ECOFIBRE

ANNUAL REPORT **2019**

CONTENTS

About Ecofibre

Ecofibre is a provider of hemp products in the United States and Australia. Visit us at *ecofibre.com*.

In the United States, we produce hemp nutraceutical products for human and pet consumption, as well as topical creams and salves: *anandahemp.com, anandaprofessional.com*.

In Australia, we produce 100% Australian grown and processed hemp food products including protein powders, dehulled hemp seed and hemp seed oil: *anandafood.com*.

We are also developing innovative hemp-based products in textile and composite materials in partnership with Thomas Jefferson University (TJU) in the United States: *hempblack.com*.

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

AGM Details

The Company's 2019 Annual General Meeting (AGM) will be held at **2:00pm on Thursday 14 November 2019** at the offices of Colin Biggers & Paisley, level 42, 2 Park Street, Sydney.

FINANCIAL HIGHLIGHTS

Revenue
up 519% from $5.7m to
$35.6m

NPAT
up 170% from $8.6m loss to
+ $6.0m

Fully diluted EPS
up 158% from 3.7 cps loss to
+ 2.2 CPS

Net Assets
up from $1.6m to
$42.3m

US independent pharmacies
up 510% from 525 to
3,200

Channel mix
Branded channel sales
84%

Gross Margin
for H2 FY2019
77%

EBITDA margin
for H2 FY2019
25%

OUR VISION

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

anandafood

anandahealth

HEMP BLACK

CHAIRMAN'S LETTER

Dear Shareholders

On behalf of the Directors it is my pleasure to welcome you to our first annual report as a listed company. You will note the sharp turnaround in our financial performance set out later in this report.

Ecofibre's business model and management are both new and focused on the future.

My family's interest in hemp extract and Ecofibre arose because of our grand-daughter Katelyn's severe Epilepsy condition - Dravet Syndrome, which is not controlled by traditional medicines but is very well controlled by hemp (cannabis) extracts. I encouraged Eric Wang to join Ecofibre to look after our and your investment. Eric became a Director in November 2015 and formally became the Managing Director / CEO in December 2017. I became a Director and Chairman in October 2017.

We are very fortunate to have Eric Wang as our CEO. Eric was born in the United States and is a graduate of the US Army's West Point Military Academy and the Tuck School of Business at Dartmouth College - he is now an Australian citizen. His challenging job takes him to the USA on a frequent basis. Most of our sales and staff are in the USA where, unlike Australia, hemp extract is both federally legal and not a controlled substance ie. it can be bought over the counter without prescription. This is the reason our Ananda Health business is US based and why medicinal cannabis is unaffordable in Australia.

Whilst we expect our strong profit turnaround will continue, the business is still in its rapid 'early growth' stage development and therefore it is not possible to give 'detailed' profit guidance. We will however, until the growth and profits become more predictable, give a quarterly business update to keep all shareholders informed.

The diverse nature of our business (Health (USA), Food (Australia) and Technology - Hemp Black (USA)) will over time smooth the returns from our very differing businesses. At this time Ananda Health is the dominant business. There is a 'land grab' taking place in the USA thanks to the 2018 Hemp provisions which make Hemp Federally legal and no longer a controlled substance. Marijuana in the USA remains Federally illegal but legal in some states.

The difference between Hemp and Marijuana industries is not well understood so I have given a brief explanation below.

Hemp is Cannabis with less than 0.3% Tetrahydrocannabinol (THC) the cannabinoid that gives a high. 'Street' Marijuana could have in excess of 20% THC, 50 - 75 TIMES stronger than Hemp Extract. The major cannabinoid in Hemp Extract is cannabidiol (CBD) commonly referred to as CBD oil. Ecofibre is NOT involved in the Marijuana industry. Your company only grows and processes Hemp oil (mostly CBD).

As mentioned, we currently have three Divisions. Ananda Health is our largest and most profitable business. Ananda Health is wholly US based even though we are an Australian company. The rules around 'Medicinal Cannabis' in Australia are such that we don't believe we could build a viable business here. This is because of the uncommercial rules around growing and processing the plant along with the lack of demand caused by the regulations which make it unaffordable to almost all Australians.

We do not see Australian rules changing in the near future.

Personally, I am very engaged in this humanitarian issue which is causing untold permanent health damage to young Australians. My actions on behalf of defenceless young Australians should not be linked to my position as Chairman of Ecofibre.

All businesses face risks and especially those in new high growth industries where legislation and regulations are being developed whilst at the same time explosive and sometimes unprofessional competition is raging. We are mindful of the risks, both known and emerging, and manage them to the best of our ability in keeping with our desire to produce high quality and affordable products. Our growth, and the No 1 ranking of Ananda Health in US Pharmacies, is evidence of both our quality and professional market appeal.

We highly value all our stakeholders including:

- the people who buy and repeatedly use our products;
- the Pharmacy Professionals and other retailers who stock and sell our products;
- our auditors, legal and other professional advisers, including research and business partners, and of course;
- our dedicated staff and their families and our farmers that assist us to produce quality products for the benefit of all users including my family; and
- last, but not least, YOU the shareholders who funded the company to reach profitability.

Thank You

Barry Lambert
Chairman

MANAGING DIRECTOR'S LETTER

Dear Fellow Shareholders,

I would like to join Barry in thanking you for your support of Ecofibre and extend a special welcome to new investors who joined the share register following the Company's recent IPO.

As this is our first annual report as a listed company, I thought it would be useful to share some insight into our business philosophy and culture, and my approach to running the business.

Business philosophy and culture

Our culture is embodied in key values oriented around six stakeholder groups. Our values are on prominent display at every one of our offices and play a very large part in informing our day-to-day decisions and actions.

As a participant in the industrial hemp industry, we find ourselves in the privileged position of being in an industry that can create a significant benefit to people and our environment. Given this opportunity, Ecofibre has a deep commitment to ensuring that we leave our environments in a better condition than how we found them. This focus on improving the lives of our customers and environment is something that easily forms the basis for any successful business.

Given this privileged position, our teams have a very clear understanding that their role is to take care of our Customers, our Company, Ourselves, our Family, Communities and our Industry. There is no confusion on these priorities and this clarity leads to clear decision making at all levels across Ecofibre.

As a shareholder, you will notice that you are conspicuously absent from the above list. Whilst my executive team and staff understand the importance of creating shareholder value, this accountability is not delegated. I take personal and full responsibility to deliver a return on your investment.

In many cases the term "shareholders' best interests" is used in a way that can cause confusion at all levels. At its worst, customers are de-prioritised and long term value and brand equity is destroyed. At its best, the right framework can deliver strong alignment between customers and long-term shareholder value.

My team understands that they have the most critical task of looking after our customers, our communities and each other. My role is to translate their hard work into long term value for you.

The key measure I use to anchor strategic and financial decisions is sustained growth in diluted earnings per share (diluted EPS). As I manage to this outcome, the operating decisions that I personally own are: capital allocation to support growth across our businesses; product pricing; and the terms and conditions for major client contracts.

If the right decisions are made, this approach should create strong alignment between value for our customers and value for our shareholders.

Strategic approach to allocation of shareholder funds

Managing and allocating shareholder funds is a privilege that I, and all Directors, take very seriously. As shareholders you will be aware that our business operates in highly competitive new industries, with significant growth potential and a fluid regulatory environment across multiple geographies.

We have employed a very strict set of principles in managing capital and prioritising how it is deployed.

1) Aligned to mission: we only enter markets where we believe our products can improve the lives and well-being of people and the sustainability of our planet

2) Focused early: we target customers and segments that our capabilities and values are aligned to:

    - Quality, safety and transparency
    - Education
    - Sustainability

3) Designed to last: our business models must be profitable, sustainable and provide flexibility as we operate in a highly fluid industry

4) Executed with conviction: when the business model decision is made we properly invest in infrastructure and brand.

2019 results

The team and I are pleased that Ecofibre has been able to report a quality financial results for 2019.

The business reached an inflection point during the year with strong revenue growth, margin expansion and strategic cost management making the company now profitable.

We have successfully transitioned from an R&D focus to a commercial focus over the past year. The portfolio approach we use across our three businesses has shown early success as we progressively focus management resources and capital on each business in line with its stage of growth and maturity. Specifically:

- Ananda Health was at full commercial operations in FY19 and the entire team has delivered a quality outcome. We are now the market leaders for hemp-derived CBD in our target market - the US retail pharmacy segment.

- Ananda Food is prepared for full scale commercial operations in FY20 and we are pleased to have Australia's largest grocery retailer as a foundation client.

- Hemp Black has completed R&D after two years of work in the US and we are now beginning to see early commercial activity as we complete our infrastructure in FY20.

Ecofibre has the cashflow and balance sheet strength to continue investing for the future whilst continuing its focus on delivering profitable growth. As we look to the future, the management team is confident we have the right strategy and execution focus to be successful.

From left to right: Jonathan Brown (Chief Financial Officer), John Ryan (Chief Operating Officer), Kieren Brown (Managing Director, Ananda Food), Eric Wang (Managing Director), Alex Capano (Chief Science Officer), Barry Lambert (Chairman of the Board), Chuck Schneider (Chief Revenue Officer), Alastair Bor (Chief Technology Officer), Kalie Borsato (Director, Sales Operations), Adam Cantwell (Vice President, Global Operations), Jerry Barnett (Staff Pharmacist), Jon Meadmore (Director).

Thank you again to our customers, staff, business partners and shareholders for building this business, and for being part of Ecofibre's future. As shareholders, we are all fortunate to have a highly talented and committed team across all of our businesses.

My personal thanks to Barry and Jon, my fellow directors, who have been invaluable to the growth and development of our Company.

Eric Wang
Managing Director

OPERATING + FINANCIAL REVIEW

STRATEGIC HIGHLIGHTS

- first full year of commercialisation
- business model in place
- beginning to achieve scale
- strong capabilities across all businesses

FINANCIAL HIGHLIGHTS

- quality revenue growth
- margin expansion
- focused cost management
- positive cash from operations
- strong balance sheet

Group Strategy

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

Focused execution in a rapidly changing industry

The global market for hemp continues to grow quickly.

