

1. Company details

Name of entity:	Ecofibre Limited
ACN:	140 245 263
Half year ended (current period):	31 December 2021
Half year ended (previous period):	31 December 2020

2. Results for announcement to the market

	31 Dec 2021 \$'000	31 Dec 2020 \$'000	Variance
Revenues from ordinary activities	15,470	14,673	5%
Loss from ordinary activities after tax attributable to the owners of Ecofibre Limited	(6,694)	(5,546)	-21%
Loss for the half-year attributable to the owners of Ecofibre Limited	(6,694)	(5,546)	-21%
Loss for the half-year attributable to the members of the company (after exchange differences)	(3,864)	(9,083)	
Basic loss per share (cents)	(2.03)		
Diluted loss per share (cents)	(2.03)		

Dividends

There were no dividends paid, recommended or declared during the reporting period.

3. Net tangible assets

	31 Dec 2021 Cents	30 Jun 2021 Cents
Net tangible assets per ordinary security	<u>16.31</u>	<u>17.64</u>

4. Audit qualification or review

Additional information supporting the Appendix 4D disclosure requirements can be found in the Directors' Report and the consolidated financial statements for the half-year ended 31 December 2021. This report is based on the consolidated financial statements for the half-year ended 31 December 2021 which have been reviewed by William Buck (Qld).



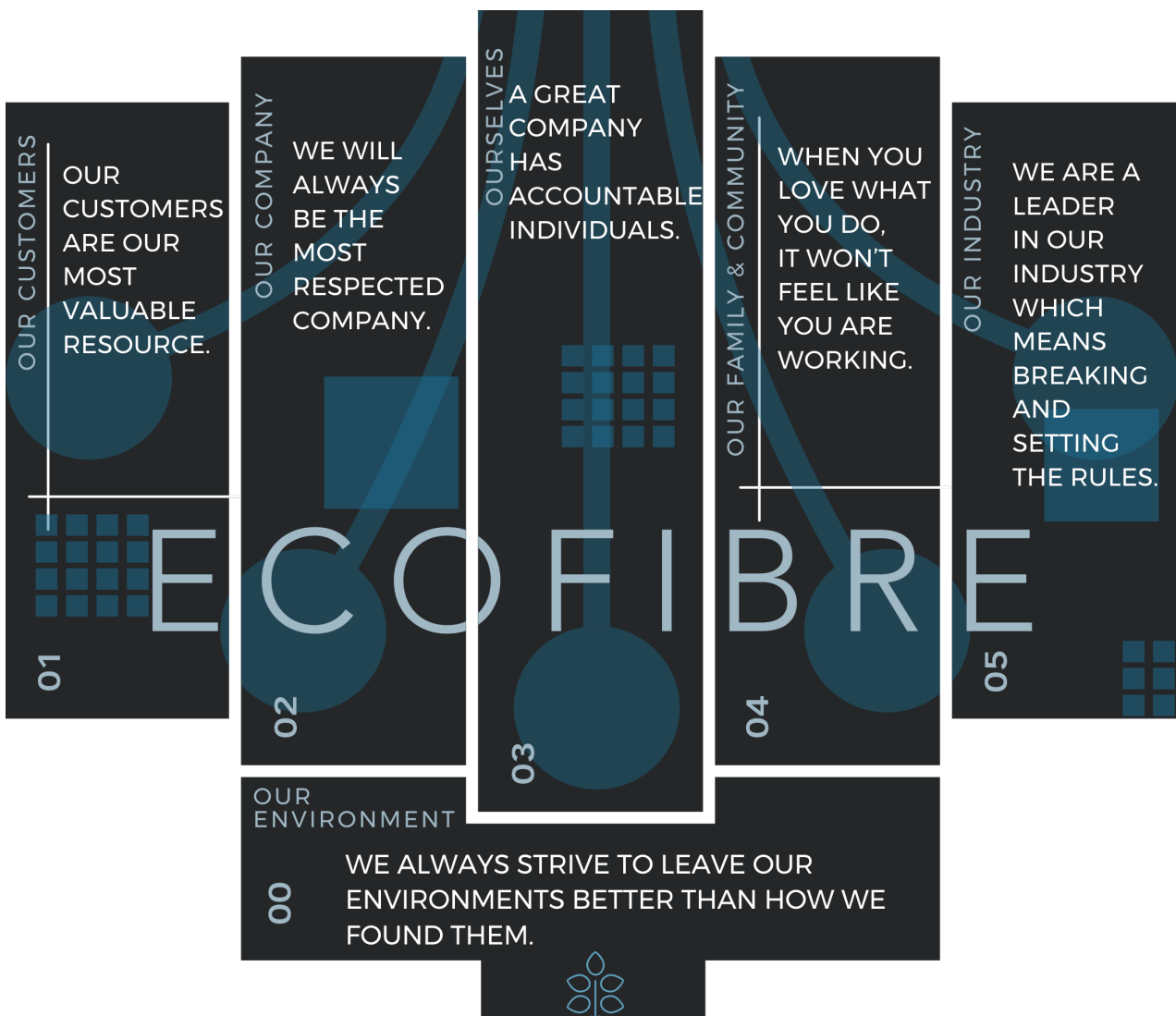
ECOFIBRE

HALF-YEAR
FINANCIAL
STATEMENTS
2022

ECOFIBRE

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Directors' Report

The directors of Ecofibre Limited 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 half-year ended 31 December 2021.

Directors

The following persons were directors of Ecofibre Limited during the half-year reporting period 1 July 2021 to 31 December 2021 and up to the date of this report, unless otherwise indicated.

Barry Lambert	Non-Executive Chairman – (retired 19 November 2021)
Vanessa Wallace	Non-Executive Chairman – (appointed director 1 July 2021)
Eric Wang	CEO & Managing Director
Jon Meadmore	Non-Executive Director
Kristi Woolrych	Non-Executive Director
Prof Bruce Robinson	Non-Executive Director

Principal activities

The principal continuing activities of the Group during the half-year were breeding, growing, manufacturing, marketing and selling hemp products.

