

31 January 2022

Ecofibre Limited - 2Q22 Update and 4C Report

HIGHLIGHTS

- 2Q22 revenue \$7.6m, same as 2Q21 and down 4% on prior quarter
- Operating cash outflows \$2.2m in 2Q22, improving from \$3.1m in prior quarter
- Balance sheet remains strong: \$5.9m cash + \$6.6m US government grants
- Strong client pipeline for Hemp Black and continued growth in Ananda Food
 - record fibre seed export to US
 - strong underlying growth in the food business
- Ananda Health US CBD market remains challenging due to COVID-related priorities
- Australian Phase IIb clinical trial for sleep disturbance progressing well at multiple locations across Australia. Study underpins Ecofibre's strategy to be the first mover in the highly attractive Schedule 3 over-the-counter market
- Promising early results from clinical research program on gynecological diseases with multiple patents applications filed

Ecofibre Limited (Ecofibre, Company) (ASX:EOF, ADR: EOFBY) provides its Appendix 4C Quarterly Report for the three months ended 31 December 2021 (2Q22) together with an update on the Company's trading performance.

2Q22 Trading Update

Unaudited revenue for 2Q22 was \$7.6m, in line with the prior corresponding period (\$7.6m) and down 4% from the prior quarter (\$7.9m)

Ecofibre CEO Eric Wang said, "The US recovery for Ananda Health revenues remains slow due to a range of pandemic-related challenges. We see a very strong pipeline for revenue growth for our Hemp Black business and continue to see pleasing growth in Ananda Food."

Hemp Black – 2Q22 revenue \$3.3m (\$3.5m in 1Q22)

Delivery of production capability in Hemp Black remains on track and ongoing progress was made in the pipeline of new customers during the quarter. The Company continues to see increased demand in its core production capabilities, namely high-performance turf yarns and medical yarns.

During the quarter, the business fulfilled an initial order from 4Ocean, a supplier of products made from recycled ocean plastics. Hemp Black worked with 4Ocean for almost 12 months to develop this sustainable product and expects a strong pipeline of business with this client.

Hemp Black also expects to fulfill initial product orders in 2H22 from a premiere US department store following completion of a six-month design and development program. Ecofibre CEO Eric Wang said, "We are very pleased to see our R&D efforts in 3D knitting come to fruition and look forward to a long-term relationship as a core design and manufacturing partner for high-performance athletic wear with this very important client."

Ananda Health – 2Q22 revenue \$3.1m (\$3.5m in 1Q22)*US trading conditions*

US Ananda Health sales were down compared with the prior quarter because of continuing difficult trading conditions for independent pharmacies and the broader US CBD market. Industry rationalisation in the CBD market is continuing, with competitors leaving the industry and market inventory being absorbed, and a handful of high-quality brands such as Ananda Professional expected to emerge over time.

Ananda Health continues to focus on delivering on its strategy as the #1 CBD brand for the US professional market which includes pharmacists and doctors and a 'shared care' digital strategy with independent pharmacies to support patient education and engagement.

Australia S3 OTC product registration

Ecofibre's sleep study, "*Phase IIb Double-Blind, Randomised Placebo-Controlled Clinical Trial for CBD for sleep disturbances in a healthy population*" has now enrolled approximately 25% of planned study participants across four locations in Australia. Patient enrolment is expected to continue at an accelerated pace as COVID restrictions begin to lift in Australia.

This clinical study supports Ananda Health's priority to have first mover advantage and be the leading provider of CBD for over-the-counter distribution in Australia as part of the TGA S3 product registration program.

Clinical R&D program

During the quarter, Ecofibre announced strong results from its clinical set-up study with the University of Newcastle on gynecological diseases, which led to four patent filings with the United States Patent and Trademark Office. The business will continue to invest in the development of IP for this program to address a very large unmet need in the women's health segment and specifically around pelvic pain.

Ananda Food - revenue \$1.2m (\$0.9m in the previous quarter)

Ananda Food had a strong sales quarter, including exports of fibre planting seed for US customers. The Company expects demand for fibre planting seed to continue to grow in both the US and Australia.

The food business is experiencing continued steady growth from its core clients, and we expect this trend to continue as Ananda Food is increasingly well positioned as the leading provider of 100% Australian grown hemp food.

During the quarter the business completed targeted investments to double the capacity of its de-hulling production line. In 2H22 there will be further, relatively small investments to improve the automation and efficiency of the bottling and packaging lines to meet growing demand and support our focus on being the lowest cost manufacturer in Australia.