We see significant opportunity across multiple segments and geographies, and we have made the necessary strategic choices to focus the company's business portfolio:

- Ecofibre is purpose driven - we make premium quality products that help people live their best lives.

  Our 'Ananda' retail brands are positioned for the health and wellbeing segment, and Hemp Black will improve the functionality and sustainability of a range of industrial-use products.

- We do not produce or sell medicinal or recreational marijuana.

  Recreational marijuana is legal nationally in only two countries, Canada and Uruguay. Other countries have decriminalised recreational marijuana, and in many US states recreational marijuana products are widely available.

  Unlike marijuana, hemp is a versatile and US federally legal product. Ecofibre believes that hemp offers the best opportunity for scalable growth.

- Our focus is on the most attractive markets, including the United States (Ananda Health) and Australia (Ananda Food) and in some cases global categories (Hemp Black)
- Product innovation is a core capability across the business, supported by strong agricultural capabilities in hemp
- We invest in strong brands to build customer awareness and loyalty
- We prioritise relationships with strong, reputable and aligned business partners
- We build scale in selected parts of the value chain, and operational excellence and productivity improvement is an ongoing focus
- We value sustainability in all its forms – commercial, environmental and social

THE CANNABIS PLANT
hemp v marijuana

Hemp and marijuana both belong to the plant genus Cannabis sativa L.

The female flower of both plants contains resinous glands known as trichomes, which in turn contain high concentrations of naturally occurring compounds called cannabinoids. There are over 120 types of cannabinoids including cannabidiol (CBD) and Delta-9-tetrahydrocannabinol (THC).

Despite their similarities the plants are genetically distinct and distinguished by both chemical makeup and use.

Marijuana contains high concentrations of THC and has a psychoactive effect.

Hemp is naturally high in CBD, typically contains less than 0.3% THC, and has no psychoactive effect.

Strong Portfolio Opportunity

We manage our businesses as a portfolio.

The strategic, operational and financial dynamics of each business are unique, notwithstanding that the feedstock for each is sourced from the hemp plant.

Our investment of management time and financial capital is phased across the portfolio according to market opportunity and execution risk.

Ananda Health is the group's most mature business - profitable, cashflow positive and beginning to achieve scale.

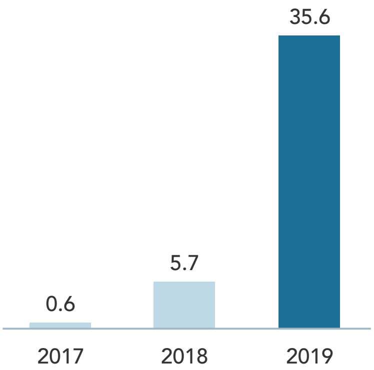
Ananda Food and Hemp Black were both recipients of net cash investment during the year. Ananda Food has a fully commissioned supply chain and is now able to increase its focus on sales and marketing operations. Hemp Black is in a product development and pre-commercial phase and beginning to commission its supply chain.

Group Financial Results

FY2019

Revenue
$35.6m

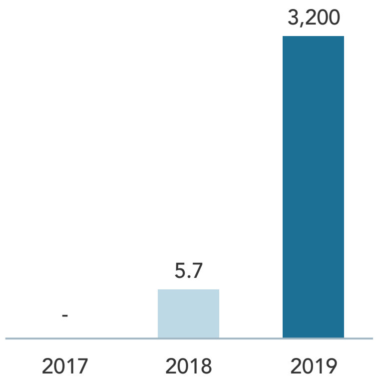
↑ 519%
on FY18, focus on quality revenues



FY2019

US Independent Pharmacies (#)
3,200

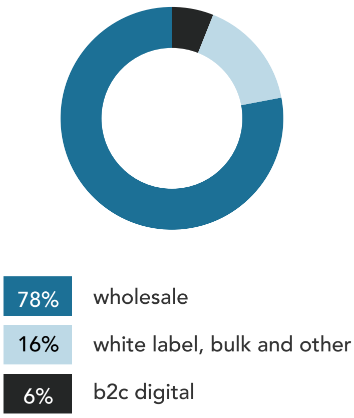
↑ 510%
on FY18



FY2019

Sales by channel
%

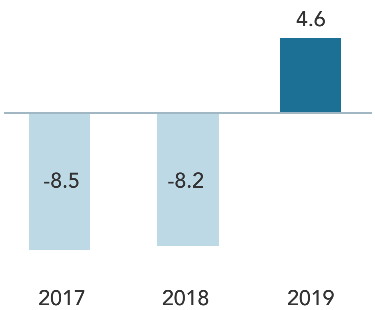
84% of sales from Ananda branded products



FY2019

Profit before tax
$4.6m

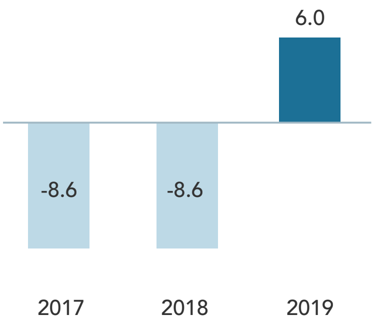
↑ 156%
on FY18, business model strength now evident



FY2019

NPAT
$6.0m

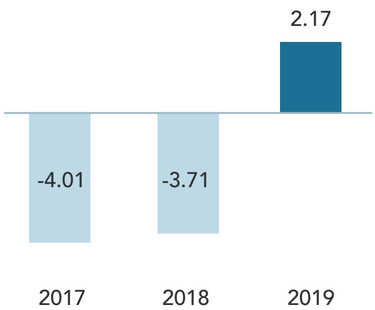
↑ 170%
on FY18, first full year profit



FY2019

Diluted EPS
2.17cps

↑ 158%
on FY18



[1] Diluted EPS for 2017 and 2018 adjusted for 3:1 share split implemented on 6 February 2019

Group Financial Results

Ecofibre delivered an inaugural full year profit after tax of $6.0m in FY19 (H1 FY19 loss: $0.4m; H2 FY19 profit: $6.4m).

Group revenue increased 519% to $35.6m (FY18: $5.7m), driven by the Ananda Health business and demand for hemp-derived CBD in the United States.

Gross profit increased to $25.8m (FY18: $2.0m), and gross margins for the year were strong (FY19: 72%, FY18: 34%).

Operating cost growth was moderate in comparison to the growth in revenue and margins, up 72% to $22.7m (FY18: $13.2m).

The operating leverage inherent in our business model is now evident in our EBITDA margin, which reached 25% in the second half of FY19.

The profit result included the impact of IPO costs ($0.8m pre-tax expense) and first-time recognition of a deferred tax asset ($2.0m) partially offset by a deferred tax liability ($0.4m).

Adjusting for these items, underlying EBITDA for FY19 was $6.7m (FY18: $7.3m loss) and underlying NPAT was $5.1m (FY18: $8.6m loss).

2019 Inflection Point

Overall we are pleased with the strength of the group's financial results.

Our 2019 profit was an outcome of significant, ongoing investment over the last three years to commercialise Ecofibre's capabilities.

Sales growth has been consistently strong, rising from $6.0m in the first quarter of the year to $12.3m in the last quarter. The primary driver of growth has been the continued increase in the number of US independent pharmacies that stock Ananda Health products. This channel account for approximately 70% of revenue. We also have a diverse and resilient customer base, and no single distributor or customer accounts for more than 4% of revenue across the Ecofibre group.

Our businesses are capital efficient and have the operating leverage to produce good margins. There has been moderate investment in fixed and working capital in comparison to sales; and at a group level our return on assets is strong and improving

Operating cashflows are now positive and our balance sheet is strong, with significant cash reserves and low debt. We expect the remainder of the group's long-term debt to be retired in September 2019.

As a result, Ecofibre has the ability to fund continued investment in the growth of its businesses, and the flexibility to pursue opportunities as they arise.

In FY2019 we reshaped our cost base to align with strategy. Thematically our objectives were:

- increase the proportion of financial resources focused on front-end capability such as production capacity and efficiency, as well as sales and marketing.
- sales and marketing expenditure remains highly focused on wholesale rather than retail markets.
- increase our investment in technology, including digital customer channels, enterprise resource planning and cybersecurity
- increase focus and reduce pay-back times for our research and development portfolio
- tightly manage overhead costs

We will continue to invest in the development and growth of our businesses in FY2020, both through capital and operating expenditure.

Operating costs per unit reduced throughout FY2019 as the business began to achieve scale, while rapid learning and decision making enabled continuous productivity improvements. For example:

- farming - higher yield hemp flower input with better CBD:THC ratios, better storage and just-in-time sourcing of material
- processing - lower consumable costs, better calibration of production processes with input materials, introduction of in-house blending and bottling

Shareholder outcomes

In FY2019, fully diluted earnings per share was 2.2cps. In FY2020 we will continue to prioritise shareholder outcomes as we manage the Group's financial performance.

Ananda Health

Ananda Health produces and sells hemp-derived CBD products in the USA, the world's largest market.[1]

US research provider Brightfield Group forecasts that the US CBD market will grow to US $22bn by 2022.[2]

Key brands are Ananda Hemp, Ananda Professional, Ananda Touch and Ananda Pets. The business also selectively supplies strategic white label and bulk customers.

The business sells nutraceuticals, not pharmaceuticals, which provides a quicker and more capital efficient path to the largest market segments. Our brands target the professional health and wellbeing segment - customers using our products are typically seeking help with sleep, anxiety or pain.

Hemp-derived CBD products are now widely available in the US, but the product is not yet mainstream. There is significant education required in the market and the Company's full spectrum products, which include a range of cannabinoids including CBD, are in the Company's view, the highest quality products available. The industry structure is still immature, characterised by a large number of small growers, processors and marketing businesses targeting on-line or regional sales.

Our go-to-market strategy focuses on well-regulated and reputable distribution channels and emphasises high quality training and advice.