Significant changes in the state of affairs

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

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

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

- the amount due to be repaid on 15 July 2022 was reduced to \$2m, and the remaining balance of \$8m is now repayable on 15 July 2023; and
- at the Company's option, the amount repayable on 15 July 2023 can also be reduced to \$2m, and the remaining balance of \$6m will then become repayable on 15 July 2024.

Barry Lambert retired as Ecofibre's Chairman of the Board on 19 November 2021. Vanessa Wallace was appointed as an independent, non-executive director and Deputy Chairman of the Board, on 1 July 2021 and became Chairman at the end of the AGM on 19 November 2021.

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

Review of Operations and Results (continued)

GROUP RESULT		1H22	1H21	%
AUDm	Revenue	15.5	14.7	+5%
	Gross Margin	51%	65%	-14%
	Loss before Tax	(9.6)	(7.6)	+27%
	Investments:			
	Research & Development	2.9	1.1	+172%
	Capital Expenditure	1.5	4.3	-64%
	Net Loss after Tax	(6.7)	(5.5)	+21%

In 1H22 Ecofibre grew total revenues 5% despite difficult conditions in the US CBD market.

Hemp Black (+13%) and Ananda Food (+77%) continued to grow revenues, and although Ananda Health was down 12% compared with 1H21 revenue was in line with 2H21.

The Group continued its focus on tight management of operating costs in the face of significant inflation in employment markets and supply chain disruption.

The Group's gross margins reduced 14% in 1H22, driven by three factors:

- full period impact of CBD price reduction implemented at the end of 1H21
- CBD inventory provision from over-production 2 years ago - current production levels are now more balanced with sales forecasts
- polymer price increases in Hemp Black - prices in the process of being renegotiated

The Group has high conviction in the commercial opportunity across its portfolio which supports continued investment to extend its differentiated position in target markets and protect future margins:

- Hemp Black has a solid client pipeline at different stages of development across multiple segments
- Ananda Health's clinical research progressing well and the pharmacy e-commerce platform is performing well
- Ananda food is expanding its client base via its position as the lowest cost / highest quality producer of 100% Australian hemp food

Revenue and Margin

Overall group revenue increased 5% from \$14.7m to \$15.5m:

- Continued revenue growth for Hemp Black (1H22: \$6.8m; 1H21: \$6.0m)

Hemp Black delivered 13% revenue growth in 1H22 which included the full-period impact of the TexInnovate acquisition (+\$1.6m) offset by final facemask revenues in the prior corresponding period (-\$1.9m). Revenue growth included several new clients onboarded after product development phases were completed during the period.

Review of Operations and Results (continued)

- Lower revenue for Ananda Health (1H22: \$6.6m; 1H21: \$7.5m)

Professional segment revenues into the US independent pharmacy channel increased slightly compared with 1H21 (+\$0.1m), including the impact of the new anadaprofessional.com pharmacy portal (\$+0.4m).

This was offset by lower non-professional sales (-\$0.5m) into the health food sector and sales to CVS.

Sales to CVS were lower (-\$0.4m), as the prior period had included the initial stocking of BalansLabs across the CVS network. In 1H22 CVS have commenced a process of rationalising their CBD brands. By the end of calendar 2022 it is expected they will carry BalansLabs (the Ananda Health brand) and only two other CBD brands. Currently CVS only stocks topical products as it awaits regulatory clarity from the FDA on CBD as a dietary supplement.

- Continued revenue growth for Ananda Food (1H22: \$2.1m; 1H21: \$1.2m)

Revenue continues to grow steadily from a variety of sources, including existing and new customers, and from new products such as Ananda Food Equine, which was launched at the end of the half.

In 1H22 Ananda Food sold a record amount of planting seed (\$0.6m), mostly to US farmers for fibre crops. The business used a portion of available seed to propagate for next season to ensure it can support the growing demand of fibre planting seed both in the US and Australia.

Overall gross margin reduced from 65% to 51%. At a business unit level:

- Hemp Black margins were lower (1H22: 49%; 1H21: 63%) reflecting higher polymer input costs due to inflationary pressures related to supply chain disruptions. This mostly impacted the artificial turf business, which has established additional sources of supply for polymers and has addressed its future pricing to reflect higher input costs which we do not expect to reduce in the near to medium term.
- Ananda Health margins were significantly lower (1H22: 58%; 1H21: 76%) for two reasons. The business implemented a strategic pricing review in November 2020 and Ananda Professional prices were set to deliver 65% - 70% margins after a 20% price reduction was implemented for selected product lines in November 2020.

However, in 1H22 margins were also impacted by inventory provisions (-9% margin impact) for Ananda Health finished goods inventory that have a two-year shelf life that were manufactured during pre-pandemic sales periods. The value of finished goods has reduced over the last 12 months, and ongoing production is now more closely aligned with current demand.

Full spectrum hemp oil extracts comprise the largest proportion of Ananda Health inventory and correctly stored these extracts are stable and usable for extended periods.

- Ananda Food margins improved significantly (1H22: 31%; 1H21: -3%) as the business begins to achieve scale in its operations, lower seed costs driven by improved yields from our proprietary genetics, and higher margins from our fibre planting seed sales. The prior corresponding period had also been impacted by provisions raised against seed inventory.

Review of Operations and Results (continued)

Other Income

In recognition of the impact of the COVID-19 pandemic on our businesses, the Group derived benefits under US federal government relief programs, including a US Government Employee Retention Credit (\$1.4m) (ERC) for 1Q22. The US Federal Government ceased the ERC program effective 1 October 2021.

Operating Expenses

Operating expenses increased by 11%, from \$16.5m in 1H21 to \$18.3m in 1H22 (+\$1.8m), which was ahead of the increase in revenue (+5%). The primary driver of the overall increase in costs was the full period impact of TexInnovate's cost base in 1H22 (+\$1.0m).

Ecofibre's track record of tight cost management continues in the face of increasing inflationary pressures, with employment costs remaining flat (after adding back employment costs now recorded as Research and Development¹, and the full period impact of the TexInnovate acquisition) and increasing scale economies evident in Ananda Food.

