	<u>(8,734,949)</u>	<u>133,778</u>
Other comprehensive income for the year					
Exchange differences on translating foreign controlled entities		(11,254)	(57,978)	-	-
Total comprehensive income for the year attributable to the members of the company		<u>(8,660,008)</u>	<u>182,510</u>	<u>(8,734,949)</u>	<u>133,778</u>

To be read in conjunction with the accompanying notes.

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**
**STATEMENTS OF FINANCIAL POSITION  
AS AT 30 JUNE 2017**

	Note	Consolidated		Parent	
		2017	2016	2017	2016
		\$	\$	\$	\$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	5	2,448,588	1,225,725	1,887,720	1,197,967
Trade and other receivables	6	190,147	152,676	930,737	145,467
Inventories	7	2,232,158	1,050,127	1,860,532	879,148
Other current assets	8	227,022	62,295	36,740	14,880
<b>TOTAL CURRENT ASSETS</b>		<b>5,097,915</b>	<b>2,490,823</b>	<b>4,715,729</b>	<b>2,237,462</b>
<b>NON-CURRENT ASSETS</b>					
Other financial assets	9	-	-	2,750,835	2,750,835
Property, plant and equipment	10	979,109	681,800	243,824	295,461
<b>TOTAL NON-CURRENT ASSETS</b>		<b>979,109</b>	<b>681,800</b>	<b>2,994,659</b>	<b>3,046,296</b>
<b>TOTAL ASSETS</b>		<b>6,077,024</b>	<b>3,172,623</b>	<b>7,710,388</b>	<b>5,283,758</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	11	886,713	808,590	2,658,979	1,733,200
Employee entitlements		72,163	35,607	55,125	35,607
Tax payable		-	35,626	-	-
Provisions	12	10,000	150,000	10,000	150,000
Borrowings	14	375,000	-	375,000	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,343,876</b>	<b>1,029,823</b>	<b>3,099,104</b>	<b>1,918,807</b>
<b>NON-CURRENT LIABILITIES</b>					
Related party loans	13	1,187,558	1,193,262	1,187,558	2,462,336
Borrowings	14	4,332,188	-	4,332,188	-
		<b>5,519,746</b>	<b>1,193,262</b>	<b>5,519,746</b>	<b>2,462,336</b>
<b>TOTAL LIABILITIES</b>		<b>6,863,622</b>	<b>2,223,085</b>	<b>8,618,850</b>	<b>4,381,143</b>
<b>NET ASSETS (LIABILITIES)</b>		<b>(786,598)</b>	<b>949,538</b>	<b>(908,462)</b>	<b>902,615</b>
<b>EQUITY</b>					
Issued capital	15	13,634,968	7,235,484	13,634,968	7,235,484
Foreign currency translation reserve		(69,232)	(57,978)	-	-
Accumulated losses		(14,876,722)	(6,227,968)	(15,067,818)	(6,332,869)
Reserves		524,388	-	524,388	-
<b>TOTAL EQUITY</b>		<b>(786,598)</b>	<b>949,538</b>	<b>(908,462)</b>	<b>902,615</b>

To be read in conjunction with the accompanying notes.

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2017**

	Note	Issued capital \$	Convertible loan reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total \$
<b>Consolidated</b>						
Balance 30 June 2015		1,750,980	-	-	(6,468,456)	(4,717,476)
Total comprehensive income for the year		-	-	(57,978)	240,488	182,510
Shares issued	15	5,484,504	-	-	-	5,484,504
Balance 30 June 2016		7,235,484	-	(57,978)	(6,227,968)	949,538
Total comprehensive income for the year		-	-	(11,254)	(8,648,754)	(8,660,008)
Shares issued	15	12,301,788	-	-	-	12,301,788
Share buy back	15	(5,902,304)	-	-	-	(5,902,304)
Convertible loan	14	-	524,388	-	-	524,388
Balance 30 June 2017		13,634,968	524,388	(69,232)	(14,876,722)	(786,598)
<b>Parent</b>						
Balance 30 June 2015		1,750,980	-	-	(6,466,647)	(4,715,667)
Total comprehensive income for the year		-	-	-	133,778	133,778
Shares issued	15	5,484,504	-	-	-	5,484,504
Balance 30 June 2016		7,235,484	-	-	(6,332,869)	902,615
Total comprehensive income for the year		-	-	-	(8,734,949)	(8,734,949)
Shares issued	15	12,301,788	-	-	-	12,301,788
Share buy back	15	(5,902,304)	-	-	-	(5,902,304)
Convertible loan	14	-	524,388	-	-	524,388
Balance 30 June 2017		13,634,968	524,388	-	(15,067,818)	(908,462)

To be read in conjunction with the accompanying notes.