Milestones

The business posted a number of milestones during the year:

- 3,200 independent pharmacies now stock Ananda Professional (December 2018: 1,540)
- approximately 400 non-pharmacy wholesale customers
- a number of new products were launched, including Ananda Pets, Ananda Touch and Ananda Hemp roll-on cream
- our Kentucky processing facility was extended to increase extraction capacity and to incorporate blending and packaging of finished goods
- we partnered with Tracegains, a leading supplier of quality management solutions for the food, beverage and supplement industry, to give large wholesale businesses transparency on our supply chain. Over time this will benefit mainstream food manufacturers and nutraceutical distributors, who will have access to a familiar data source as they manage hemp inputs into their supply chain.

Vertically integrated supply chain

In 2014 Ananda Health was the first company to legally import hemp seed into the US for over 50 years.

Since then we have partnered with farmers in Kentucky to source, grow and process over 1,500 acres of hemp crops. Broad acre farming, and farming methods adapted from other established crops such as tobacco, provide significant advantages for US-based hemp farmers.

CBD and other cannabinoids are extracted from dried hemp flowers. Products are then blended and bottled on site at our facility near Cynthiana, Kentucky.

1 Hemp Business Journal, The Global State of Hemp: 2019 Industry Outlook
2 Brightfield Group, Hemp-Derived CBD, 2018 Market Overview & Analysis

Strategic Intent:

be the preferred provider in the US practitioner and pharmacy channels by providing federally legal, safe, high quality products. We have a strong believe that hemp-derived CBD products have an important role to play in the future of healthcare.

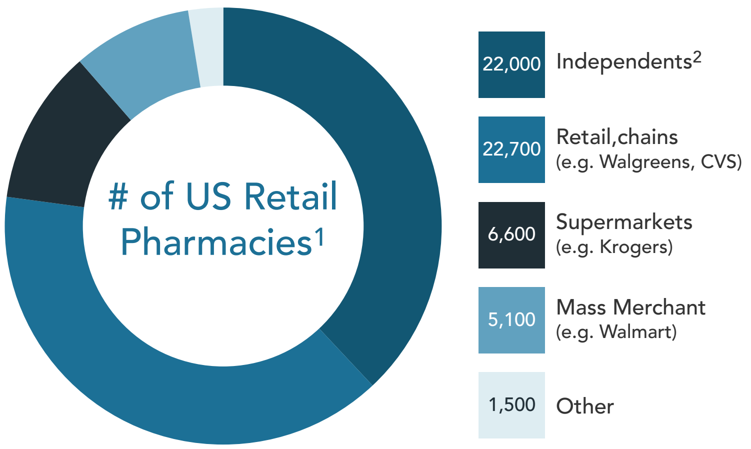
Our product range includes:

- full spectrum (<0.3% THC) and broad spectrum (0.0% THC)
- a range of formats, including ingestible (tinctures, gel caps) and topical (salves, creams)
- a range of sizes and concentrations, from 15mg gel caps to 2,000 mg tinctures

Safety, quality and consistency are the key focus areas for all Ananda Health products. Plant material is tested before extraction, and each product batch is independently tested by external ISO 17025 certified laboratories for cannabinoid profile, and for potential contaminants such as pesticides, heavy metals, solvents and microbials prior to shipment.

The US Retail Pharmacy Market

Ananda Health is focused on the US retail pharmacy channel, particularly independent pharmacies, which have led innovation in hemp-derived CBD.



1 *does not include hospital pharmacies, veterinarians, and practitioners*
2 *includes distributor affiliated (e.g. AmerisourceBergan Good Neighbor Pharmacy [4,800], McKesson Health Mart [4,800])*

Independent pharmacies are one of the largest segments in the US retail pharmacy market.

As local community pharmacists, independent pharmacies are part of the civic, social and economic fabric of the communities they serve.

They dispense prescription medicines and over-the-counter health products.

Independent pharmacies have the freedom and autonomy to innovate and improve the health of the patients and communities they serve. They have been early adopters of hemp-based CBD products.

Customers trust their local community pharmacy to provide the right products and the right advice, and those pharmacies trust Ananda Health to provide them with the highest quality, compliant and traceable products.

Through its exclusive Ananda Professional brand, Ananda Health has developed tailored training programs, before and after sales support, observational studies and distribution arrangements to support pharmacy owners.

As a result Ananda Health is now the clear market share leader for hemp-extracted CBD products across all US retail pharmacies as measured by sales.[3]

3 Information Resources Inc

INDEPENDENT PHARMACIES

Independent pharmacies have the freedom and autonomy to be early adopters to improve the health of the patients and communities they serve.

National Community Pharmacists Association 2018 Digest

Regulatory environment continues to mature

In September 2017 the World Anti-doping Agency removed CBD from its list of prohibited substances, and the World Health Organisation Expert Committee on Drug Dependence preliminary report found that CBD is safe and non-addictive.[4]

The regulatory environment for hemp nutraceuticals in Australia remains restrictive. Hemp derived CBD is still classified as a Schedule 4 prescription medicine[5] and the entire value chain - growing, processing and distribution - is heavily regulated. The number of prescriptions written under the federal government's Special Access Scheme and Authorised Prescriber Scheme is increasing but overall the market remains small.

Regulatory environments in European and Asian markets remain diverse, and in South America regulations are typically more advanced and consistent.

In the United States, hemp became a federally legal agricultural commodity under the 2018 Farm Bill. As a consequence, hemp and hemp products are no longer a controlled substance[6], and hemp is now regulated as an agricultural commodity by the US Department of Agriculture (Food & Drug Administration, FDA) rather than the US Justice Department (Drug Enforcement Administration, DEA).

The fifty US states still have varying regulations in relation to hemp-derived CBD. Only three still prohibit hemp products.

Cropping of hemp has increased strongly, and national retailers have begun to stock hemp-derived CBD products for the first time in calendar 2019, initially only on a trial basis for topical creams. More recently ingestible products are now also being stocked in selected stores. Specialty food and beverage manufacturers are incorporating hemp-derived CBD into their products, but large established brands are yet to participate pending clarity from the FDA.

To date the FDA has approved only one cannabis-derived prescription medicine in the US for limited indications: treatment of two rare and severe forms of epilepsy, Lennox-Gastaut syndrome and Dravet syndrome.

The FDA recently held public hearings on the regulation of CBD in dietary supplements, food and drinks, and is reviewing its regulatory framework for non-drug uses. For Ananda Health, the importance of safety compliance cannot be overstated. Businesses that are not 100% compliant are potentially committing a felony and place their customers at risk. This is particularly important in the highly regulated pharmacy segment, which is regulated by state-based pharmacy boards and also the DEA.

Overall, regulatory trends in the US are encouraging, with strong bipartisan support from Republican and Democratic representatives.

In particular, Senate Majority Leader Mitch McConnell from Kentucky was instrumental in the passing of the hemp provisions in the 2018 Farm Bill and continues to provide strong leadership and support to the industry in Kentucky and nationally.

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[4] World Health Organisation Expert Committee on Drug Dependence, Cannabidiol (CBD) Pre-Review Report, 10 November 2017

[5] Australian Therapeutic Goods Act 1989, Therapeutic Goods Regulations 1990, Poisons Standard

[6] US Controlled Substances Act

CANNABIS IS BECOMING A HUGE JOB CREATOR

Discussions about job growth in the U.S. tend to focus on industries such as technology and health care. But the biggest boom may be happening in cannabis. Our burgeoning industry is among the fastest-growing job markets in America. According to cannabis information hub Leafly's 2019 Cannabis Jobs Count, cannabis directly employs more than 211,000 full-time workers in the U.S. Add indirect jobs and the total number of full-time workers dependent on the legal cannabis industry hits nearly 300,000.

Forbes Magazine, 20 May 2019

Ananda Food

Ananda Food's current business is focused on the production and sale of hemp foods primarily in Australia. Products are sold to wholesalers and distributors, including bulk, white-label and branded products.

We sell products made from 100% Australian grown seed to ensure the best food quality, safety and tracability. Importers into Australia are not able to import live whole seed for domestic processing, but must rely on importing finished goods, intermediate processed products or denatured seed.

Ananda Food is focused on working with wholesale customers to improve consumer awareness and education, emphasising the importance of quality and freshness, as well as dietary education and recipe development.

Milestones

Key milestones for Ananda Food in FY2019 include:

- During the year Ananda Food planted 705 hectares of commercial food crops across three states, Tasmania, New South Wales and Queensland.

  This represents and increase of nearly 50% on the prior year, reflecting the business' strong grower relationships and genetics.
- In November 2018 Ananda Food commissioned a production facility in Beresfield, New South Wales (NSW), which now produces de-hulled seed protein and fibre powders.

  An oil pressing production line is also currently being commissioned.
- Well known author and chef Michael Moore from O Bar and Dining in Sydney is working with Ananda Food to develop and promote hemp food products.
- Ananda Food received its first orders to supply white label product for Woolworths' Macro brand.

Strategic Intent:

be the leading hemp food supplier in Australia and Asia.

HEMP SEED
Nature's superfood

With a perfect balance of essential omega acids 3 & 6, iron, vitamin E and all of the essential amino acids, hemp seeds are one of the most nutritionally complete foods in the world.

Hemp is a protein powerhouse. Hemp is also a "gentle protein provider" and tolerated well by people with sensitive stomachs. Two of the main proteins in hemp are Edestin and Albumin. They are readily digestible and boost the immune system.

Hemp contains 20 amino acids, including 9 essential and 2 semi-essential amino acids that our bodies can't produce.

Hemp is also rich in fibre - a plant-based carbohydrate that can't be broken down into sugar molecules and is only found in plant-based sources. Fibre promotes good heart health, reducing the risk of certain types of cancer and aids healthy digestion.

Hemp seeds are a great source of magnesium as well as other minerals including iron, phosphorus and zinc. Magnesium is required for over 300 important processes in the body. Increased stress, poor diets, low soil quality and digestive challenges are contributing to our increasing risk of magnesium deficiency.

anandafood

Vertically integrated supply chain

Ananda Food has a unique capability in Australia to grow broad-acre, high yield hemp seed crops across multiple latitudes.