Other changes included higher investment in sales, marketing and travel (+\$0.5m) particularly in Ananda Health as the business increased engagement with pharmacies at conferences and seminars, and through online marketing.

Business Investment

During the period the Group continued to invest in medium to long term commercial opportunities across its businesses.

The group invested \$2.9m in Research and Development ('R&D') in 1H22, an increase of \$0.5m from 1H21 on a like-for-like basis after adjusting for allocation of research salaries.

R&D included clinical research to support future growth opportunities for Ananda Health, including the important \$1.1m Southern Cross University Sleep Study for the Australian OTC market, plant science research to improve commercial yields and the low-cost position and seed sales of Ananda Food, and product development in our Hemp Black business for new clients.

Over the last 12 to 18 months, the Group has reshaped its R&D portfolio toward clinical research in Ananda Health and client / product development in Hemp Black following completion of its research program with Thomas Jefferson University in April 2021 that resulted a portfolio of patents that Hemp Black is now commercialising.

In 1H22 the Group also invested \$1.5m in capital projects, which was focussed on the investment program to expand production capacity and capability in Hemp Black:

- Hemp Black (\$1.4m) - mainly relating to work on completing the single, bi, and tri-component yarn extrusion lines. Most of the cost of the equipment and materials for the yarn extrusion lines were adjusted as part of the TexInnovate purchase price settlement (USD0.8m), and ongoing expenditure mainly relates to final commissioning costs.
- Ananda Health and Ananda Food (\$0.1m) - minor capital upgrades for operational efficiency initiatives.

¹ In 1H22, salaries and wages for research focused staff were recorded as Research and Development not Employees and Contractors (\$1.4m)

Review of Operations and Results (continued)

Cashflows and Balance Sheet

1H22 cashflows included \$5.3m operating cash outflows, investing cash outflows (-\$1.4m) and financing cash inflows (+\$4.0m).

The Group is maintaining a strong focus on improving underlying operating cashflows whilst balancing the need to invest in revenue growth and client development. Trade Receivables reduced by \$0.7m during 1H22, dried flower purchases for Ananda Health have stopped and smaller food seed crops were planted for Ananda Food as those businesses are able to draw down on existing crop inventories.

The Group will use existing inventory balances to generate higher operating cash margins in the near term. The value of Ecofibre's Inventories and Biological Assets reduced slightly during the period, from \$17.8m to \$17.5m, and net of a \$0.5m foreign currency uplift and \$0.7m inventory write-down. This included a \$1.3m increase in Hemp Black inventories, including higher work-in-progress for apparel and yarn production to service new clients, offset by reductions in Ananda Health and Ananda Food.

The Group has \$12.5m cash and one-off receivables available to fund its operations and investments, including \$5.9m cash and \$6.6m one-off receivables from the ERC (\$3.1m) and a US federal tax refund due to a one-off off measure to carry back current period losses into prior years (\$3.5m). The Group received initial ERC payments in 1H22, and Internal Revenue Service processing delays means the timing of the remaining ERC and tax refund payments could extend beyond 2H22.

Non-current Assets increased from \$102.5m to \$105.7m, including the exchange rate impact of a higher USD over the period for US denominated assets.

Property, Plant and Equipment was steady over the period (\$47m). Intangible Assets mainly relate to Goodwill in relation to the acquisition of the business and assets of TexInnovate in August 2020 (\$48.5m). The Group had also recognised a corresponding liability of \$13.1m for Contingent Consideration and a Share Capital Reserve of \$14.3m in respect of the deferred consideration applicable to the transaction, which becomes payable if the acquired business delivers Earnings before Interest and Tax of US\$6.0m in two consecutive annual periods within five years from the date of the acquisition.

Current liabilities total \$7.1m, including \$2.0m partial repayment of a term loan due to 15 July 2022. Non-current liabilities total \$21.7m, including the non-current portion of the term loan (\$8.0m) and TexInnovate Contingent Consideration.

As noted earlier, Ecofibre's term loan was extended in December 2021 as follows:

- \$10m was originally due to be repaid on 15 July 2022, which is now reduced to \$2m and the remaining balance of \$8m is now repayable on 15 July 2023; and
- at the Company's option, the amount repayable on 15 July 2023 can also be reduced to \$2m, and the remaining balance of \$6m will then become repayable on 15 July 2024.

The Group's net assets increased from \$111.8m at 30 June 2021 to \$113.1m during the period, and the number of shares on issue increased from 326.7m to 335.0m. At the end of the period net tangible assets per share was 16.31 cps (2H21: \$17.64 cps).

The value of net assets included a benefit of \$2.8m in 1H22 because of a strengthened USD and the consequent revaluation of the net assets of the group's US entities.

Review of Operations and Results (continued)

ANANDA HEALTH		1H22	1H21	%
AUDm	Revenue	6.6	7.5	-12%
	Gross Margin	58%	76%	-18%
	Loss before Tax	(4.0)	(2.3)	+79%
	Investments:			
	Research & Development	1.6	0.7	+124%
	Capital Expenditure	0.1	0.3	-62%

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

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

Performance review

Ananda Health continued to manage through a challenging environment, in which:

- independent pharmacy and related online channels held steady
- non-professional channels (non-core) continue to struggle in an oversupplied segment
- national chain sales declined with continued lack of regulatory clarity

Ananda Health's loss before tax for 1H22 was \$4.0m (1H21: \$2.3m loss), reflecting continued tough market conditions in the US. The result included \$1.6m R&D investment in clinical research and other initiatives (1H21: \$0.7m), reflecting continued confidence in the Professional CBD market. Most of the business' revenue is derived from the US (\$6.4m), which continues to be the world's largest market for hemp-derived CBD². Australia generated \$0.2m from the existing Schedule 4 and 8 prescription market, in the absence of a Schedule 3 over-the-counter market.

² Grandview Research, Cannabidiol Market Size, Share & Trends Analysis Report, February 2021

Review of Operations and Results (continued)

Over the past two years the US CBD market has been challenging and the business has worked to address the challenges until conditions improve.

