

27 April 2022

Ecofibre Limited - 3Q22 Update and 4C Report

HIGHLIGHTS

- 3Q22 revenue \$7.4m, up 8% on pcp and down 3% on prior quarter
- Continued growth in Hemp Black & Ananda Food. Acquisitions support growth initiatives
 - New Composite Partners acquired to lead Hemp Black's expansion into the highly attractive bio-based composites market utilizing /eco6 carbon patents
 - Soul Seeds acquired to expand Ananda Food's wholesale business into retail branded segments of plant-based foods in Australia and overseas
- US pharmacy CBD market begins recovery with COVID-related challenges ending. Key Ananda Health growth initiatives on track
 - Independent pharmacy revenue up 37% on pcp and 7% on prior quarter
 - Australian S3 (over the counter) CBD registration process on track with Australian phase III clinical study nearing completion
 - Ecofibre and University of Newcastle accelerate research on endometriosis and gynecological cancers
- Operating cash outflows \$3.7m in 3Q22, including \$0.6m increase in receivables subsequently collected in April
- Balance sheet continues to support on-going business operations: \$5.1m cash + \$6.6m US government receivables

Ecofibre Limited (Ecofibre, Company) (ASX:EOF, ADR:EOFBY) provides its Appendix 4C Quarterly Report for the three months ended 31 March 2022 (3Q22) together with an update on the Company's trading performance.

3Q22 Trading Update

Unaudited revenue for 3Q22 was \$7.4m, up 8% on the prior corresponding period (\$6.8m) and down 3% from the prior quarter (\$7.6m)

Ecofibre CEO Eric Wang said, "We are pleased to report continued growth in our Hemp Black and Ananda Food businesses with the highest quarterly revenues for Hemp Black since its inception. Existing and new clients are growing and specifically, we expect increased revenues in our outdoor turf yarn business from both new and existing clients."

"The US recovery for Ananda Health continues as pandemic-related challenges have now subsided. Going forward, I do not expect any of the headwinds we experienced over the past two years, and we are seeing Independent Pharmacies refocus on CBD as they return to pre-COVID operating conditions."

Hemp Black – 3Q22 revenue \$3.6m (\$3.3m in 2Q22)

Priority 1: Fill existing advanced manufacturing capacity

The Company continues to see strong demand in its core production capabilities, namely high-performance turf and medical yarns.

Hemp Black will begin a progressive expansion of its high-performance turf lines beginning late 4Q22 to increase output and supply by ~3x over the next 15 months. Ecofibre CEO Eric Wang said, "We are very pleased to see our ongoing work with existing and new customers coming to fruition and look forward to fulfilling the very strong demand in our turf business."

Priority 2: Establish /eco6 as the bio-based carbon black alternative

In April Ecofibre purchased [New Composite Partners](#) to enable our commercial sales efforts into the highly attractive bio-based composites market. The purchase price was \$0.3m.

For over 20 years, New Composite Partners has provided specialized consulting services to a range of companies entering the bio-plastics industry in the United States.

Eric Wang states, "I am very pleased to welcome Ron Hagemann and his team to Hemp Black and look forward to leveraging his relationships and expertise in the bio-based composites market to commercialise our /eco6 carbon patents to their full potential."

Ananda Food - revenue \$0.8m (\$1.2m in 2Q22)

Priority 1: Grow hemp food & ingredients manufacturing on the back of lowest cost and high food safety

Ananda Food had a strong sales quarter and is experiencing continued steady growth in its underlying hemp food business from major core clients. Prior quarter sales included \$0.5m revenue from the seasonal sale of planting seed to US fibre customers. These seasonal sales (primary 2Q annually) will continue to grow as fibre demand increases in the US.



In April, Ecofibre purchased the 'Soul Seed' hemp food business for \$0.3m. Ananda Food has been a white label manufacturer for Soul Seed and provides dehulled hemp seed, protein powder and seed oil to Coles.

Kieren Brown, Managing Director of Ananda Food states, "The acquisition of Soul Seed allows us to enter the retail hemp food segment with a modern brand. Our strategy is to leverage this brand and grow via new product development, expand into additional Australian retailers and export 100% Australian grown retail product overseas."

Ananda Health – 3Q22 revenue \$2.9m (\$3.1m in 2Q22)

Priority 1: Grow Ananda Professional's #1 CBD brand positioning in US professional market

Ananda Health revenues contracted slightly as the business closed the original Ananda Hemp brand, which had a small health food store presence, to focus its assets on the Ananda Professional brand and pharmacy segment.

Our core independent pharmacy revenues grew 7% on last quarter as pandemic-related challenges for our partners have now subsided. The business remains focused on helping our pharmacy partners re-engage their stores and patients through a range of new products to include an Ananda PM sleep product which incorporates the cannabinoid "CBN" and products that capture the acid form of the CBD cannabinoid "CBDA".

Priority 2: Become the #1 CBD brand in Australia - S3 OTC product registration

Ecofibre's sleep study, "Phase III Double-Blind, Randomised Placebo-Controlled Clinical Trial" is well progressed and on track for the Company to submit its S3 product registration in early 2Q23. 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.