Capabilities in hemp genetics and farming are particularly important in the food industry. The productivity and cost-per-tonne of hemp seed is a key determinant of product margins, and the ability to grow crops from Tasmania to Queensland provides an extended growing season and an ability to better match supply and demand throughout the year.

Despite severe drought conditions in New South Wales, no crops were lost during the year.

The business has approximately 900 tonnes of hemp seed available to support the growth of the business.

The Beresfield facility is licensed by the NSW Department of Health and Department of Primary Industries and has third party certification from HACCP Australia under Hazard Analysis and Critical Control Points (HACCP) requirements. This is critical to demonstrate a robust food safety system across all areas of our operations.

The facility passed its first HACCP audit with 100% conformance.

The supply chain is now able to scale to support multiple, large wholesale customers, including future export markets in Asia.

Growing demand for vegan proteins

Ecofibre believes that plant-based proteins will play an important role in future healthy diets.

Plant based foods are more sustainable, lower cost, and often healthier sources of proteins and other nutrients. Over time, hemp and other plant based proteins will be incorporated into a wider variety of everyday foods.

Feeding the world of tomorrow can only be done by relying more on plant-based proteins as they are more scalable and less harmful for the environment.

[7] metric tonnes per annum


anandafood
"As consumer demand for plant-based products accelerates, ingredient manufacturers are seeking points of differentiation. Plant based food and beverage sales in 2018 exceeded $3.7bn in the United States, rising 17% over 2017, according to the Good Food Institute, Washington, and there are few signs the pace of category growth is going to decelerate
Food Business News, 9 April 2019

Hemp Black

Hemp Black is Ecofibre's industrial products business.

Hemp has a number of well known properties that make it ideally suited to a wide range of industrial uses. Hemp is naturally sustainable, anti-odor, anti-microbial - and in the form of carbon, it's capable of conducting electrical current.

Ecofibre partnered with Jefferson University in 2017 to begin exploring these properties and develop commercial applications using patented process technologies. To-date the business has filed seven provisional patent applications.[8]

As a result of ongoing development work we have identified five core products suitable for commercialisation:

- Hemp Black – carbon infused high-performance fibre and intelligent textile
- Hemp Black Ink – carbon infused conductive water-based ink
- Hemp Black Hide – Ananda full spectrum extract vegan leather
- Hemp Black Element – Ananda full spectrum extract infused polymer fibre
- Hemp Black Nano – Ananda full spectrum extract nano-film

The core inputs to each product are Ananda Health hemp-derived full spectrum CBD extract, and carbon made from the hemp plant.

Hemp Black Hide, Element and Nano are already able to be produced in commercial quantities through our partners, leading high-technology textile manufacturers Texinnovate and Triad Polymers.

In-house testing protocols have been developed and independently validated where no industry standards currently exist, for example, the anti-microbial effectiveness of CBD infused fabrics.

The equipment required to produce Hemp Black and Hemp Black ink has been ordered and in some cases has already been manufactured to Ecofibre's proprietary specification.

Ecofibre is in active discussions with potential customers across a range of industries. Our current focus is to understand customer requirements and position Hemp Black products so they can be incorporated into existing supply chains.

Milestones

Key milestones for Hemp Black in FY19 included:

- Construction of the new Hemp Black manufacturing facility commenced in Georgetown, Kentucky in June 2019

  The building will also serve as Ecofibre's new US headquarters, and provide additional storage and manufacturing space for Ananda Health.

  It will be a showcase for Hemp Black and Ananda products, and has been designed to meet the highest standards of sustainability.

- Hemp Black is on track to begin early commercialisation of its products in FY20.

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

Strategic Intent:

be the recognised global leader in sustainable high tech hemp applications.

Building a sustainable future

The hemp industry has long been synonymous with sustainability, and since its inception Ecofibre has recognised the importance of a sustainable future.

As each of Ecofibre's businesses grow we are mindful that we have a responsibility to protect the wellbeing of our people, planet, partners, and our communities.

We aspire to be 'zero harm', and to show leadership by working in a responsible, sustainable manner across all our businesses.

As set out in our Governance Statement, we have taken a number of steps to emphasise sustainability in our business culture:

- Board commitment - the Board has adopted policies that make it clear to all our people that our company values sustainability
- Management focus and resources - during the year we employed a dedicated sustainability professional to build the tools and culture to progress sustainable business practices across the group
- Brand promise - each of our brands embody our commitment to sustainability

In time we will introduce measurable sustainability benchmarks and targets.

For example, we already know that through our FY19 growing operations Ecofibre has sequestrated significant volumes of CO_2 in hemp plants. A core part of the Hemp Black value proposition will be the sustainability embedded into each product. Hemp Black has received and is targeting a range of sustainability certifications that will enable us to work with leading manufacturers and distributors of textile-based products.

We are careful to manage energy and water usage across the group. For example, in Australia we minimised cropping in New South Wales in drought-declared areas in favour of Tasmania where water supplies were relatively plentiful, and we installed significant solar capacity at one of our sites.

During the year we also undertook further practical steps toward sustainable outcomes:

- LEED certification - our new Kentucky facility has been designed to achieve the highest green building rating, LEED Platinum.

  LEED (Leadership in Energy and Environmental Design) is the most widely used green building rating system globally, and provides a framework to create healthy, efficient buildings.[9] The LEED rating system considers impact across seven categories: location and transportation, sustainable sites, water efficiency, energy and atmosphere, materials and resources, indoor environmental quality, and innovation.

  Through the use of sustainable materials, green infrastructure, daylighting principles, and the harvesting of renewable energy, our new facility will reduce its energy need and water consumption while providing a safe and healthy working environment.

[9] See new.usgbc.org/leed

- B Corporation commitment - Certified B Corporations represent a new kind of business that balances purpose and profit. B Corporations legally commit to consider the impact of their decisions on their workers, customers, suppliers, community, and the environment.[10] Our Hemp Black business led this initiative and has already secured a B Corporation Pending Certificate, and we are now seeking B Corporation accreditation for all our operations.
- Cradle to Cradle - Many leading product manufacturers now require their suppliers to be cradle-to-cradle certified. To receive certification, products are assessed for environmental and social performance across five critical sustainability categories: material health, material reuse, renewable energy and carbon management, water stewardship, and social fairness.
- MBDC is an organisation that was instrumental in the creation of the cradle-to-cradle design framework.

Outlook

Each of our businesses are well positioned in attractive, growing markets.

In the US Nutraceutical market, larger vertically integrated businesses with strong brands are becoming well established, and Ananda Health is well positioned with leading market share in a key channel. In FY20 the hemp-derived CBD market will be increasingly 'professionalised' and the benefits of scale and experience will become apparent.

In the Australian Food market, customer education and the use of hemp foods in everyday staples will be catalysts for long term growth. Ananda Food's production capability allow it to explore the potential for bulk and white label distribution in Asia where Australian food has a strong reputation for safety and quality.

Hemp Black will complete key parts of its supply chain in FY20 and will begin to commercialise its technologies.

Our customers, staff, business partners and shareholders have built the company this far, and it is these people who will determine our success into the future.

[10] See bcorporation.net

FINANCIAL REPORT 2019

Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Ecofibre Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

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

Barry Lambert
Jon Meadmore
Eric Wang

Principal activities

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

Significant changes in the state of affairs

Ecofibre Industries Operations Ltd changed its name to Ecofibre Limited on 19 November 2018.

On 6 February 2019 the shares of the company then on issue were proportionally increased (split) in a ratio of 3:1.

Ecofibre Limited issued 20,000,000 new shares and raised $20m when it completed its initial public offering (IPO) on the Australian Securities Exchange (ASX) on 29 March 2019. Earlier in the financial year, the Company had also raised $7.3m pre-IPO funding.

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

Review of operations and results

The profit from ordinary activities for the Group after providing for income tax amounted to $6.0m (30 June 2018: loss of $8.6m). The result includes a tax credit of $1.4m, which reflects first time recognition of a deferred tax asset of $2.0m partially offset by a deferred tax liability of $0.4m.

The net assets of the Group are $42.3m as at 30 June 2019 (2018: $1.6m).

During the current year no dividend was paid (2018: Nil).

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Ecofibre expects to complete construction of its new US headquarters and Hemp Black/Ananda Health production facility by Q4 FY20. Production capabilities will be commissioned at the new site following completion of the building.

Ananda Health will continue to prioritise sales and marketing of hemp-derived CBD products in the US market, particularly the independent pharmacy, and broaden retail pharmacy markets.

Ananda Food will leverage the investment in its HACCP – certified hemp production facility to supply large wholesale customers.

Hemp Black will complete key parts of its supply chain in FY20 and begin to commercialise its technologies and capabilities in one or more industrial markets.

At a group level, Ecofibre is investing in its organisational IT capabilities, including implementing an Enterprise Resource Planning (ERP) system and upgrading its customer facing systems.

Environmental regulation

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

Information on directors

Name:	**Barry Lambert**
Title:	Non-Executive Chairman
Experience and expertise:	Barry founded ASX listed company, Count Limited, a financial services business, in 1980. Count was one of the largest independent advice providers in Australia and was acquired by Commonwealth Bank in 2011. Barry was also asked to serve as Chairman of Class Limited and subsequently took Class through to listing on the ASX. Barry also served as Chairman of ASX listed Count Plus. In 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.
Special responsibilities:	Member of the Audit, Risk and Compliance Committee

Name:	**Eric Wang**
Title:	Chief Executive Officer and Managing Director
Experience and expertise:	Eric joined Ecofibre as the CFO and Director in November 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.
Special responsibilities:	None

Information on directors (continued)

Name:	**Jon Meadmore**
Title:	Non- Executive Director
Experience and expertise:	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.
Special responsibilities:	Chairman of Audit, Risk and Compliance Committee

Company secretary

Jonathan Brown is the company's Chief Financial Officer and has held the role of Company Secretary since 18 June 2018. He is a Chartered Accountant with 25 years of commercial experience. Jonathan has a Bachelor of Business (Accounting), a Graduate Diploma in Advanced Accounting, and a Graduate Diploma in Finance and Investment.