- **Hyper-competitive market:** The US CBD market in health food and e-commerce segments remain oversupplied and highly competitive with product re-sellers and marketing companies competing on price rather than quality. In November 2020 we implemented a strategic price reduction of c.20% across professional and non-professional channels, which still retains Ananda Professional's position as a premium product.

Whilst the Professional market is also competitive, we expect to sustain higher margins with fewer competitors due to the need for research, education, and higher-quality standards in this channel. We continue to have deep conviction in the long-term growth of the professional health care segment that values our offering.

The business also looks to product differentiation to address a hyper-competitive market. In addition to the Women's Health range launched in 2021, a sleep product using the cannabinoid CBN as well as two products using CBDa and CBGa will launch in 2H22. The 'a' signifies the acid form of the cannabinoid and requires specific genetics and processing methods to manufacture.

- **Lack of regulatory clarity:** Despite hemp-derived CBD being federally legal since December 2018, the FDA has not yet established these products as a dietary supplement or food. Because of this lack of clarity, products containing hemp-derived CBD have limited access to mainstream retail distribution channels. Until this changes, large national clients, such as CVS Pharmacy, will continue to limit their CBD range to topical cosmetic products and not carry ingestible CBD products classified as dietary supplements. CVS sales were particularly disappointing during the half (\$0.3m), especially given BalanLabs positioning as their home brand.

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

- **Addressing COVID-related business disruption:** CBD sales in our independent pharmacies have been negatively impacted due to staffing shortages, priority on vaccinations and reduced foot traffic. As small businesses, many independent pharmacists were not enabled with on-line and e-commerce capabilities. Ananda Health implemented programs to help pharmacists re-engage their customers, including development of an on-line sales portal for pharmacies.

The Ananda Professional direct to consumer offering was launched last year and the business has continued to enhance the offering and opened the channel to physicians at the end of 1H22. This new channel has shown steady uptake by Pharmacists and early customer sales results are positive.

Review of Operations and Results (continued)

Accelerating completion of existing research studies to support efficacy data that are important to the professional health care channels

Hemp-derived CBD products remain widely available across many channels in the US, even though the product is not yet widely adopted within the traditional US healthcare system. The slower adoption into the traditional US healthcare system is due to the lack of clinical data supporting the efficacy of CBD across a range of conditions.

Ecofibre and Ananda Health continue to focus on clinical research for hemp-derived CBD to differentiate our brands and support our long-term focus on the professional healthcare market. The Company's clinical research portfolio is focused on delivering three specific outcomes:

1. In the United States, the commercial objective of our research is for Ananda Professional CBD products to be the leading product for the professional market. By successfully completing the clinical studies on the Ananda products, we will provide medical professionals with the only over-the-counter full and broad-spectrum CBD products with proven efficacy.

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

Ananda is focused on supporting its current product range with efficacy data that can serve the professional healthcare channels in the USD67B Sleep market, USD70B Pain market and USD11B anxiety market.

2. In Australia, the commercial objective of our research is to be first and leading provider of high-quality CBD for the over-the-counter market. The Southern Cross University Sleep Study is being conducted for the sole purpose of supporting our TGA Schedule 3 (over the counter) product registration. It is one of the largest CBD sleep studies ever conducted and is currently enrolling patients.
3. The commercial objective of the research partnership with The University of Newcastle is to establish a portfolio of IP on a range of gynecological cancers that can be commercialised with a group of future partners.

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

Review of Operations and Results (continued)

A summary of current studies is set out below:

Study focus	Research Institution	Patient Population	Location	Type Phase /	Status
US Research Program					
Opioid Reduction	Murphy Clinic	Chronic opioid	Louisville, KY	Prospective cohort study	Complete - published 2019 in Journal of Postgraduate Medicine
Pain (neuropathic) ^a	Lankenau Institute for Medical Research	Breast, colon and ovarian cancer	Philadelphia, PA	Phase 2	Enrolment underway
Sleep and anxiety ^a	Eastern Virginia Medical School	Dementia	Norfolk, VA	Phase 2	Enrolment underway
Addiction ^{a,c}	University of Colorado	Alcohol use disorder	Boulder, CO	Phase 2	Enrolment underway
Cognitive decline ^{a,c}	University of Colorado	Adults, no dementia	Boulder, CO	Phase 2	Enrolment underway
AUSTRALIAN Research Program					
Sleep ^b	Southern Cross University	Healthy population	Australia (4 sites)	Phase 2b	Enrolment underway
Gynaecological cancers and endometriosis	University of Newcastle	Endometriosis	Newcastle, Australia	Avatar study	Set up study completed 1H22

^a FDA (USA) authorised IND

^b TGA (Australia) authorised

^c not funded by Ecofibre, but Ecofibre product used for study and input to study design

Review of Operations and Results (continued)

Outlook

Product sales in the US CBD market are forecast to continue growing according to industry reports³, and our belief is that over time CBD will play an increasing role in the traditional US health system once clinical data supports efficacy and safety. Lower cropping volumes and a reduction in the number of active CBD brands in the market is expected to restore equilibrium to the US CBD market in time, however it is unclear how long this will take and what structural shifts may occur in the CBD market after this period of volatility.

The business is focused on being the first and leading brand of CBD for the Australian S3, over the counter market. Ananda's CBD sleep study is enrolling patients across multiple sites in Australia, and we expect to submit our registration application to the TGA in 2022. The pharmacy OTC market is one that Ananda has deep experience in, as the leading pharmacy brand in the US, and it plans to leverage this infrastructure and work with partners to build a highly attractive market in Australia.

HEMP BLACK		1H22	1H21	%
AUDm	Revenue	6.8	6.0	+13%
	Gross Margin	49%	63%	-14%
	Loss before Tax	(1.3)	(0.4)	-266%
	Investments			
	Research & Development	1.3	0.1	+2311%
	Capital Expenditure	1.4	0.9	+54%

Hemp Black aims to be the global leader in providing hemp derived, sustainable, high-performance industrial solutions to target markets. The business' priorities are to:

- Fill manufacturing capacity with existing and new clients - the current \$75m manufacturing capacity for high-performance applications includes polymer compounding, yarn extrusion and 3D knitting. These processes leverage high end advanced yarn manufacturing capabilities and utilise Hemp Black inputs to create value-added properties such as anti-odor, anti-static, and conductivity.
- Establish new use cases for eco⁶ as a 100% bio-based carbon black - Hemp Black's patented eco⁶ technology can deliver a carbon negative alternative to traditional petroleum-based carbon black. The total carbon black market is \$17.5B and Hemp Black's focus is on the \$1.3B plastics, ink, and coatings segments.