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**

**STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2017**

	Note	Consolidated		Parent	
		2017	2016	2017	2016
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers		516,109	804,213	473,775	813,842
R & D tax rebate		1,522,157	823,325	1,522,157	823,325
Payments to suppliers and employees		(8,501,834)	(4,848,558)	(8,325,027)	(3,915,114)
Interest received		36,317	7,443	36,314	7,441
Finance costs paid		(251,539)	(79,821)	(251,539)	(74,012)
Income tax paid		(170,085)	-	(130,749)	-
Net cash flows used in operating activities	18	<u>(6,848,875)</u>	<u>(3,293,398)</u>	<u>(6,675,069)</u>	<u>(2,344,518)</u>
Cash flows from investing activities					
Payments for property, plant and equipment		(710,254)	(779,917)	(148,096)	(360,434)
Payment for investment in subsidiaries		-	-	-	(1,284,761)
Net cash flows used in investing activities		<u>(710,254)</u>	<u>(779,917)</u>	<u>(148,096)</u>	<u>(1,645,195)</u>
Cash flows from financing activities					
Loan from (repayment to) related entities		(5,704)	44,228	(1,274,778)	(25,772)
Proceeds from issue of shares		9,690,000	5,009,315	9,690,000	5,009,315
Proceeds from convertible loan		5,000,000	-	5,000,000	-
Share buy back		(5,902,304)	-	(5,902,304)	-
Net cash flows generated from financing activities		<u>8,781,992</u>	<u>5,053,543</u>	<u>7,512,918</u>	<u>4,983,543</u>
Net increase in cash and cash equivalents held		1,222,863	980,228	689,753	993,830
Cash and cash equivalents at the beginning of the financial year		1,225,725	245,497	1,197,967	204,137
Cash and cash equivalents at the end of the financial year	5	<u>2,448,588</u>	<u>1,225,725</u>	<u>1,887,720</u>	<u>1,197,967</u>

To be read in conjunction with the accompanying notes.

## ECOFIBRE INDUSTRIES OPERATIONS PTY LTD

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

#### 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### **Basis of preparation**

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

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

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets 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 dollar unless otherwise stated.

##### **a) Going concern**

The financial statements have been prepared on a going concern basis. The Group has incurred a net loss after tax of \$8,648,754 and had net cash outflows from operating activities of \$6,848,875. The Company has incurred a net loss after tax of \$8,734,949 and had net cash outflows from operating activities of \$6,675,069. At 30 June 2017, the Group's total liabilities exceeded its total assets by \$786,598 and the Company's total liabilities exceeded its total assets by \$908,462. The Company and the Group's ability to continue as going concerns is dependent upon their ability to utilise existing working capital, generate sufficient cash flows from future operations and to raise additional capital.

In July 2017, the Company began to raise additional equity capital, and has since raised \$3.9 million. The Company also expects to receive approximately \$2.8 million from a net R & D tax rebate in December 2017.

The Directors believe the Company will be successful in securing additional capital through equity issues as and when new capital is required.

Should the Company be unable to raise further funds and both the Company and the Group be unable to utilise existing working capital and generate sufficient cash flows from future operations, there would be a significant uncertainty regarding the ability of the Company and the Group to continue as going concerns and therefore whether they would be able to realise their respective assets and extinguish their respective liabilities in the normal course of business and at the amounts stated in the financial statements.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Company and the Group not continue as going concerns.

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017****1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****b) Principles of consolidation**

The consolidated financial statements incorporate the results and assets and liabilities of all entities controlled by Ecofibre Industries Operations Pty Ltd ("parent entity") as at 30 June 2017 and results of all controlled entities for the year then ended. Ecofibre Industries Operations Pty Ltd and its controlled entities together are referred to in the financial statements as the consolidated entity. 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.

**c) Income tax**

The charge for current income tax expense is 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 by the end of 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.

No provision for income tax has been raised for the Australian entities at the end of each financial year as the corresponding R & D tax rebate income cannot be recognised under AASB 120 Accounting For Government Grants and Disclosure of Government Assistance until assessed by the ATO.