Prior to joining Ecofibre in 2016, Jonathan worked for AMP, the London Stock Exchange and Ferrier Hodgson in a variety of roles including corporate strategy, M&A, senior finance roles and insolvency & reconstruction.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each director were:

	Board		Audit, Risk and Compliance Committee	
Director	Attended	Held	Attended	Held
Barry Lambert	8	8	3	3
Eric Wang	8	8	3	3
Jon Meadmore	8	8	3	3

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

Remuneration report (audited)

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

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

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional disclosures relating to key management personnel
- Employee share scheme

Principles used to determine the nature and amount of remuneration

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

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

The reward framework is designed to align executive reward to shareholders' interests by:

- having total shareholder return as a core component of plan design;
- focusing on sustained growth in shareholder wealth, particularly growth in share price; and
- attracting and retaining high calibre executives.

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

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

Non-executive director's remuneration

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

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

Executive remuneration

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

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

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

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

The long-term incentives ('LTI') include share-based payments and any long service leave. Shares are awarded to executives from shares already held by the ESS once the executives meet time and performance based vesting hurdles.

Details of remuneration

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

The key management personnel of the consolidated entity consisted of the directors and CFO of Ecofibre Limited:

- Barry Lambert – Non-Executive Chairman
- Eric Wang – Managing Director and CEO
- Jon Meadmore – Non-Executive Director
- Jonathan Brown – CFO and Company Secretary

2019	Short-term benefits Cash salary and fees $'000	Post-employment benefits Super-annuation $'000	Share-based payments Equity-settled shares $'000	Total $'000
Non-Executive Directors:				
Barry Lambert (Chairman)	91	9	-	100
Jon Meadmore	90	-	-	90
Executive Director:				
Eric Wang	280	25	1,222	1,527
Other Key Management Personnel:				
Jonathan Brown	200	20	606	826
	661	54	1,828	2,543
2018				
Non-Executive Directors:				
Barry Lambert (Chairman)	25	-	-	25
Jon Meadmore	25	-	-	25
Executive Director:				
Eric Wang	280	25	859	1,164
Other Key Management Personnel:				
Jonathan Brown	200	20	429	649
	530	45	1,288	1,863

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

	Fixed remuneration		At risk - LTI	
Name	2019	2018	2019	2018
Non-Executive Directors:				
Barry Lambert (Chairman)	100%	100%	-	-
Jon Meadmore	100%	100%	-	-
Executive Directors:				
Eric Wang	20%	26%	80%	74%
Other Key Management Personnel:				
Jonathan Brown	27%	34%	73%	66%

Service agreements

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

Name:	**Eric Wang**
Title:	Managing Director and Chief Executive Officer
Agreement commenced:	8 December 2017
Term of agreement:	No fixed term
Details:	Base salary of $280,000 per annum plus superannuation, to be reviewed every 12 months from the date of commencement. Either party may terminate the employment upon 6 months written notice. No notice is required by the Company upon limited events akin to misconduct or incapacity. Mr Wang is subject to a restraint of trade restricting competition with the company for up to 24 months from termination of his employment.
LTI:	2,400,000 shares were issued on 28 December 2018 upon fulfillment of a time-based vesting hurdle.

Name:	**Jonathan Brown**
Title:	CFO and Company Secretary
Agreement commenced:	8 December 2017
Term of agreement:	No fixed term
Details:	Base salary of $200,000 per annum plus superannuation, to be reviewed every 12 months from the date of commencement. Either party may terminate the employment upon 3 months written notice. No notice is required by the Company upon limited events akin to misconduct or incapacity. Mr Brown is subject to a restraint of trade restricting competition with the company for up to 24 months from termination of his employment
LTI:	1,200,000 shares were issued on 28 December 2018 upon fulfillment of a time-based vesting hurdle.

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

Share-based compensation

Issue of shares

Details of shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2019 are set out below:

Name	Date	Shares	Issue price	$'000
Eric Wang	28 December 2018	2,400,000	$0.537	1,288
Jonathan Brown	28 December 2018	1,200,000	$0.537	644

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals	Share split	Additions after share split	Disposals after split	Balance at the end of the year
Ordinary shares								
Barry Lambert	20,108,480	-	2,425,000	(600,000)	43,866,960	7,057,296		72,857,736
Jon Meadmore	-	-	166,000	-	332,000	40,000		538,000
Eric Wang	3,768,845	800,000	-	(135,094)	8,867,502	-		13,301,253
Jonathan Brown	530,143	400,000	-	(46,061)	1,768,164	-	(150,000)	2,502,246
	24,407,468	1,200,000	2,591,000	(781,155)	54,834,626	7,097,296	(150,000)	89,199,235

Employee share scheme

The Board believes that all employees should be given the opportunity to become shareholders in our business, and that the share scheme helps engage, retain and motivate employees over the long term. Ecofibre's share scheme is therefore part of its standard remuneration practice, to encourage alignment with the performance of the Group.

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

Key terms of the ESS are:

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

This concludes the remuneration report, which has been audited.

Shares under option

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

Option holder	Grant date	Expiry date	Exercise price	Number under option
Thomas Jefferson University	1 July 2017	31 May 2023	$0.537	12,178,260

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

None of the options granted are exercisable at 30 June 2019.

Shares under convertible loan

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

Grant date	Expiry date	Exercise price	Number under convertible loan
7 January 2017	6 January 2021	$0.257	5,148,223

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

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

Proceedings on behalf of the company

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

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

Non-audit services

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

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

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

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

Rounding of amounts

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

Auditor's independence declaration

The auditor's independence declaration has been received and can be found on page 41 of the annual report.

Auditor

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

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

On behalf of the directors

Barry Lambert	Eric Wang
Director	Director
14 August 2019	14 August 2019
Sydney	Sydney

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

I declare that, to the best of my knowledge and belief during the year ended 30 June 2019 there have been:

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

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

William Buck

William Buck (Qld)
ABN 21 559 713 106

Junaide Latif
Director

Brisbane: 14 August 2019

CHARTERED ACCOUNTANTS
& ADVISORS

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Telephone: +61 7 3229 5100

Williambuck.com

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

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

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

On behalf of the directors

Barry Lambert
Director

14 August 2019
Sydney


ananda
TOUCH
BLISS
CANNABIS - INFUSED
INTIMATE OIL
ACTIVE CANNABINOIDS
.075 fl oz (2g)

Consolidated Statement of Profit or Loss

For the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Revenue	4(a)	35,605	5,749
Direct costs	5(a)	(9,833)	(3,783)
Gross profit		25,772	1,966
Other income	4(b)	1,864	3,557
Other operating expenses	5(b)	(22,679)	(13,190)
Interest expense		(372)	(547)
Profit/ (loss) before income tax		4,585	(8,214)
Income tax benefit/ (expense)	6	1,415	(413)
Profit/ (loss) after income tax attributable to the members of the company		6,000	(8,627)
Earnings/ (loss) per share:			
Basic earnings/ (loss) per share - cents		2.28	(3.71)
Diluted earnings/ (loss) per share - cents		2.17	(3.71)

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

Consolidated Statement of Other Comprehensive Income

For the year ended 30 June 2019

	2019 $'000	2018 $'000
Profit/ (Loss) after income tax attributable to the members of the company	6,000	(8,627)
Other comprehensive income for the year:		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign controlled entities	391	(72)
Total comprehensive income for the year attributable to the members of the company	6,391	(8,699)

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

Consolidated Statement of Financial Position

As at 30 June 2019

	Note	2019 $'000	2018 $'000
CURRENT ASSETS			
Cash and cash equivalents	7	25,740	2,756
Trade and other receivables	8	2,808	990
Inventories	9	6,573	2,719
Biological assets	10	2,405	955
Tax recoverable		251	-
Other current assets	11	969	794
TOTAL CURRENT ASSETS		38,746	8,214
NON-CURRENT ASSETS			
Intangible assets	12	340	340
Property, plant and equipment	13	6,655	2,714
Deferred tax assets	14	2,034	-
TOTAL NON-CURRENT ASSETS		9,029	3,054
TOTAL ASSETS		47,775	11,268
CURRENT LIABILITIES			
Trade and other payables	15	3,740	3,561
Related party loans	16	1,340	939
Tax payable		-	80
TOTAL CURRENT LIABILITIES		5,080	4,580
NON-CURRENT LIABILITIES			
Related party loans	16	-	4,452
Borrowings	17	-	676
Deferred tax liability	18	392	-
TOTAL NON-CURRENT LIABILITIES		392	5,128
TOTAL LIABILITIES		5,472	9,708
NET ASSETS		42,303	1,560
EQUITY			
Issued capital	20	56,189	22,536
Foreign currency translation reserve		250	(141)
Accumulated losses		(17,504)	(23,504)
Convertible loan reserve	16	139	524
Share-based payment reserve	29	3,229	2,145
TOTAL EQUITY		42,303	1,560

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

Consolidated	Note	Issued capital $'000	Share-based payment reserve $'000	Convertible loan reserve $'000	Foreign currency translation reserve $'000	Accumulated gains/ (losses) $'000	Total $'000
Balance 30 June 2017		13,635	-	524	(69)	(14,877)	(787)
Total comprehensive income for the year		-	-	-	(72)	(8,627)	(8,699)
Shares issued	20	8,901	-	-	-	-	8,901
Share-based payments	24	-	2,145	-	-	-	2,145
Balance 30 June 2018		22,536	2,145	524	(141)	(23,504)	1,560
Total comprehensive income for the year		-	-	-	391	6,000	6,391
Shares issued	20	27,323	-	-	-	-	27,323
Share issue cost	20	(207)	-	-	-	-	(207)
Share-based payments	20	2,687	1,084	-	-	-	3,771
Convertible loan conversion to shares	20	3,850	-	(385)	-	-	3,465
Balance 30 June 2019		56,189	3,229	139	250	(17,504)	42,303

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers		33,835	4,960
R & D tax rebate		1,476	3,113
Payments to suppliers and employees		(32,013)	(13,965)
Interest received		111	15
Interest paid		(493)	(375)
Income tax paid		(479)	(333)
Net cash flows generated from / (used in) operating activities	24	2,437	(6,585)
Cash flows from investing activities			
Payments for property, plant and equipment		(4,833)	(2,136)
Payments for intangible assets		(340)	-
Receipt from sale of property, plant and equipment		238	127
Others		248	-
Net cash flows used in investing activities		(4,687)	(2,009)
Cash flows from financing activities			
Repayment of borrowings		(1,173)	-
Proceeds from issue of shares		27,323	8,901
Transaction costs related to issues of shares		(1,040)	-
Net cash flows generated from financing activities		25,110	8,901
Net increase in cash and cash equivalents held		22,860	307
Cash and cash equivalents at the beginning of the financial year		2,756	2,449
Effect of movement in exchange rates on cash held		124	-
Cash and cash equivalents at the end of the financial year	7	25,740	2,756

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

Notes to the Consolidated Financial Statements

1. Summary of significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 9 Financial Instruments
The consolidated entity has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss'('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

AASB 15 Revenue from Contracts with Customers
The consolidated entity has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

1. Summary of significant accounting policies (continued)

New or amended Accounting Standards and Interpretations adopted (continued)

The impact on the financial performance and position of the consolidated entity from the adoption of these Accounting Standards is minimal.