Performance Review

In 1H22 Hemp Black incurred a loss before tax of \$1.3m (1H21: \$0.4m loss). This reflected revenue growth of 13%, and was net of \$1.3m R&D investment (1H21: \$0.1m) to support the pipeline of commercial opportunities. The result was negatively impacted by a significant increase in polymer input costs due to supply chain disruptions.

³ US CBD Market Industry Update, October 2021

Review of Operations and Results (continued)

Revenue growth in the core advanced manufacturing lines of turf and medical products was 13%.⁴

During the period, Hemp Black further developed its differentiated capability to compound a variety of inputs for yarns and fabrics, which is based on customised equipment, deep technical know-how and sustainable inputs. Inputs include but are not limited to *eco*⁶ (granulated hemp carbon), reclaimed ocean plastics, hemp oils and other additives to deliver specific customer outcomes.

Hemp Black launched its second range of sustainable activewear using seamless tubular knitting technology and utilising a US-based supply chain. The business also completed the product development phase with several clients including GloRope and 4Ocean and by the end of the period had begun commercial supply to these clients.

The business progressed the build and commissioning program that targets a revenue capacity for the business of up to \$75m at full production:

- commercial scale polymer compounding line (completed 4Q21)
- single component yarn line #1 (completed 4Q21)
- 11 - 3D circular knitting (completed 4Q21)
- single component yarn line #2 (2H22)
- bi and tri component yarn line (2H22)

The business is nearing completion of the development phase with several additional clients and expects to move into commercial production phase over the coming quarters. These clients include 3D knitted seamless activewear for one of the premier US department stores, a medical device sock client and a global multi-brand shoe manufacturer.

We now have a number of customers in in the development pipeline, and the focus for 2H22 is on moving more of the pipeline into contract and production phase.

*eco*⁶ Bio-based solutions

During the period the business further established the required supply chain to be able to service the bio-based plastics market at scale. *eco*⁶ is a 100% bio-based carbon black that has the capability to be used across a range of injection moulding applications. *eco*⁶ utilises hemp grown for the purpose of industrial uses, as opposed to CBD and food, and because of hemp's high volume of biomass it is an efficient, high-volume input.

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

Outlook

Hemp Black expects to see solid revenue growth. This is driven by the strong feedback on the value proposition of the business, existing client pipeline and opportunities surrounding *eco*⁶ as a 100% bio-based premium replacement for carbon black. An improvement in operating margins is expected as inflationary cost increases and passed through to clients and revenue growth drives scale economies from utilisation of existing manufacturing capacity.

⁴ Like-for-like increase after grossing up comparative result for 1H21

Review of Operations and Results (continued)

ANANDA FOOD		1H22	1H21	%
AUDm	Revenue	2.1	1.2	+77%
	Gross Margin	31%	-3%	+34%
	Loss before Tax	(0.4)	(0.9)	+55%
	Investments:			
	Research & Development	-	-	n/a
	Capital Expenditure	-	-	n/a

Ananda Food made significant progress on its three strategic priorities in 1H22, which led to an improvement in gross margins from -3% to 31%:

- Continue to focus on being the lowest cost producer through building scale as the white label and wholesale partner-of-choice, continuous improvement in crop yields, and best in class production facilities
- Conduct ongoing product innovation to expand market demand and share, including new hemp formats to improve usability and use of by-products in animal feed markets
- Use its proprietary fibre genetics to become the leading providers of hemp fibre planting seed in Australia and the US

Performance Review

Ananda Food supplies 100% Australian hemp seed products that are rich in digestible protein, fibre, omega 3 and omega 6 oils. The company's products are mainly sold to wholesalers and distributors, including bulk, white-label and branded products.

In 1H22 the business incurred a loss before tax of \$0.4m (1H21: \$0.9m loss) and is now EBITDA / operating cashflow neutral.

Revenue growth continued in 1H22, up \$0.9m (+77%) from 1H21, including a \$0.5m increase in seasonal, high margin seed sales (1H22: \$0.6m; 1H21: \$0.1m). Ongoing steady growth in food product sales reflects increased supply to multiple white label and bulk customers in the hemp-food industry and increasing awareness of the benefits of plant-based diets and hemp foods.

Ananda Food continues to expand the breadth and depth of its participation in the hemp food supply chain in Australia. The business has a quality customer base, including:

- *Woolworths Macro brand* - Ananda Food has supplied de-hulled hemp seeds and protein powder since August 2019, and began to supply hemp seed oil in 1Q21; and
- *Coles* - in 2Q21 Ananda Food began to supply hemp seed oil, protein powder and de-hulled seed to 'Soul Seeds', a supplier to Coles Supermarkets.

Review of Operations and Results (continued)

Ananda Food also supplies other hemp and non-hemp food brands, including Sanitarium via the Alternative Meat Co., Nature's Way, and T12 Hemp Foods. The business supplies a range of products to ECS Botanics, with expanded distribution of their hemp oil into Coles in 2Q22 adding to their existing Woolworths range and expected further expansion in 3Q22 with IGA store listings via Metcash.

In 1H22 Ananda Food completed product development and testing of its equine feed product. Following strong feedback this product line will enter larger scale commercial activity in 2H22.

In 1H22 Ananda Food exported 46t of seed to the United States for hemp fibre production in the 2022 summer growing season. This was a significant increase on FY21, when the group sold 18t of planting seed in the United States to enable 650 acres of hemp fibre production across 9 states.

Outlook

Ananda Food will continue to focus on building scale in its business through large white-label and wholesale customers. The business will also use high-yielding genetics, production capabilities and use of by-products in animal feed markets to drive attractive growth and sustainable margins.