**d) 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.

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017****1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****e) 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.

**f) Inventories**

Inventories and agricultural produce are valued at the lower of cost and net realisable value. Costs comprise planting (including farm lease costs), harvesting and processing costs, and an appropriate proportion of variable and fixed production overhead.

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.

**g) Biological assets**

Biological assets are measured on initial recognition at their fair value less costs to sell.

**h) 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.

**i) 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 2 to 7 years.



**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017****1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****j) 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.

**k) 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.

**l) 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.

**m) Revenue**

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised taking into account the interest rates applicable to the financial assets.

**n) 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.

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**o) 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.

**p) Foreign currencies**

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. 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 monetary items are recognised in the statement of profit or loss and other comprehensive income except where deferred in equity as a qualifying cash flow or net investment hedge.

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.

*Group companies*

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- Assets and liabilities are translated at year end exchange rates prevailing at that reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- Retained earnings are translated at the exchange rate prevailing at the date of the transaction.

**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 principle market or in the absence of a principle 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.

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017****1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****r) Share based payments***Equity settled transactions*

The Group provides benefits to certain contractors, employees and directors in the form of share-based payments, whereby employees and directors render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is determined having regard to the most recent value of shares issued or traded in the company.

**s) Adoption of new and 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.

**Critical Accounting Estimates and Judgements**

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained externally and within the company.

Significant judgement is applied in determining the net realisable value of inventories, agricultural produce and biological assets. This is predominantly a result of an immature market for the group's finished products, and the inability to obtain quoted market prices for these assets.

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

	Consolidated		Parent	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>2 Revenue and other income</b>				
<b>(a) Revenue</b>				
Sales	550,368	240,434	426,155	132,720
Agistment	4,545	19,091	4,545	19,091
Freight costs recovered	20,009	6,553	18,890	5,264
	<u>574,922</u>	<u>266,078</u>	<u>449,590</u>	<u>157,075</u>
<b>(b) Other income</b>				
Debt forgiven	-	3,108,428	-	3,108,428
Research and development tax rebate	1,522,157	823,325	1,522,157	823,325
Management fee from Hemp Australia Pty Ltd	-	-	-	100,000
Interest	36,317	7,443	36,314	7,441
Other income	66,158	343,185	66,123	343,185
	<u>1,624,632</u>	<u>4,282,381</u>	<u>1,624,594</u>	<u>4,382,379</u>
<b>3 Expenses</b>				
<b>(a) Direct costs</b>				
Net processing and farming costs	63,515	73,177	10,164	2,670
Cost of goods sold	708,013	1,522	641,334	82,877
Write down of inventory	2,461,106	826,395	2,426,425	845,699
	<u>3,232,634</u>	<u>901,094</u>	<u>3,077,923</u>	<u>931,246</u>
<b>(b) Administrative expenses</b>				
Accounting and audit	70,588	80,776	47,397	80,776
Make good provision	(140,000)	150,000	(140,000)	150,000
Executive contractors and consultants*	478,000	448,006	478,000	448,006
Foreign exchange losses	78,547	116,363	78,547	116,363
Impairment of property, plant and equipment	-	176,659	-	176,659
Acquisition costs written off	1,475,708	-	1,475,708	-
Legal fees	161,316	95,753	111,673	95,753
Share based payments	1,136,080	475,189	1,136,080	475,189
Employees and contractors	1,796,937	667,347	346,829	652,107
Research agency fee	178,496	57,795	2,394,804	525,825
Other operating expenses	1,762,428	1,021,795	1,188,308	679,740
	<u>6,998,100</u>	<u>3,289,683</u>	<u>7,117,346</u>	<u>3,400,418</u>

\* Executive contractors and consultants fees are paid to Warneroo Pty Ltd, a company of which Phillip Warner is a director.