Basis of preparation

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

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

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

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

a) Parent entity information

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

b) Principles of consolidation

The consolidated financial statements incorporate the results and assets and liabilities of all entities controlled by Ecofibre Limited ("parent entity") as at 30 June 2019 and results of all controlled entities for the year then ended. The parent entity and its controlled entities together are referred to in the financial statements as "the consolidated entity" or "the Group". Subsidiaries are all those entities over which the parent entity has control. The parent entity controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through the power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the parent entity.

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

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

1. Summary of significant accounting policies (continued)

c) Foreign currency translation

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

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

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

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

d) Revenue recognition

The consolidated entity recognised revenue as follows:

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

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

1. Summary of significant accounting policies (continued)

d) Revenue recognition (continued)

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

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.

e) Income Tax

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

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

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

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

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

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

f) 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.

1. Summary of significant accounting policies (continued)

g) Current and non-current classification

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

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

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

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

h) Trade and other receivables

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

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

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

i) Inventories

Inventories and agricultural produce are valued at the lower of cost and net realisable value on 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.

j) Biological assets

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

1. Summary of significant accounting policies (continued)

k) Impairment of assets

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

l) Property, plant and equipment

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

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

Depreciation
Depreciation is calculated on the basis of writing off the net cost of each item of property, plant and equipment over its expected useful life to the entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives vary from 3 to 7 years.

m) 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.

1. Summary of significant accounting policies (continued)

m) Financial instruments (continued)

Impairment
At the end of each reporting period, the consolidated entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

Convertible notes
The debt and equity components of the convertible loan is separately recognised. At the date of recognition of the convertible loan, the debt and equity components of the facility are separated according to their fair values.

n) 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.

o) Employee entitlements

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

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

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

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

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

1. Summary of significant accounting policies (continued)

o) Employee entitlements (continued)

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

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

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

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

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

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

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

p) 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.

1. Summary of significant accounting policies (continued)

q) Goods and service 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.

r) 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.

s) Earnings per share

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

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

1. Summary of significant accounting policies (continued)

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2019. 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. Applying AASB 16 to the Group's current operating leases would result in approximately $1.3 million right-of-use asset and lease liability to be recognised in the statement of financial position at 30 June 2019.

AASB Interpretation 23 (Interpretation 23) Uncertainty over Income Tax Treatments
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. Interpretation 23 clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes (AASB 112) where there is uncertainty over income tax treatments, and requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty will be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates. The amount will be determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances are presented. Adoption of this standard is not expected to have a material impact on the consolidated entity.

2. Critical accounting estimates and judgements

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

Share-based payment transactions
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the 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 of these matters is different from the amounts that were actually recorded, such differences will impact the current and deferred tax positions in the period in which such determination is made.

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

3. Operating segments

Identification of reportable operating segments
The consolidated entity is organised into three operating segments based on differences in products and services provided: nutraceuticals, food and fibre. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (BOD) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

Other segments represent the research and development and corporate headquarter activities of the consolidated entity.

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

3. Operating segments (continued)

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

Ananda Health	Production and sale of hemp related nutraceutical products focused on the United States;
Ananda Food	Production and sale of hemp related food products in Australia;
Hemp Black	Development of innovative hemp related fibre products globally; and
Ecofibre Corporate	Plant research and development and group corporate functions.

Intersegment transactions
Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

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

Operating segment information
a) Segment performance

Consolidated - 2019	Ananda Health $'000	Ananda Food $'000	Hemp Black $'000	Ecofibre Corporate $'000	Total $'000
Revenue					
Sales to external customers	34,241	1,364	-	-	35,605
Intersegment sales	-	111	-	-	111
Total sales revenue	34,241	1,475	-	-	35,716
R&D tax rebate	-	-	-	1,476	1,476
Interest income	33	-	-	116	149
Other income	109	146	15	(31)	239
Total segment revenue	34,383	1,621	15	1,561	37,580
Total expenses	(21,639)	(2,557)	(2,692)	(5,996)	(32,884)
Intersegment purchases	-	(38)	-	-	(38)
Segment profit/ (loss) before income tax	12,744	(974)	(2,677)	(4,435)	4,658
Intersegment eliminations					(73)
Profit/ (Loss) before income tax					4,585

3. Operating segments (continued)

a) Segment performance (continued)

Consolidated - 2018	Ananda Health $'000	Ananda Food $'000	Hemp Black $'000	Ecofibre Corporate $'000	Total $'000
Revenue					
Sales to external customers	4,617	1,069	-	63	5,749
Intersegment sales	-	-	-	-	-
Total sales revenue	4,617	1,069	-	63	5,749
R&D tax rebate	-	-	-	3,113	3,113
Interest income	-	-	-	15	15
Other income	(37)	35	-	431	429
Total segment revenue	4,580	1,104	-	3,622	9,306
Total expenses	(9,261)	(1,807)	(1,370)	(5,082)	(17,520)
Intersegment purchases	-	-	-	-	-
Segment (loss) before income tax	(4,681)	(703)	(1,370)	(1,460)	(8,214)
Intersegment eliminations					-
Profit/ (Loss) before income tax					(8,214)

b) Segment assets and liabilities

Consolidated - 2019					
Assets					
Segment assets	12,501	4,818	2,221	2,495	22,035
Unallocated assets:					
Cash and cash equivalents					25,740
Total assets					47,775
Liabilities					
Segment liabilities	2,184	931	24	993	4,132
Unallocated liabilities:					
Related party loans and borrowings					1,340
Total liabilities					5,472

Consolidated - 2018					
Assets					
Segment assets	5,032	2,479	340	661	8,512
Unallocated assets:					
Cash and cash equivalents					2,756
Total assets					11,268
Liabilities					
Segment liabilities	1,063	894	-	1,684	3,641
Unallocated liabilities:					
Related party loans and borrowings					6,067
Total liabilities					9,708

	2019 $'000	2018 $'000

4. Revenue and other income

a) Revenue

	2019 $'000	2018 $'000
Sales	35,605	5,749

b) Other income

	2019 $'000	2018 $'000
Research and development tax rebate	1,476	3,113
Interest	149	15
Other income	239	429
	1,864	3,557

5. Expenses

a) Direct costs

	2019 $'000	2018 $'000
Costs of goods sold	9,801	4,486
Write down of inventory	32	-
Reversal of inventory provision	-	(703)
	9,833	3,783

b) Other operating expenses

	2019 $'000	2018 $'000
Employees and contractors	10,537	5,901
Share based payments (note 29)	3,752	2,292
Sales and marketing	1,645	1,208
Travel and accommodation	671	623
Equipment modification and maintenance	422	609
Rent	702	451
Legal fees and compliance	1,756	321
Accounting and audit	233	135
Make good provision	-	(10)
Depreciation	958	344
Other	2,003	1,316
	22,679	13,190

6. Income tax

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

	2019 $'000	2018 $'000
Profit/ (loss) before income tax	4,585	(8,214)
Prima facie tax/ (tax benefit) on profit/ (loss) from ordinary activities before income tax at 27.5%	1,261	(2,259)
Adjustment for foreign tax rates	29	14
Tax effect of permanent differences:		
- Share based payments	180	630
- R & D tax rebate received	(406)	(856)
- Research and development expenses	233	933
- Other	131	-
Currency conversion differences upon consolidation	59	-
Timing differences not brought to account	-	(131)
Recognition of deferred tax with respect to prior year tax losses	(751)	-
Tax losses utilised	(908)	-
Tax not provided in prior period	-	337
Timing differences not previously recognised	(1,276)	-
Current year losses for which no deferred tax asset is recognized	-	1,659
Other	33	86
Income tax (benefit) / expense	(1,415)	413

b) Unrecognised deferred tax assets

	2019 $'000	2018 $'000
Unused tax losses	2,730	6,033
Potential tax effect at 27.5%	751	1,659

7. Cash and cash equivalents

	2019 $'000	2018 $'000
Cash at bank	2,305	2,393
Call deposits	859	-
Term deposits and other cash equivalents	22,576	363
	25,740	2,756

8. Trade and other receivables

	2019 $'000	2018 $'000
Trade debtors	2,737	968
Allowance for doubtful debts	(152)	(105)
GST receivable	223	127
	2,808	990

9. Inventories

	2019 $'000	2018 $'000
Finished goods	682	1,213
Raw materials	5,891	1,506
	6,573	2,719

	2019 $'000	2018 $'000
10. Biological assets		
Crops planted	2,405	955

	2019 $'000	2018 $'000
11. Other current assets		
Prepayments	920	531
Loan receivable	49	263
	969	794

	2019 $'000	2018 $'000
12. Intangible assets		
Patents and trademarks – at cost	340	340
Less: Accumulated amortisation	-	-
	340	340