Product innovation and increasing investment in branding will help expand market demand and share in the Australian hemp food market and plant seed sales are expected to continue growing particularly in the US hemp fibre market where Ecofibre varieties have gained a strong reputation.

Material Business Risks

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

- Responding to oversupply and heightened competition in the US CBD market
- Ongoing impacts of COVID-19 on US independent pharmacies, and the impact on polymer supply and prices in the US
- US FDA position on CBD as a dietary supplement, and managing ongoing regulatory change
- Implementing strategy to restore Ananda Health revenue growth, including the focus on professional healthcare and independent pharmacies
- Hemp Black growth strategy and implementation, including commissioning and filling new production capacity in new market and product segments
- Delivering a commercial return on the Group's investment in research and development, including Ananda Health's clinical research program
- Managing working capital, including timing of receipt of ERC and income tax refunds in the United States, timing, and reduced amount of initial repayment of term loan, and inventory management initiatives.
- Managing inflation, including Hemp Black margins and overall staff costs

Material Business Risks (continued)

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

Environmental, social and governance risks are not considered material to the Group's business strategies and financial prospects. Ecofibre published its most recent Governance Report, and a separate Sustainability Report, in August 2021.

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

Dividend

No dividend was declared or paid during the half-year (1H21: Nil).

Rounding of amounts

In accordance with ASIC Corporations (Rounding in Financials/ Directors' Report) Instrument 2016/191, the amounts in this report are rounded 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 15 of the half-year report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3) of the Corporations Act 2001.

On behalf of the directors



Vanessa Wallace
Director

24 February 2022
Sydney, Australia



Eric Wang
Director

24 February 2022
Sydney, Australia

The Directors
Ecofibre Limited
PO Box 108
Virginia BC QLD 4014

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of Ecofibre Limited for the half-year ended 31 December 2021, I declare that, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Ecofibre Limited and the entities it controlled during the period.

William Buck

William Buck (Qld)
ABN 21 559 713 106

M. Monaghan

M J Monaghan
Director

Brisbane: 24 February 2022

ACCOUNTANTS & ADVISORS

Level 22, 307 Queen Street
Brisbane QLD 4000
GPO Box 563
Brisbane QLD 4001
Telephone: +61 7 3229 5100
williambuck.com

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(WB007_2007)



Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements.
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Vanessa Wallace
Director

24 February 2022
Sydney, Australia

Consolidated Statement of Profit or Loss

For the half-year ended 31 December 2021

	Note	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Revenue		15,470	14,673
Direct costs	4(a)	(7,640)	(5,177)
Gross profit		<hr/> 7,830	<hr/> 9,496
Other income / (expense)	3	1,536	(18)
Other operating expenses	4(b)	(18,324)	(16,471)
Interest expense		(640)	(578)
Loss before income tax		<hr/> (9,598)	<hr/> (7,571)
Income tax credit		2,904	2,025
Loss after income tax attributable to the members of the company		<hr/> (6,694)	<hr/> (5,546)
Loss per share:			
Basic loss per share - cents		(2.03)	(1.73)
Diluted loss per share - cents		(2.03)	(1.73)

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 half-year ended 31 December 2021

	Note	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Loss after income tax attributable to the members of the company		(6,694)	(5,546)
Other comprehensive income for the half-year:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign controlled entities		2,830	(3,537)
Total comprehensive income for the half-year attributable to the members of the company		<u>(3,864)</u>	<u>(9,083)</u>

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

Consolidated Statement of Financial Position

As at 31 December 2021

	Note	31 Dec 2021 \$'000	30 Jun 2021 \$'000
CURRENT ASSETS			
Cash and cash equivalents		5,917	8,620
Trade and other receivables		3,775	4,480
Inventories		17,252	16,413
Biological assets	10	222	1,350
Other current assets		5,553	4,986
Tax recoverable		3,454	3,357
TOTAL CURRENT ASSETS		36,173	39,206
NON-CURRENT ASSETS			
Intangible assets		52,279	50,642
Right-of-use assets		634	911
Property, plant and equipment		46,971	47,080
Deferred tax assets		5,859	3,906
TOTAL NON-CURRENT ASSETS		105,743	102,539
TOTAL ASSETS		141,916	141,745
CURRENT LIABILITIES			
Trade and other payables		4,639	5,162
Borrowings	5	2,012	-
Lease liabilities		395	491
Tax payable		39	65
TOTAL CURRENT LIABILITIES		7,085	5,718
NON-CURRENT LIABILITIES			
Lease liabilities		315	474
Borrowings	5	8,046	10,064
Contingent consideration	10	13,072	12,414
Deferred tax liabilities		314	1,278
TOTAL NON-CURRENT LIABILITIES		21,747	24,230
TOTAL LIABILITIES		28,832	29,948
NET ASSETS		113,084	111,797
EQUITY			
Issued capital	6	114,823	108,132
Foreign currency translation reserve		(2,267)	(5,097)
Accumulated losses		(18,028)	(11,334)
Share capital reserve		14,300	14,300
Share-based payment reserve		4,256	5,796
TOTAL EQUITY		113,084	111,797

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

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2021

	Note	Issued capital \$'000	Share-based payment reserve \$'000	Share capital reserve \$'000	Foreign currency translation reserve \$'000	Accumulated gains/ (losses) \$'000	Total \$'000
Balance 30 June 2021		108,132	5,796	14,300	(5,097)	(11,334)	111,797
Total comprehensive income for the year		-	-	-	2,830	(6,694)	(3,864)
Share-based payments	6	386	528	-	-	-	914
Share Options exercised	6	6,345	(2,068)	-	-	-	4,277
Share issue cost	6	(40)	-	-	-	-	(40)
Balance 31 December 2021		114,823	4,256	14,300	(2,267)	(18,028)	113,084
Balance 30 June 2020		62,376	5,148	-	(175)	(4,348)	63,001
Total comprehensive income for the year		-	-	-	(3,537)	(5,546)	(9,083)
Shares issued		44,092	-	-	-	-	44,092
Share-based payments		452	1,140	-	-	-	1,592
Contingent consideration to TexInnovate		-	-	14,300	-	-	14,300
Share issue cost		(324)	-	-	-	-	(324)
Balance 31 December 2020		106,596	6,288	14,300	(3,712)	(9,894)	113,578