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

	Consolidated		Parent	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>4 Income tax</b>				
The aggregate amount of income tax attributable to the financial year differs from the amount calculated on the operating profit. The difference is reconciled as follows:				
Profit (loss) before income tax	(8,514,295)	277,861	(8,604,200)	133,778
Prima facie tax at 27.5%	(2,341,431)	83,358	(2,366,155)	40,133
Tax effect of permanent differences:				
- Share based payments	-	142,556	-	142,556
- Waiver of debt	-	(932,528)	-	(932,528)
- R & D tax rebate received	(418,593)	(246,998)	(418,593)	(246,998)
- R & D expenses and feedstock adjustment	2,017,410	968,027	1,983,084	968,027
- Acquisition costs written off	405,820	-	405,820	-
Timing differences not brought to account	412,808	106,356	402,517	116,024
Tax losses utilised	(23,316)	(87,214)	(6,673)	(87,214)
Adjustment for foreign tax rates	(52,698)	3,816	-	-
Tax not provided in prior period	134,459	-	130,749	-
Income tax expense	134,459	37,373	130,749	-

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

	Consolidated		Parent	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>5 Cash and cash equivalents</b>				
Cash at bank	2,448,588	1,225,725	1,887,720	1,197,967
	<u>2,448,588</u>	<u>1,225,725</u>	<u>1,887,720</u>	<u>1,197,967</u>
<b>6 Trade and other receivables</b>				
Trade debtors	140,122	16,409	26,208	8,475
Allowances for doubtful debts	(18,780)	-	-	-
GST receivable	68,805	132,716	70,117	133,441
Receivable from United Life Science Inc.	-	-	599,678	-
Receivable from Hemp Australia Pty Ltd	-	-	234,734	-
Other debtors	-	3,551	-	3,551
	<u>190,147</u>	<u>152,676</u>	<u>930,737</u>	<u>145,467</u>
<b>7 Inventories</b>				
Finished goods	392,803	60,937	365,954	56,615
Raw materials	401,826	265,279	401,827	98,623
Biological assets	1,437,529	723,911	1,092,751	723,910
	<u>2,232,158</u>	<u>1,050,127</u>	<u>1,860,532</u>	<u>879,148</u>
<b>8 Other current assets</b>				
Prepayments	<u>227,022</u>	<u>62,295</u>	<u>36,740</u>	<u>14,880</u>
<b>9 Other financial assets</b>				
Ordinary shares in controlled entities at cost:				
United Life Science Inc. (ULS)	-	-	2,745,661	2,745,661
Hemp Australia Pty Ltd (HAPL)	-	-	5,174	5,174
Ecofibre Uruguay SA (EU)	-	-	-	-
	<u>-</u>	<u>-</u>	<u>2,750,835</u>	<u>2,750,835</u>

ULS is a wholly-owned subsidiary incorporated and domiciled in United States of America.  
 ULS's principal activity is the processing and distribution of hemp products.  
 ULS holds 100% of the equity amounting to USD\$20,612 in Kentucky Industrial Hemp LLC (EK).

EK is a wholly-owned subsidiary incorporated and domiciled in United States of America.  
 EK's principal activity is the farming of hemp.

HAPL is a wholly-owned subsidiary incorporated and domiciled in Australia.  
 HAPL's principal activity is the growing, processing and distribution of hemp products.

EU is a wholly-owned subsidiary incorporated and domiciled in Uruguay.  
 EU is a dormant entity.

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

	Consolidated		Parent	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>10 Property, plant and equipment</b>				
Capital work in progress	7,669	121,172	-	-
Motor vehicles	130,834	113,091	113,091	113,091
Less: accumulated depreciation	(50,640)	(39,190)	(50,218)	(39,190)
	80,194	73,901	62,873	73,901
Office equipment	24,414	4,381	24,414	4,381
Less: accumulated depreciation	(24,414)	(254)	(24,414)	(254)
	-	4,127	-	4,127
R & D equipment	1,187,856	1,334,180	353,472	1,036,620
Less: accumulated depreciation	(357,314)	(674,921)	(234,913)	(642,528)
Less: accumulated impairment losses	-	(176,659)	-	(176,659)
	830,542	482,600	118,559	217,433
Plant - other	77,076	8,409	73,373	8,409
Less: accumulated depreciation	(16,372)	(8,409)	(10,981)	(8,409)
	60,704	-	62,392	-
Total property, plant and equipment	1,427,849	1,581,233	564,350	1,162,501
Less: accumulated depreciation	(448,740)	(722,774)	(320,526)	(690,381)
Less: accumulated impairment losses	-	(176,659)	-	(176,659)
	979,109	681,800	243,824	295,461

**2017 Movement schedule (Consolidated)**

	Capital WIP	Motor vehicles	Office equipment	R&D equipment	Plant - other	Total
	\$	\$	\$	\$	\$	\$
Carrying value 1 July 2016	121,172	73,901	4,127	482,600	-	681,800
Additions	-	17,750	21,358	593,394	77,752	710,254
Transfer	(113,503)	-	-	113,503	-	-
Disposals	-	-	(1,252)	(39,309)	2,645	(37,916)
Depreciation	-	(11,457)	(24,233)	(319,646)	(19,693)	(375,029)
Carrying value 30 June 2017	7,669	80,194	-	830,542	60,704	979,109