	2019 $'000	2018 $'000
13. Property, plant and equipment		
Capital work in progress	2,795	767
Motor vehicles	159	243
Less: accumulated depreciation	(79)	(77)
	80	166
Office equipment	124	44
Less: accumulated depreciation	(104)	(43)
	20	1
Farming and processing equipment	4,976	2,212
Less: accumulated depreciation	(1,216)	(432)
	3,760	1,780
Total property, plant and equipment	8,054	3,266
Less: accumulated depreciation	(1,399)	(552)
	6,655	2,714

13. Property, plant and equipment (continued)

	Capital WIP $'000	Motor vehicles $'000	Office equipment $'000	Farming and processing equipment $'000	Total $'000
2019 Movement Schedule					
Carrying value 1 July 2018	767	166	1	1,780	2,714
Additions	2,795	-	80	2,102	4,977
Transfer	(767)	-	-	767	-
Disposals	-	(60)	-	(18)	(78)
Depreciation	-	(26)	(61)	(871)	(958)
Carrying value 30 June 2019	2,795	80	20	3,760	6,655
2018 Movement Schedule					
Carrying value 1 July 2017	8	80	-	891	979
Additions	767	113	21	1,235	2,136
Transfer	-	-	-	-	-
Disposals	(8)	-	-	(49)	(57)
Depreciation	-	(27)	(20)	(297)	(344)
Carrying value 30 June 2018	767	166	1	1,780	2,714

14. Deferred tax assets

	2019 $'000	2018 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	74	-
Inventory	33	-
Accrued expenses	449	-
Allowance for expected credit losses	42	-
Blackhole expenditure	166	-
Employee share transactions	440	-
Carried forward losses	751	-
	1,955	-
Amounts recognised in equity:		
Transaction costs on share issue	79	-
Deferred tax asset	2,034	-
Movements:		
Opening balance	-	-
Credited to profit or loss	1,955	-
Credited to equity	79	-
Closing balance	2,034	-

15. Trade and other payables

	2019 $'000	2018 $'000
Trade creditors	799	405
Employee entitlements	402	286
Other creditors and accruals	2,539	2,383
Accrual for cash settled share-based payment	-	147
Accrual for intangible assets purchased	-	340
	3,740	3,561

16. Related party loans

	2019 $'000	2018 $'000
Current		
Loan – P&K Warner (USD) ^	-	187
Loan – P&K Warner (AUD) ^	-	285
Loan – Warneroo Pty Ltd ^	-	92
Convertible loan – Lambert Superannuation Fund *	1,340	375
Net related party loans	1,340	939
Non-current		
Convertible loan – Lambert Superannuation Fund *	-	4,452
	-	4,452

^ These loans were unsecured, incurred interest at 5% per annum and repaid in October 2018.
* The convertible loan is payable to Lambert Superannuation Fund (a related party of Barry Lambert). In the current year, $3,678,623 convertible loan was converted into 14,332,296 shares in Ecofibre Limited at $0.257 per share.

The original 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 Limited 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 Ecofibre Limited earlier than 4 years without penalty.

The convertible loan is presented in the statement of financial position as follows:

	2019 $'000	2018 $'000
Related party loans	1,340	4,827
Convertible loan reserve	139	524
	1,479	5,351

The remaining balance of the convertible loan from the Lambert Superannuation Fund will be converted into 5,148,223 shares in September 2019 at $0.257 per share.

17. Borrowings

	2019 $'000	2018 $'000
Non-current payable		
Loan **	-	676
	-	676

** These loans were unsecured, incurred interest at 5% per annum and fully repaid in April 2019.

18. Deferred tax liability

	2019 $'000	2018 $'000
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	517	-
Accrued expenses	(125)	-
Deferred tax liability	392	-
Movements:		
Opening balance	-	-
Debited to profit or loss	392	-
Closing balance	392	-

19. Employee share trust

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

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

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

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

20. Issued Capital

	2019 $'000	2018 $'000	2019 Quantity	2018 Quantity
Ordinary shares	56,189	22,536	291,951,478	80,195,441
Movement in ordinary shares				
Opening balance 1 July	22,536	13,635	80,195,441	74,648,953
Shares issued at $1.61 per share	3,127	8,901	1,942,582	5,546,488
Shares issued at $1.95 per share	4,196	-	2,151,630	-
First conversion of convertible loan	1,941	-	2,425,000	-
Shares issued as part of the ESS	2,229	-	1,383,422	-
Total prior to share split	34,029	22,536	88,098,075	80,195,441
Share split 3:1	-	-	176,196,150	-
Shares issued from initial public offering at $1.00 per share	20,000	-	20,000,000	-
Second conversion of convertible loan	1,909	-	7,057,296	-
Shares issued as part of the ESS	458	-	599,957	-
Share issue cost	(207)	-	-	-
Closing balance 30 June	56,189	22,536	291,951,478	80,195,441

309,349,151 total shares on issue by the parent entity, which includes 291,951,478 consolidated shares on issue plus shares held by the EST (17,397,673) which have been issued by the parent entity and are eliminated on consolidation.

Reconciliation to the Consolidated Statement of Changes in Equity:

	$'000
Balance at 30 June 2017	13,635
Shares issued	8,901
Balance at 30 June 2018	22,536
Shares issued	27,323
Share based payment: shares issued as part of the ESS	2,687
Convertible loan conversion to shares	3,850
Share issue cost	(207)
Balance at 30 June 2019	56,189

21. Remuneration of auditors

	2019 $'000	2018 $'000
Amount received or due and receivable by the auditors of the company in respect of services to the group:		
Audit and review of financial statements		
- Annual audit	100	47
- Half year review	20	-
	120	47
Other services		
- Tax advisory	18	6
- Initial Public Offering - Investigating Accountant	67	-
- Initial Public Offering - Tax Due Diligence	29	-
- Accounting assistance	20	-
	134	6

22. Contingent liabilities and commitments

There are no contingent liabilities

Commitment for non-cancellable leases are as follows:

	2019 $'000	2018 $'000
Less than one year	705	616
Between one and five years	610	878
Later than five years	-	-
	1,315	1,494
Capital expenditure commitments not provided for in the financial statements	4,945	608

23. Interests in subsidiaries

The Group completed a restructure of its subsidiaries, including the incorporation of Ecofibre Services Pty Ltd and Ecofibre USA Inc.

The financial statements of the subsidiaries have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

23. Interests in subsidiaries (continued)

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

Name	Principal place of business / Country of Incorporation	Ownership Interests 2019 %	2018 %
Ecofibre Services Pty Ltd (ES)	Australia	100%	-
Ananda Food Pty Ltd (AF) (formerly Hemp Australia Pty Ltd)	Australia	100%	100%
Ecofibre USA Inc. (EUSA)	United States of America	100%	-
Ananda Hemp Inc. (AH) (formerly United Life Science Inc.)	United States of America	100%	100%
Ecofibre Kentucky LLC (EK)	United States of America	100%	100%
Hemp Black Inc. (HB) (formerly Satival Inc.)	United States of America	100%	100%
Ecofibre Uruguay SA (EU)	Uruguay	100%	100%

ES's principal activity is the provision of group corporate functions and plant research and development services. ES was incorporated on 28 September 2018.
AF's principal activity is the growing, processing and distribution of hemp food products.
EUSA's principal activity is an investment holding company. EUSA was incorporated on 16 October 2018.
AH's principal activity is the marketing and distribution of hemp nutraceutical products.
EK's principal activity is the manufacture of hemp nutraceutical products.
HB's principal activity is to develop and commercialise hemp fibre products.
EU is a dormant entity.

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

	2019 $'000	2018 $'000
Net profit/ (loss) after income tax	6,000	(8,627)
Depreciation and amortisation	958	344
(Gain)/ Loss from disposal of fixed assets	(160)	(191)
Provision for doubtful debt	47	86
Share-based payments	3,752	2,292
Transaction costs related to IPO	754	-
Fair value adjustments for convertible loan	(23)	120
Movement in foreign exchange translation reserve	391	(72)
Unrealised foreign exchange gain	(151)	-
Interest paid for related party loan	(67)	-
Change in operating assets and liabilities		
Decrease (increase) in assets		
Trade and other debtors	(1,865)	(765)
Prepayments	(389)	(567)
Inventories	(3,854)	(1,052)
Biological assets	(1,450)	(390)
Deferred tax assets	(1,955)	-
Tax recoverable	(251)	-
Increase (decrease) in liabilities		
Trade creditors	251	238
Other creditors and accruals	21	1,664
Interest payable	-	52
Provisions	-	(10)
Tax payable	(80)	80
Employee entitlements	116	213
Deferred tax liabilities	392	-
Net cash flows from operating activities	2,437	(6,585)

25. Financial risk management objectives and policies

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

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

25. Financial risk management objectives and policies (continued)

Risk exposures and responses

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

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

	2019 $'000	2018 $'000
Financial Assets		
Cash and cash equivalents	25,740	2,756

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

The following sensitivity analysis is based on the interest rate exposures in existence at the end of the reporting period. At 30 June 2019, if interest rates had moved, as illustrated in the table below, with all other variables held constant, profit after tax and equity would have been affected as follows:

	Profit after tax higher/ (lower)		Equity Higher/ (lower)	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Consolidated				
+ 1% (100 basis points)	257	28	257	28
- 0.5 % (50 points)	(129)	(14)	(129)	(14)

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

25. Financial risk management objectives and policies (continued)

Liquidity risk

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

	2019 $'000	2018 $'000
Less than one year	5,080	4,580
Between one and five years	392	5,128
Later than five years	-	-
	5,472	9,708

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

Fair value
Except for the convertible loan (refer note 16), the carrying amount of all other recognised financial assets and financial liabilities are considered a reasonable approximation of their fair value due to their short-term nature.