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

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2021

	Note	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Cash flows from operating activities			
Receipts from customers		16,676	17,821
Government grants		768	621
Payments to suppliers and employees		(22,240)	(22,199)
Interest received		4	16
Interest paid		(434)	(438)
Income tax paid		(93)	(1,379)
Net cash flows (used in) / generated from operating activities		<u>(5,319)</u>	<u>(5,558)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(1,541)	(4,268)
Payments for business acquisition		-	(22,729)
Receipt from sale of property, plant and equipment		84	17
Other		12	(38)
Net cash flows used in investing activities		<u>(1,445)</u>	<u>(27,018)</u>
Cash flows from financing activities			
Repayment of lease liabilities		(261)	(261)
Proceeds from issue of shares	6	4,277	29,500
Transaction costs related to issues of shares		-	(392)
Net cash flows generated from/ (used in) financing activities		<u>4,016</u>	<u>28,847</u>
Net decrease in cash and cash equivalents held		(2,748)	(3,729)
Cash and cash equivalents at the beginning of the financial year		8,620	18,252
Effect of movement in exchange rates on cash held		45	(1,028)
Cash and cash equivalents at the end of the financial year		<u>5,917</u>	<u>13,495</u>

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

These general purpose financial statements for the interim half-year reporting period ended 31 December 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 together with any public announcements made during the half-year.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

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. These standards did not have an impact on the Group.

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

2. Operating segments

Identification of reportable operating segments

The Group 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.

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

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

Types of products and services

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

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

Intersegment transactions

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

Intersegment receivables and payables

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

2. Operating segments (continued)

Operating segment information

a) Segment performance

	Ananda Health \$'000	Hemp Black \$'000	Ananda Food \$'000	Ecofibre Corporate \$'000	Total \$'000
Consolidated – 31 Dec 2021					
Revenue					
Sales to external customers	6,608	6,759	2,103	-	15,470
Total sales revenue	6,608	6,759	2,103	-	15,470
Government grant	498	867	10	-	1,375
Foreign exchange gain/ (loss)	1	(7)	-	90	84
Interest income	-	-	-	1	1
Other income	4	6	6	60	76
Total segment revenue	7,111	7,625	2,119	151	17,006
Total expenses	(11,151)	(8,912)	(2,538)	(4,003)	(26,604)
Segment loss before income tax	(4,040)	(1,287)	(419)	(3,852)	(9,598)
Consolidated – 31 Dec 2020					
Revenue					
Sales to external customers	7,489	5,999	1,185	-	14,673
Intersegment sales	-	-	177	-	177
Total sales revenue	7,489	5,999	1,362	-	14,850
Government grant	-	-	102	331	433
Foreign exchange gain/ (loss)	1	-	(3)	(516)	(518)
Interest income	1	-	-	22	23
Other income	(18)	49	36	(23)	44
Total segment revenue	7,473	6,048	1,497	(186)	14,832
Total expenses	(9,729)	(6,399)	(2,255)	(3,843)	(22,226)
Intersegment purchases	-	-	(80)	-	(80)
Segment loss before income tax	(2,256)	(351)	(838)	(4,029)	(7,474)
Intersegment eliminations					(97)
Profit before income tax					(7,571)

2. Operating segments (continued)

Operating segment information (continued)

b) Segment assets and liabilities

	Ananda Health \$'000	Hemp Black \$'000	Ananda Food \$'000	Ecofibre Corporate \$'000	Total \$'000
Consolidated – 31 Dec 2021					
Assets					
Segment assets	18,072	74,845	5,771	37,311	135,999
<i>Unallocated assets:</i>					
Cash and cash equivalents					5,917
Total assets					<u>141,916</u>
Liabilities					
Segment liabilities	1,092	14,880	1,210	1,650	18,832
<i>Unallocated liabilities:</i>					
Term loan					10,000
Total liabilities					<u>28,832</u>
Consolidated – 30 Jun 2021					
Assets					
Segment assets	20,411	70,319	6,583	35,812	133,125
<i>Unallocated assets:</i>					
Cash and cash equivalents					8,620
Total assets					<u>141,745</u>
Liabilities					
Segment liabilities	3,019	13,695	1,833	1,401	19,948
<i>Unallocated liabilities:</i>					
Term loan					10,000
Total liabilities					<u>29,948</u>

c) Geographical information

	Sales to external customers		Geographical non-current assets*	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000	31 Dec 2021 \$'000	31 Jun 2021 \$'000
Australia	2,259	1,711	2,045	2,464
United States of America	13,211	12,962	97,839	96,169
	<u>15,470</u>	<u>14,673</u>	<u>99,884</u>	<u>98,633</u>

* Excluding deferred tax assets.

3. Other income / (expense)

	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Government grant	1,375	433
Foreign exchange gain / (loss)	84	(518)
Interest	1	23
Other income	76	44
	<u>1,536</u>	<u>(18)</u>

4. Expenses**a) Direct costs**

Costs of goods sold	6,981	4,808
Write down of inventory	659	369
	<u>7,640</u>	<u>5,177</u>

b) Other operating expenses

Employees and contractors	6,855	7,760
Share based payments	914	1,592
Sales and marketing	1,141	860
Travel and accommodation	349	179
Equipment modification and maintenance	515	320
Short term leases	130	112
Legal fees and compliance	946	772
Accounting and audit	220	215
Depreciation and amortisation	2,461	1,973
Research and development	2,916	1,072
Bad and doubtful debts	63	262
Other	1,814	1,354
	<u>18,324</u>	<u>16,471</u>

5. Borrowings

	31 Dec 2021 \$'000	30 Jun 2021 \$'000
Current		
Term loan ^	2,000	-
Chattel mortgage	12	-
	<u>2,012</u>	<u>-</u>
Non-Current		
Related party loan	-	10,000
Term loan ^	8,000	-
Chattel mortgage	46	64
	<u>8,046</u>	<u>10,064</u>

^ The term loan was provided by a trust related to the Company's previous non-executive Chairman, Mr Barry Lambert, who retired on 19 November 2021. The terms of the loan are as follows:

Agreement date : 23 June 2021

Principal balance : \$10,000,000

Interest rate : 8.0% per annum

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.