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

**10 Property, plant and equipment (continued)**

**2016 Movement schedule (Consolidated)**

	<b>Capital WIP \$</b>	<b>Motor vehicles \$</b>	<b>Office equipment \$</b>	<b>R&amp;D equipment \$</b>	<b>Plant - other \$</b>	<b>Total \$</b>
Carrying value 1 July 2015	-	9,594	2,982	183,615	3,343	199,534
Additions	121,172	79,908	4,381	574,456	-	779,917
Disposals	-	(3,871)	-	-	(2,645)	(6,516)
Depreciation	-	(11,730)	(3,236)	(98,812)	(698)	(114,476)
Impairment loss	-	-	-	(176,659)	-	(176,659)
Carrying value 30 June 2016	121,172	73,901	4,127	482,600	-	681,800

**2017 Movement schedule (Parent)**

	<b>Motor vehicles \$</b>	<b>Office equipment \$</b>	<b>R&amp;D equipment \$</b>	<b>Plant - other \$</b>	<b>Total \$</b>
Carrying value 1 July 2016	73,901	4,127	217,433	-	295,461
Additions	-	21,358	57,720	69,018	148,096
Disposals	-	(1,252)	(39,309)	2,645	(37,916)
Depreciation	(11,028)	(24,233)	(117,285)	(9,271)	(161,817)
Carrying value 30 June 2017	62,873	-	118,559	62,392	243,824

**2016 Movement schedule (Parent)**

	<b>Motor vehicles \$</b>	<b>Office equipment \$</b>	<b>R&amp;D equipment \$</b>	<b>Plant - other \$</b>	<b>Total \$</b>
Carrying value 1 July 2015	9,593	2,982	180,272	3,343	196,190
Additions	79,909	4,381	276,145	-	360,435
Disposals	(3,871)	-	-	(2,645)	(6,516)
Depreciation	(11,730)	(3,236)	(64,970)	(698)	(80,634)
Impairment loss	-	-	(174,014)	-	(174,014)
Carrying value 30 June 2016	73,901	4,127	217,433	-	295,461



**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

	Consolidated		Parent	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>11 Trade and other payables</b>				
Trade creditors*	167,418	123,115	72,514	123,115
Payable to Kentucky Industrial Hemp LLC	-	-	2,382,913	-
Payable to United Life Science Inc.	-	-	-	1,181,137
Other creditors and accruals	719,295	685,475	203,552	428,948
	<u>886,713</u>	<u>808,590</u>	<u>2,658,979</u>	<u>1,733,200</u>

\* Trade creditors includes balances payable to Warneroo Pty Ltd (a company of which Phillip Warner is a director) is nil (2016: \$123,115).

**12 Provisions**

Lease make good	<u>10,000</u>	<u>150,000</u>	<u>10,000</u>	<u>150,000</u>
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The provision represents the present value of the estimated costs to make good the premises leased by the parent entity at Jerry's Plains, New South Wales at the end of the lease term.

**13 Related party loans**
**Receivable**

Loan - Kentucky Industrial Hemp LLC	-	28,571	-	28,571
Loan - Hemp Australia Pty Ltd	-	-	-	197,000
Loan - Hemp Harvests	-	422	-	422
Loan - Hempcrete Australia	-	246	-	246
Loan - United Hemp Mills	1,887	1,887	1,887	1,887
	<u>1,887</u>	<u>31,126</u>	<u>1,887</u>	<u>228,126</u>

**Payable**

Loan - Neona Astalt *	623,815	644,174	623,815	644,174
Loan - P&K Warner (USD) ^	182,022	191,853	182,022	191,853
Loan - P&K Warner (AUD) ^	287,506	293,596	287,506	293,596
Loan - Warneroo Pty Ltd ^	96,102	94,765	96,102	94,765
Loan - United Life Science Inc.	-	-	-	1,466,074
	<u>1,189,445</u>	<u>1,224,388</u>	<u>1,189,445</u>	<u>2,690,462</u>

Net related party loans payable	<u>1,187,558</u>	<u>1,193,262</u>	<u>1,187,558</u>	<u>2,462,336</u>
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\* These loans are unsecured, incur interest at 5% per annum and repayable by 21 June 2020.