Appendix 4C Cash Flow Discussion

The Company's cash position as at 31 December 2021 was \$5.9m (30 September 2021: \$5.0m).

- Cash outflow from **operating** activities in the quarter was \$2.2m, including:
 - Receipts from customers +\$8.8m
 - R&D (-\$1.1m) included the cost of external clinical trials and research and development work carried out internally by the Company, both of which are typically eligible for tax credits in Australia and the United States depending on the location of the work.
 - Product manufacturing and growing costs (-\$4.2m) included grower payments for Ananda Food (-\$0.4m) and Ananda Health (-\$0.2m). No further crop payments will be required for Ananda Health for the foreseeable future as the business can draw down on existing inventory of dried flower and CBD extracts to meet sales orders.
 - Government Grants (+\$0.6m) relate to receipt of prior period Employee Retention Credits (ERC) in the United States. The ERC program ceased on 30 September 2021.

- Cashflows used in **investing** activities totaled -\$1.0m, mainly related to the ongoing development of new Hemp Black yarn extrusion lines.
- Cashflows from **financing** activities include +\$4.3m received following the exercise of an option held by Thomas Jefferson University to purchase 7,964,581 shares in the Company.

At current exchange rates, 2H22 operating cashflows are expected to include:

- +\$3.1m receivable for the balance of ERC accrued to 30 September 2021; and
- +\$3.5m refund of taxes paid in prior financial years due to a one-off measure in the US that permits FY21 tax losses to be carried-back against prior period taxable income.

In accordance with Listing Rule 4.7C.3, and as noted in Item 6 of the Appendix 4C Cashflow Statement, payments to related parties and their associates totaled \$173,000 during the quarter for directors' salaries and fees.

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About Ecofibre

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

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

In Australia, the Company grows and produces hemp food products including protein powders, de-hulled hemp seed and hemp oil. See www.anandafood.com.

The Company also develops and sells innovative hemp-based textile and other products in the United States. See www.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.

Authorisation

This document is authorised to be given to the Australian Securities Exchange (ASX) by the Board of the Company.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Ecofibre Limited

ABN

27 140 245 263

Quarter ended ("current quarter")

31 December 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	8,778	16,676
1.2 Payments for		
(a) research and development	(1,079)	(2,545)
(b) product manufacturing and operating costs	(4,164)	(7,871)
<i>Grower payments, Ananda Health</i>	(201)	(841)
<i>Grower payments, Ananda Food</i>	(350)	(708)
<i>Production costs</i>	(3,613)	(6,322)
(c) advertising and marketing	(285)	(1,080)
(d) leased assets	(67)	(130)
(e) staff costs	(3,322)	(6,549)
(f) administration and corporate costs	(2,362)	(4,065)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	4
1.5 Interest and other costs of finance paid	(215)	(434)
1.6 Income taxes paid	(29)	(93)
1.7 Government grants and tax incentives	553	768
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(2,192)	(5,319)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1,143)	(1,541)
(d) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	56	84
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	82	12
2.6 Net cash from / (used in) investing activities	(1,005)	(1,445)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	4,277	4,277
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (payment for principal portion of lease liabilities)	(127)	(261)
3.10 Net cash from / (used in) financing activities	4,150	4,016

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	4,978	8,620
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,192)	(5,319)

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,005)	(1,445)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,150	4,016
4.5	Effect of movement in exchange rates on cash held	(14)	45
4.6	Cash and cash equivalents at end of period	5,917	5,917

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	5,793	4,818
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (term deposits and credit card clearing accounts)	124	160
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	5,917	4,978

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	173
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	10,000	10,000
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	10,000	10,000
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
<ul style="list-style-type: none"> • Lender: James & Cordelia Thiele Trust Fund • Principal amount: AUD 10.0m • Repayment date: \$2m repayable on 15 July 2022, and \$8m repayable on 15 July 2023. Ecofibre also has an option to reduce the amount repayable on 15 July 2023 to \$2m, and to repay the remaining balance of \$6m on 15 July 2024. • Interest rate: 8.0% p.a • Lender costs payable: nil • Security / collateral: nil • Financial covenants: nil 		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(2,192)
8.2 Cash and cash equivalents at quarter end (item 4.6)	5,917
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	5,917
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.7
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer:	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer:	

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

31 January 2022

Date:

By the Board

Authorised by:
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Appendix 4C

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5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.