26. Key management personnel disclosures

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

	2019 $'000	2018 $'000
Short-term employee benefits and directors fees	661	530
Share based payments	1,828	1,288
Post-employment benefits	54	45
	2,543	1,863

See also Note 27 for other related party transactions

27. Related party transactions

Transactions with related parties

The following transactions occurred with related parties:

	2019 $'000	2018 $'000
Interest expense for line of credit with Barry Lambert *	31	-
Interest expense for convertible loan with Lambert Superannuation Fund	307	495
	338	495

* In October 2018, Barry Lambert agreed to provide $6.5 million line of credit to Ecofibre Limited. This facility is unsecured and incurs interest at 7.5% per annum. This facility expired on 12 April 2019. As at 30 June 2019, the balance of loan drawn from this line of credit is nil.

Receivable and payable to related parties
The receivables from and payables to related parties are disclosed in note 16.

28. Parent entity information

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

	2019 $'000	2018 $'000
Loss after income tax	(887)	(8,429)
Total comprehensive income	(887)	(8,429)
Statement of financial position		
Total current assets	31,646	8,132
Total assets	36,908	11,477
Total current liabilities	1,735	3,700
Total liabilities	1,735	9,769
Equity		
Issued capital	56,189	22,536
Share based payment reserve	3,229	2,145
Convertible loan reserve	139	524
Retained profits	(24,384)	(23,497)
Total equity	35,173	1,708
Future operating leases not provided for in the financial statements	170	309

29. Share-based payments

Share options

Ecofibre has entered into an agreement with Thomas Jefferson University (TJU) to provide research services to Ecofibre over 5 years, commencing 1 July 2017. Ecofibre has granted TJU an option to subscribe for fully paid ordinary shares within 6 months of the end of the research.

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

Grant date	Expiry date	Exercise price	Balance at the start of the year	No of options granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
1 Jul 2017	31 Dec 2022	$0.537	-	12,178,260	-	-	12,178,260

None of the option granted are exercisable at 30 June 2019.

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
1 Jul 2017	30 Jun 2022	$0.537	$0.537	54%	-	2.21%	$0.26

	2019 $'000	2018 $'000
Expenses recognised for share options granted during the year	632	632

Employee shares

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

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

	2019 $'000	2018 $'000
Expenses from equity-settled share-based payment transactions	2,985	1,513
Expense from cash settled share-based payment transactions	135	147
Total expense from employee share-based payment transactions	3,120	1,660

29. Share-based payments (continued)

Share-based payment reserve

	2019 $'000	2018 $'000
Share options	1,264	632
Employee shares	1,965	1,513
Total share-based payment reserve	3,229	2,145

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

Share-based payment expense

	2019 $'000	2018 $'000
Share options	632	632
Employee shares	3,120	1,660
Total share-based payment expense	3,752	2,292

30. Earnings per share (EPS)

	2019 $'000	2018 $'000
Earnings used in the calculation of basic and diluted EPS ($'000)	6,000	(8,627)
Weighted average number of shares* outstanding during the period used in the calculation of basic and diluted EPS:		
Basic	262,703,027	232,292,966
Diluted	276,186,752	232,292,966

* Weighted average number of shares exclude Treasury shares held in the EST.

31. Events after the reporting period

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Ecofibre Limited

Independent auditor's report to the members

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Ecofibre Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and

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

Basis for Opinion

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

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Key Audit Matters

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

Share-based Payments	
Area of focus **Refer also to Remuneration Report and note 29**	**How our audit addressed it**
The Group entered into share-based payment arrangements in relation to the issue of share options to Thomas Jefferson University who provides research services to the Group. The Group also signed employment agreements with key employees which entitled them to payment in shares of the Company or cash if certain performance or service conditions are met. The valuation of share-based payment arrangements required significant judgement and estimation by management, including the following: - The evaluation of the grant date of the arrangement, and the evaluation of the fair value of the underlying share price of the company as at the grant date; - The evaluation of the vesting charge taken to the profit or less in respect of the accrual of service and performance conditions attached to the share-based payments; and - The evaluation of key inputs into the valuation model.	Our audit procedures included: — Evaluating the fair value of the share-based payment arrangement by agreeing assumptions to third party evidence; — In determining the grant date, we evaluated what was the most appropriate date based on the terms and conditions of the share-based payment arrangement; — In evaluating the progress of the vesting of share-based payment with performance milestones, we evaluated the directors' assessment of the likely success or failure of achieving those milestones; — In assessing the vesting of service conditions, we considered that the expensing of each share-based payment tranche granted to the arrangement's beneficiary, evenly over the term of the tranche to be the most appropriate; — For specific application of the Black-Scholes Model in the valuation of share options, we retested some of the assumptions used in the model and recalculate those fair values using the skill and know-how of our in-house specialists. We considered that the forecast volatility applied in the model to be appropriately reasonable and within industry norms; and — We also reconciled the vesting of share-based payment arrangement to disclosures made in the Remuneration Report and financial statements.

William Buck

Key Audit Matters (continued)

Valuation of Inventories and Biological Assets	
Area of focus **Refer also to note 9 and 10**	**How our audit addressed it**
The Group held biological assets of $2.4 million at 30 June 2019. The Group's biological assets consist of planted hemp crop. The biological assets are measured at fair value less costs to sell or, in the absence of a fair value, at cost less impairment. The valuation uses a range of judgemental assumptions. Key assumptions include: - Total number of acres or hectares planted; - Percentage of maturity of the plant based on estimated harvest date; and - Costs per acre, hectare or yield paid or payable to the farmers. Upon harvest, the value of biological assets are transferred to inventory. Its fair value form part of the standard cost for the inventory valuation. The group inventory of $6.6 million is significant to the financial statements and has increased by $3.9 million from prior year.	Our audit procedures included: — Considering the valuation methodology against the relevant Australian Accounting Standard; — Testing the mathematical accuracy of the calculation; — Testing the assumptions used based on farming contracts; — Assessing management's standard costing model and inputs; — Evaluating management's judgement and assumptions used in determining the inventory provision; and — Assessing the adequacy of the Group's disclosures in relation to inventories and biological assets in the Notes to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 34 to 38 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Ecofibre Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

William Buck

William Buck (Qld)
ABN 21 559 713 106

Junaide Latif
Director

Brisbane: 14 August 2019

Shareholder Information

The shareholder information set out below was applicable as at 13 August 2019.

Ordinary share capital

309,349,151 fully paid ordinary shares are held by 2,919 shareholders.
All issued ordinary shares carry one vote per share, and are entitled to participate in dividends.
There is no current on-market buy-back.

Distribution of equitable securities

Analysis of number of equitable security holders by size holding:

Spread of holdings	Number of ordinary shareholders	Total units
1 to 1,000	1,056	549,275
1,001 to 5,000	902	2,521,123
5,001 to 10,000	332	2,775,803
10,001 to 50,000	433	11,244,369
50,001 to 100,000	60	4,616,090
100,001 and over	98	95,239,176
Total	**2,881**	**116,945,836**
Holding less than a marketable parcel	100	13,041

Twenty largest holders of quoted equity securities

The names of the twenty largest security holders of quoted equity securities (excludes shares in escrow) as at 13 August 2019 are listed below:

Fully paid ordinary shareholders	Number	% of total shares issued
HSBC Custody Nominees	13,472,218	4.36%
Pacific Custodians Pty Limited	10,089,673	3.26%
John Ryan	6,206,459	2.01%
Barry Martin Lambert & Joy Wilmi Lillian Lambert	5,218,975	1.69%
Texsymmetry Inc	4,195,678	1.36%
Profitous Pty Ltd	4,173,570	1.35%
Barjoy Pty Ltd	3,994,976	1.29%
BT Portfolio Services Limited <Artboa P/L & M Carney A/C>	2,929,730	0.95%
Troncell Pty Ltd	2,922,078	0.94%
Brian Furnish & Amy Furnish	2,553,216	0.83%
Phildew Pty Ltd	1,948,053	0.63%
Citicorp Nominees Pty Limited	1,841,417	0.60%
BT Portfolio Services Limited <The Briggs Family A/C>	1,800,000	0.58%
William David Furnish	1,634,086	0.53%
Yarrawonga Holdings Pty Ltd <Yarrawonga No 2 A/C>	1,616,606	0.52%
Yarrawonga Holdings Pty Limited <Yarrawonga Super Fund A/C>	1,601,494	0.52%
BT Portfolio Services Limited <Rissman Super Fund A/C>	1,443,475	0.47%
E G Enterprises Pty Ltd	1,145,364	0.37%
Sayya Investments Pty Ltd	1,116,886	0.36%
Mr Roderick Kibble & Mrs Michelle Kibble	1,024,028	0.33%
Total	**70,927,982**	**22.93%**

Restricted securities

Class	Expiry date	Number of shares
Ordinary shares	29 March 2021	186,759,521
Ordinary shares	31 December 2019	2,259,212
Ordinary shares	4 February 2020	3,384,582
Convertible note	29 March 2021	1

Options

Class	Expiry date	Number of shares
Ordinary shares	31 December 2022	12,178,260


EXTRACT
300mg
10 mg/ml
ananda
PROFESSIONAL
FULL SPECTRUM
EXTRACT
600mg
20 mg/ml
THC
FREE
600 mg
PHAR
2
15mg
CANNABINOIDS
ananda
pets+
FULL SPECTRUM
HEMP EXTRACT
300mg
PET SUPPLEMENT


anandafood
UNFLAVOURED
AUSTRALIAN
HEMP
PROTEIN
POWDER
OMEGA 3 & 6
DIETARY FIBRE
AMINO ACID
HIGH PROTEIN
500g

CORPORATE DIRECTORY

Directors
Barry Lambert
Jon Meadmore
Eric Wang

Company secretary
Jonathan Brown

Registered Office
Level 12, 680 George Street
Sydney NSW 2000

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

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

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

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

Banker
Commonwealth Bank of Australia
240 Queen Street
Brisbane QLD 4000

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

Corporate Governance Statement
https://ecofibre.com/investors/corporate/

Notice of annual general meeting
The details of the annual general meeting of Ecofibre Limited are:

Level 42
2 Park Street
Sydney NSW 2000
starting at 2:00pm on Thursday 14 November 2019

www.ecofibre.com

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ANNUAL REPORT **2019**