^ These loans are unsecured, incur interest at 5% per annum and repayable by 23 September 2018.

All other related party loans are unsecured, interest free and have no fixed term of repayment.

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

	Consolidated		Parent	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>14 Borrowings</b>				
Current - convertible loan	375,000	-	375,000	-
Non-current - convertible loan	4,332,188	-	4,332,188	-
	<u>4,707,188</u>	<u>-</u>	<u>4,707,188</u>	<u>-</u>

During the year ended 30 June 2017, as part of the capital raising exercise, the Company entered into a funding agreement with an investor for provision of a \$5,000,000 convertible loan.

The terms of the convertible loan are as follows:

Agreement date:	7 January 2017
Principal balance:	\$5,000,000
Interest rate:	7.5% per annum (fixed)
Repayment term:	4 years from the agreement date.
Conversion right:	The Lender has the right but not the obligation to convert part or the whole of the loan into ordinary shares in Ecofibre Industries Operations Pty Ltd (EIO) at \$0.77 per share (price to be adjusted to reflect any share split or consolidation that occurs after 7 January 2017 but before the earlier of the repayment date or the conversion).
Early repayment:	The loan may be repaid by EIO earlier than 4 years without penalty.

Accounting standards require the separate recognition of the debt and equity components of the convertible loan. At the date of recognition of the convertible loan, the debt and equity components of the facility were separated according to their fair values. The convertible loan is presented in the statement of financial position as follows:

	Consolidated		Parent	
	2017	2016	2017	2016
	\$	\$	\$	\$
Borrowings	4,707,188	-	4,707,188	-
Convertible loan reserve	524,388	-	524,388	-
	<u>5,231,576</u>	<u>-</u>	<u>5,231,576</u>	<u>-</u>

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

	Parent		Parent	
	2017	2016	2017	2016
	\$	\$	Quantity	Quantity
<b>15 Issued capital</b>				
Ordinary shares	13,634,968	7,235,484	13,634,968	68,846,415
<b><i>Movement in ordinary shares</i></b>				
Opening balance 1 July	7,235,484	1,750,980	68,846,415	100
Shares issued prior to share split 31/7/15	-	640,000	-	32
Shares split (1:378,788)	-	-	-	49,999,884
Shares issued at \$0.318 per share	2,000,000	-	6,289,309	-
Shares issued to acquire a controlled entity	1,475,708	-	4,640,591	-
Shares issued at no cost to directors and employees	1,136,080	475,189	3,524,743	5,119,942
Shares issued post share split 31/12/15	-	4,369,315	-	13,726,457
Share buy-back	(5,902,304)	-	(18,639,130)	-
Shares issued at \$0.77 per share	7,690,000	-	9,987,025	-
Closing balance 30 June	13,634,968	7,235,484	74,648,953	68,846,415

	Consolidated		Parent	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>16 Remuneration of auditors</b>				
Amounts received or due and receivable by the auditors of the company in respect of services to the group:				
Audit - William Buck (Qld)	35,000	30,000	35,000	30,000

**17 Contingent liabilities and commitments**

There are no contingent liabilities.

Commitment for non-cancellable leases are as follows:

Less than one year	161,628	87,500	111,768	87,500
Between one and five years	285,275	-	264,500	-
Later than five years	-	-	-	-
	446,903	87,500	376,268	87,500

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

	Consolidated		Parent	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>18 Reconciliation of (loss) profit after income tax to net cash flows from operating activities</b>				
Operating (loss) profit after income tax	(8,648,754)	240,488	(8,734,949)	133,778
Depreciation and amortisation	375,029	113,778	161,817	80,634
Loss from disposal of fixed assets	37,916	3,871	37,916	3,871
Impairment loss	-	176,659	-	176,659
Debt forgiven	-	(3,108,428)	-	(3,108,428)
Provision for doubtful debt	18,780	-	-	-
Acquisition costs written off	1,475,708	-	1,475,708	-
Share-based payments	1,136,080	475,189	1,136,080	475,189
Fair value adjustment for convertible loan	231,576	-	231,576	-
Movement in foreign currency translation reserve	(11,254)	(57,978)	-	-
Change in operating assets and liabilities				
Decrease (increase) in assets				
Trade and other debtors	(56,251)	(23,992)	49,142	(21,254)
Prepayments	(164,727)	(62,295)	(21,860)	(14,880)
Inventories	(1,182,031)	(1,036,880)	(981,384)	(879,148)
Increase (decrease) in liabilities				
Trade creditors	44,303	(792,734)	(50,601)	(787,561)
Payable to controlled entities	-	-	367,364	1,181,137
Other creditors and accruals	33,820	557,691	(225,396)	229,878
Provisions	(140,000)	150,000	(140,000)	150,000
Tax payable	(35,626)	35,626	-	-
Employee entitlements	36,556	35,607	19,518	35,607
Net cash flows from operating activities	<u>(6,848,875)</u>	<u>(3,293,398)</u>	<u>(6,675,069)</u>	<u>(2,344,518)</u>