Eric Wang states, "We have been very pleased with the strong interest and support for participation in this very important clinical study. Over the four sites we have had over 1,500 Australians apply for screening to join the study. We look forward to having the opportunity to provide Australians with a safe, non-intoxicating CBD product that is affordable and accessible."

Priority 3: Advance gynecological cancer research portfolio towards commercial opportunities

In 2Q22 Ecofibre announced its research collaboration with the University of Newcastle delivered positive results and led to four patent filings with the United States Patent and Trademark Office. The Company advised that it was continuing its investment in the development of IP to address substantial unmet needs in gynecological cancers, endometriosis, and other non-malignant gynecological disorders.

Ecofibre Chief Science Officer, Dr. Alex Capano said "We are accelerating this program to develop clinical trials and to support and expand on our existing IP portfolio. We are very encouraged by the data and hopeful continued discovery will provide critical solutions to urgent gynecological challenges. This is a compelling opportunity to improve the lives of women globally."

Appendix 4C Cash Flow Discussion

The Company's cash position as at 31 March 2022 was \$5.1m (31 December 2021: \$5.9m).

- Cash outflow from **operating** activities in the quarter was \$3.7m, including:
 - Receipts from customers +\$6.6m, which was lower than revenue for the quarter (\$7.4m) with an increase in accounts receivable of \$0.6m.
 - R&D (-\$1.1m) included the cost of clinical trials and research and development in all three lines of business, which are typically eligible for tax credits in Australia and the United States depending on the location of the work.

- Product manufacturing and operating costs (-\$3.5m) included minor grower payments for Ananda Food (-\$0.1m). Minimal 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.
- Cashflows used in **investing** activities totaled -\$0.7m, mainly related to the ongoing development of new Hemp Black yarn extrusion lines.
- Cashflows from **financing** activities include a \$3.5m loan received by the Company. Loans provided to the Company total \$13.5m, which represents less than 20% of tangible assets as at 31 December 2021.

At current exchange rates, near-term operating cashflows are expected to include:

- +\$3.0m receivable for the balance of ERC accrued to 30 September 2021; and
- +\$3.6m 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 \$161,000 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.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 100% Australian hemp food products including protein powders, de-hulled hemp seed and hemp oil. See www.anandafood.com.

In the United States, the Company develops sustainable, advanced manufacturing solutions across a range of industries to include automotive, fashion, medical, transportation, home and office. 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 March 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	6,581	23,257
1.2 Payments for		
(a) research and development	(1,056)	(3,601)
(b) product manufacturing and operating costs	(3,542)	(11,413)
<i>Grower payments, Ananda Health</i>	-	(841)
<i>Grower payments, Ananda Food</i>	(51)	(759)
<i>Production costs</i>	(3,491)	(9,813)
(c) advertising and marketing	(419)	(1,499)
(d) leased assets	(37)	(167)
(e) staff costs	(2,844)	(9,393)
(f) administration and corporate costs	(2,325)	(6,390)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	4
1.5 Interest and other costs of finance paid	(152)	(586)
1.6 Income taxes refunded	109	16
1.7 Government grants and tax incentives	-	768
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(3,685)	(9,004)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(725)	(2,266)
(d) investments	-	-

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

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 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	23	107
(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)	(4)	8
2.6 Net cash from / (used in) investing activities	(706)	(2,151)

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
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5 Proceeds from borrowings	3,500	3,500
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)	(133)	(394)
3.10 Net cash from / (used in) financing activities	3,367	7,383

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	5,917	8,620
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(3,685)	(9,004)

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(706)	(2,151)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,367	7,383
4.5	Effect of movement in exchange rates on cash held	227	272
4.6	Cash and cash equivalents at end of period	5,120	5,120

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	4,965	5,793
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (term deposits and credit card clearing accounts)	155	124
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	5,120	5,917

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	161
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.

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

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	13,500	13,500
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	13,500	13,500
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.		
	<p>Lender: James & Cordelia Thiele Trust Fund</p> <ul style="list-style-type: none"> • Principal amount: AUD 10.0m • Date of original loan: June 2020 • 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 <p>Lender: Lambert Superannuation Fund</p> <ul style="list-style-type: none"> • Principal amount: AUD 3.5m • Date of original loan: March 2022 • Repayment date: 15 July 2023 • Interest rate: 10.0% 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)	(3,685)
8.2	Cash and cash equivalents at quarter end (item 4.6)	5,120
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	5,120
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.4
	<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: Future operating cashflows are expected to include the following amounts currently due and payable from the US Federal Government:

- \$3.0m in employee retention credits for the period to 30 September 2021, which are receivable under the US CARES Act modified by the Taxpayer Certainty and Disaster Tax Relief Act of 2020.
- \$3.6m refund of income taxes paid in previous financial years due to a one-off measure in the Relief Act that permitted FY21 tax losses to be carried-back against prior period taxable income.

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: During the quarter the entity obtained a \$3.5m loan

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: Yes, the funding and initiatives described in 8.6.1 and 8.6.2 above enable the company to continue to fund its operations and implement its plan.

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.

27 April 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.