6. Issued Capital

	31 Dec 2021 \$'000	30 Jun 2021 \$'000	31 Dec 2021 Quantity	30 Jun 2021 Quantity
Ordinary shares	114,823	108,132	334,985,772	326,696,691
Movement in ordinary shares				
Opening balance 1 Jul 2021 / 1 Jul 2020	108,132	62,376	326,696,691	305,619,401
Shares issued at \$0.537 per share	-	883	-	1,646,116
Shares issued at \$2.50 per share	-	29,500	-	11,800,000
TexInnovate acquisition shares	-	14,592	-	5,924,926
Share options exercised [^]	6,345	-	7,964,581	-
Shares issued by the EST	386	1,125	324,500	1,706,248
Share issue cost	(40)	(344)	-	-
Closing balance 31 Dec 2021 / 30 Jun 2021	114,823	108,132	334,985,772	326,696,691

348,980,558 total shares are on issue by the parent entity, which includes 334,985,772 consolidated shares on issue plus shares held by the Employee Share Trust (EST) (13,994,786) which have been issued by the parent entity and are eliminated on consolidation.

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

	\$'000
Cash proceeds from issue of shares @ \$0.537 per share	4,277
Share option fair value at grant date expensed over the term of the option	2,068
Increase in value of share capital	6,345

Reconciliation to the Consolidated Statement of Changes in Equity:

	\$'000
Balance at 30 June 2020	62,376
Shares issued	44,975
Share based payment: shares issued by the EST	1,125
Share issue cost	(344)
Balance at 30 June 2021	108,132
Shares issued	6,345
Share based payment: shares issued by the EST	386
Share issue cost	(40)
Balance at 31 December 2021	114,823

7. Interests in subsidiaries

The financial statements of the subsidiaries have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. These financial statements also comply with Australian Accounting Standards and interpretation issued by the Australian Accounting Standards Board (AASB).

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

Name	Principal place of business / Country of Incorporation	Ownership Interests	
		31 Dec 2021	30 Jun 2021
Ecofibre Services Pty Ltd (ES)	Australia	100%	100%
Ananda Food Pty Ltd (AF)	Australia	100%	100%
Ecofibre Asia Pacific Pty Ltd (EAP) (formerly Ecofibre Holdings Pty Ltd)	Australia	100%	100%
Ecofibre USA Inc. (EUSA)	United States of America	100%	100%
Ananda Hemp Inc. (AH)	United States of America	100%	100%
Ecofibre Kentucky LLC (EK)	United States of America	100%	100%
Hemp Black Inc. (HB)	United States of America	100%	100%
Hemp Black Biomedical, LLC (HBB)	United States of America	100%	100%
Hemp Black Polymer, LLC (HBP)	United States of America	100%	100%
EOF Distribution Inc. (EOFD)	United States of America	100%	100%
Ecofibre Uruguay SA (EU)	Uruguay	100%	100%

ES's principal activity is the provision of group corporate functions and research and development services.

AF's principal activity is the growing, processing and distribution of hemp food products.

EAP's principal activity is sales and distribution of hemp products.

EUSA's principal activity is an investment holding company.

AH's principal activity is the marketing and distribution of hemp nutraceutical products.

EK's principal activity is to support the manufacture of hemp nutraceutical products.

HB's principal activity is to develop and commercialise hemp fibre products.

HBB's principal activity is manufacturing, and sale of customised polymer-based yarns used for internal medical implants and applications.

HBP's principal activity is to provide performance masterbatch and custom compounding to the plastics industry for technical textiles.

EOFD is a special purpose sales and marketing entity for the Ananda Health business in the United States.

EU is a dormant entity.

8. Earnings per share (EPS)

	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Earnings used in the calculation of basic and diluted EPS (\$'000)	(6,694)	(5,546)
Weighted average number of shares outstanding during the period used in the calculation of basic and diluted EPS:	Quantity	Quantity
Basic	329,762,160	320,039,217
Diluted	329,762,160	320,039,217

9. Contingent liabilities

The Group has sought declaratory judgments regarding a previous agreement in the United States. As part of the litigation, defendants have asserted various counter claims against the Group. As the matter is still before the courts, no further information has been disclosed as this may prejudice the position of the Group.

10. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 December 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Biological assets	-	222	-	222
Total assets	-	222	-	222
<i>Liabilities</i>				
Contingent consideration	-	13,072	-	13,072
Total liabilities	-	13,072	-	13,072

There were no transfer between levels during the financial period.

The fair value of biological assets is estimated based on the maturity of the plant, the potential output and the estimated grower payments when the crops are harvested.

The fair value of contingent consideration is estimated based on the probability weighted cash flow projections discounted at the incremental borrowing rates.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

11. Events after the reporting period

The impact of the Coronavirus (COVID-19) pandemic is ongoing. It is not practicable to estimate the potential impact after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the US and Australian governments, such as maintaining social distancing requirements, health and quarantine regulations, regulations that affect the ability of group companies and their suppliers and customers to operate without restriction, travel restrictions and any economic stimulus that may be provided.

No other matter or circumstance has arisen since 31 December 2021 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 review report

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Ecofibre Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated group), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Ecofibre Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of the Management for the Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

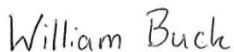
ACCOUNTANTS & ADVISORS

Level 22, 307 Queen Street
Brisbane QLD 4000
GPO Box 563
Brisbane QLD 4001
Telephone: +61 7 3229 5100
williambuck.com

Auditor's Responsibilities for the Review of the Half-Year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

A handwritten signature in black ink that reads 'William Buck'.**William Buck (Qld)**

ABN:21 559 713 106

A handwritten signature in black ink that reads 'M. J. Monaghan'.**M J Monaghan**

Director

Brisbane, 24 February 2022