**19 Financial risk management objectives and policies**

The Group's principal financial instruments comprise receivables, payables, cash, investments and short-term deposits.

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

**Risk exposures and responses**

*Credit risk*

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's maximum exposures to credit risk at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position. The Group minimises concentrations of credit risk in relation to trade receivables by having payment terms of 30 days and receivable balances are monitored on an ongoing basis.

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

**19 Financial risk management objectives and policies (continued)**

*Credit risk (continued)*

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Term deposits are placed with major financial institutions to minimise the risk of default of counterparties.

*Interest rate risk*

The Group's exposure to market interest rates relates primarily to the Group's funds held on term deposits. At the end of the reporting period the Group had the following financial asset exposed to interest rate risk.

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Financial Assets</b>		
Cash and cash equivalents	2,448,588	1,225,725

The Group's policy is to place funds on interest-bearing term deposit that are surplus to immediate requirements. The Group's interest rate exposure is reviewed near the maturity date of term deposits, to assess whether more attractive rates are available without increasing risk. The following sensitivity analysis is based on the interest rate exposures in existence at the end of the reporting period.

At 30 June 2017, if interest rates had moved, as illustrated in the table below, with all other variables held constant, loss after tax and equity would have been affected as follows:

	<b>Loss after tax</b>		<b>Equity</b>	
	<b>Higher/ (lower)</b>		<b>Higher/ (lower)</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Consolidated</b>				
+ 1% (100 basis points)	(24,486)	(12,257)	24,486	12,257
- 0.5 % (50 points)	12,243	6,129	(12,243)	(6,129)

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

*Liquidity risk*

The Group's objective is to maintain sufficient funds to finance its current operations and additional funds to ensure its long-term survival. Apart from a convertible loan, the Group has no other finance facilities in place and therefore it is currently dependent on capital raisings and government tax incentives to finance short-term operations. Liquidity risk is monitored through the development of future rolling cash flow forecasts that are tabled and reviewed by the Board. The fair value of the convertible loan is payable as follows:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Less than one year	375,000	-	375,000	-
Between one and five years	4,332,188	-	4,332,188	-
Later than five years	-	-	-	-
	<b>4,707,188</b>	<b>-</b>	<b>4,707,188</b>	<b>-</b>

## ECOFIBRE INDUSTRIES OPERATIONS PTY LTD

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

#### 19 Financial risk management objectives and policies (continued)

##### *Foreign currency risk*

The Group is exposed to fluctuations in foreign currencies on purchases of goods in currencies other than the Group's functional currency. The group manages the risk by monitoring the level of exposure to foreign currency transactions and limiting where possible.

##### *Fair value*

Except for the convertible loan (refer note 14), the carrying amount of all other recognised financial assets and financial liabilities are considered a reasonable approximation of their fair value due to their short-term nature.

#### 20 Events subsequent to balance date

On 11 July 2017, Ecofibre Industries Operations Pty Ltd began to raise additional equity capital from existing and new shareholders.

At the date of signing of this report, the Company has raised \$3,918,045.

#### 21 Key management personnel disclosures

##### *Compensation*

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

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	290,769	97,308
Post-employment benefits	25,000	9,731
Long-term benefits	-	-
Share based payments	-	245,000
	<b>315,769</b>	<b>352,039</b>

See also Note 22 for other related party transactions.

**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

**22 Related party transactions**

*Transactions with related parties*

The following transactions occurred with related parties:

The parent entity incurred \$478,000 (2016: \$410,006) to Warneroo Pty Ltd (a company which Phillip Warner is a director) and Sword Superannuation Fund (of which Phillip Warner is a trustee) for executive contractor and consultant fees, use of premises at 8 Thynne Court Malaney and other costs.

The parent entity incurred \$13,000 (2016: \$13,000) to Sword Superannuation Fund as a fee to use its premises.

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Interest expense for loan with Warneroo Pty Ltd	6,714	26,450
Interest expense for loan with P&K Warner	32,469	13,131
Interest expense for loan with Neona Astalt	29,847	24,804
	<b>69,030</b>	<b>64,385</b>

*Receivable and payable to related parties*

The receivables from and payables to related parties are disclosed in notes 6, 11 and 13.

## ECOFIBRE INDUSTRIES OPERATIONS PTY LTD

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

#### 23. New Accounting Standards for application in future periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods and which the Company has decided not to early adopt. A discussion of those future requirements and their impact on the Company is as follows:

- *AASB 9 Financial Instruments (December 2014) and AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) (applicable for annual reporting periods commencing on or after 1 January 2018)*

AASB 9 includes requirements for the classification and measurement of financial assets, the accounting requirements for financial liabilities, impairment testing requirements and hedge accounting requirements.

The changes made to accounting requirements by these standards include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value and an allowance for debt instruments to be carried at fair value through other comprehensive income in certain circumstances
- simplifying the requirements for embedded derivatives
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument
- financial assets will need to be reclassified where there is a change in an entity's business model as they are initially classified based on (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows
- amending the rules for financial liabilities that the entity elects to measure at fair value, requiring changes in fair value attributed to the entity's won credit risk to be presented in other comprehensive income
- introducing new general hedge accounting requirements intended to more closely align hedge accounting with risk management activities as well as the addition of new disclosure requirements
- requirements for impairment of financial assets

This standard is not expected to have a material impact on the Company.

- *AASB 15 Revenue from Contracts with Customers, AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, AASB 2015-8 Effective Date of AASB 15 and AASB 2016-3 Clarifications to AASB 15 (applicable for annual reporting periods commencing on or after 1 January 2018)*

AASB 15 establishes a single, comprehensive framework for revenue recognition, and replaces the previous revenue Standards AASB 118 *Revenue* and AASB 111 *Construction Contracts*, and the related Interpretations on revenue recognition Interpretation 13 *Customer Loyalty Programmes*, Interpretation 15 *Agreements for the Construction of Real Estate*, Interpretation 18 *Transfers of Assets from Customers* and Interpretation 131 *Revenue—Barter Transactions Involving Advertising Services*.

AASB 15 introduces a five step process for revenue recognition with the core principle of the new Standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements..

This standard is not expected to have a material impact on the Company.



**ECOFIBRE INDUSTRIES OPERATIONS PTY LTD**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

**23. New Accounting Standards for application in future periods (continued)**

— *AASB 16 Leases (applicable for annual reporting periods commencing on or after 1 January 2019)*

AASB 16 introduces a single lessee accounting model that requires all leases to be accounted for on balance sheet. A lessee will be required to recognise an asset representing the right to use the underlying asset during the lease term (ie right-of-use asset) and a liability to make lease payments (ie lease liability). Two exemptions are available for leases with a term less than 12 months or if the underlying asset is of low value.

The lessor accounting requirements are substantially the same as in AASB 117/NZ IAS 17. Lessors will therefore continue to classify leases as either operating or finance leases.

AASB 16 will replace AASB 117/NZ IAS *Leases*, Interpretation/NZ IFRIC 4 *Determining Whether an Arrangement contains a Lease*, Interpretation 115/NZ SIC *Operating Leases – Incentives* and interpretation 127/NZ SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The company has not yet assessed the impact of this standard.

— *AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses (applicable for annual reporting periods commencing on or after 1 January 2017)*

This standard amends AASB 112 *Income Taxes* to clarify how deferred tax assets are accounted for when they relate to debt instruments measured at fair value.

This standard is not expected to have a material impact on the Company.

— *AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 (applicable for annual reporting periods commencing on or after 1 January 2017)*

This standard amends AASB 107 *Cash Flow Statements* to require disclosure of information that allows users to understand the changes in liabilities from financing activities.

This standard is not expected to have a material impact on the Company.

— *AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions (applicable for annual reporting periods commencing on or after 1 January 2018)*

This standard amends AASB 2 *Share-based Payments* to address:

- The accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments
- The classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and
- The accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

This standard is not expected to have a material impact on the Company.

The Company does not anticipate early adoption of any of the above Australian Accounting Standards or Interpretations.