



ECOFIBRE

APPENDIX 4E
PRELIMINARY FINANCIAL REPORT
2023

1. Company details

Name of entity:	Ecofibre Limited
ACN:	140 245 263
Reporting period:	For the year ended 30 June 2023
Previous period:	For the year ended 30 June 2022

2. Results for announcement to the market

This preliminary financial report under ASX listing rule 4.3A covers Ecofibre Limited and its controlled entities (“the Group”) and is based on the attached Preliminary Financial Report.

	30 Jun 2023	30 Jun 2022	Variance
	\$'000	\$'000	
Revenues from ordinary activities	32,510	30,220	+8%
Profit (Loss) from ordinary activities after tax attributable to the owners of Ecofibre Limited	(39,913)	(14,670)	-172%
Profit (Loss) for the year attributable to the owners of Ecofibre Limited	(39,913)	(14,670)	-172%
Basic earnings (loss) per share (cents)	(11.89)	(4.41)	
Diluted earnings (loss) per share (cents)	(11.89)	(4.41)	

Dividends

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

Comments

The loss from ordinary activities for the Group after providing for income tax amounted to \$39.9m (30 June 2022: \$14.7m).

The reported loss includes the following one-off impairments recognised during the financial year:

- Inventory, \$6.5m – pre-tax value impaired as at 31 December 2022, relating to Ananda Health cannabinoid extracts written down to estimated market value if sold as is rather than processed into finished goods, and Hemp Black apparel and associated fabrics and yarns.

- Property, Plant and Equipment, \$2.1m – pre-tax value impaired as at 31 December 2022, relating to Ananda Health equipment written down to reflect lower utilisation, such as cannabinoid extraction equipment, and Hemp Black 3D knitting equipment and pyrolysis equipment to be sold.
- Intangible Assets, \$3.7m – pre-tax value impaired as at 31 December 2022, relating to Hemp Black patents that had been intended to be used as part of the apparel business, and website and software development used variously for online apparel sales and to support large Ananda Health customers such as CVS.
- Deferred Tax Asset, \$13.7m – impaired as at 30 June 2023, value not currently able to be recognised pursuant to the requirements of AASB 112 Income Taxes

The financial position of the consolidated entity includes net assets of \$74.6m (FY22: \$109.9m). At year end, the Group had \$7.3m cash on hand available to fund its operations and ongoing investments.

Further commentary on the result is included in the ASX market announcement accompanying this Appendix 4E report.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>6.28</u>	<u>13.23</u>

4. Control gained over entities

EOF Bio LLC was formed by Ecofibre USA Inc. on 30 May 2023 as a special purpose entity to research and commercialise gynecological and other treatments using hemp derived cannabinoids.

5. Loss of control over entities

Not applicable.

6. Details of associates and joint venture entities

Not applicable.

7. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The Annual Report is currently in the process of being audited and an unqualified opinion is expected to be issued.

8. Attachments

Details of attachments (if any):

The Preliminary Financial Report of Ecofibre Limited for the year ended 30 June 2023 is attached.

9. Signed



Signed _____

Date: 22 August 2023

Vanessa Wallace
Chairman
Sydney

Ecofibre Limited

ACN 140 245 263

Preliminary Financial Report – 30 June 2023

TABLE OF CONTENTS

	Page
Consolidated Statement of Profit or Loss	1
Consolidated Statement of Other Comprehensive Income	2
Consolidated Statement of Financial Position	3
Consolidated Statement of Changes in Equity	4
Consolidated Statement of Cash Flows	5
Notes to the Consolidated Financial Statements	6-21

ECOFIBRE LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 \$'000	2022 \$'000
Revenue		32,510	30,220
Direct costs	4(a)	(21,771)	(15,526)
Gross profit		<hr/> 10,739	14,694
Other income (expenses)	3(b)	(2,353)	2,144
Other operating expenses	4(b)	(35,371)	(37,206)
Interest expense		(2,921)	(1,380)
Profit (Loss) before income tax		<hr/> (29,906)	(21,748)
Income tax (expense) benefit		(10,007)	7,078
Profit (Loss) after income tax		<hr/> (39,913)	<hr/> (14,670)
Earnings (Loss) per share:			
Basic earnings (loss) per share - cents	13	(11.89)	(4.41)
Diluted earnings (loss) per share - cents		(11.89)	(4.41)

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

ECOFIBRE LIMITED

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023

	2023	2022
	\$'000	\$'000
Profit (loss) after income tax	(39,913)	(14,670)
Other comprehensive profit (loss) for the year:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences on translating foreign controlled entities	16 2,967	6,907
Total comprehensive profit (loss) for the year	(36,946)	(7,763)

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

ECOFIBRE LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

	Note	2023 \$'000	2022 \$'000
CURRENT ASSETS			
Cash and cash equivalents		7,289	7,251
Trade and other receivables		2,885	4,126
Inventories	5	9,380	15,702
Biological assets		568	579
Other current assets	8	1,455	5,086
Tax recoverable		51	3,943
TOTAL CURRENT ASSETS		<u>21,628</u>	<u>36,687</u>
NON-CURRENT ASSETS			
Intangible assets	6	53,680	55,368
Right-of-use assets		305	838
Property, plant and equipment	7	43,121	46,991
Deferred tax assets	14	-	9,670
TOTAL NON-CURRENT ASSETS		<u>97,106</u>	<u>112,867</u>
TOTAL ASSETS		<u>118,734</u>	<u>149,554</u>
CURRENT LIABILITIES			
Trade and other payables		5,113	5,560
Lease liabilities		335	467
Tax payable		15	31
Borrowing	9	1,000	2,012
TOTAL CURRENT LIABILITIES		<u>6,463</u>	<u>8,070</u>
NON-CURRENT LIABILITIES			
Lease liabilities		92	463
Contingent consideration	17	11,518	13,996
Deferred tax liabilities		407	318
Borrowing	9	25,607	16,765
TOTAL NON-CURRENT LIABILITIES		<u>37,624</u>	<u>31,542</u>
TOTAL LIABILITIES		<u>44,087</u>	<u>39,612</u>
NET ASSETS		<u>74,647</u>	<u>109,942</u>
EQUITY			
Issued capital	10	116,538	115,347
Foreign currency translation reserve	16	4,777	1,810
Accumulated losses		(65,917)	(26,004)
Share capital reserve		14,300	14,300
Share-based payment reserve		4,932	4,489
Equity attributable to the members of the company		<u>74,630</u>	<u>109,942</u>
Non-controlling interest	12	17	-
TOTAL EQUITY		<u>74,647</u>	<u>109,942</u>

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

ECOFIBRE LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

Consolidated	Note	Issued capital \$'000	Share- based payment reserve \$'000	Share capital reserve \$'000	Foreign currency translation reserve \$'000	Accumulated Gains (Losses) \$'000	Non- Controlling Interest \$'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		-	-	-	6,907	(14,670)	-	(7,763)
Share Options exercised	10	6,344	(2,067)	-	-	-	-	4,277
Share-based payments	10	911	760	-	-	-	-	1,671
Share issue cost		(40)	-	-	-	-	-	(40)
Balance 30 June 2022	10	115,347	4,489	14,300	1,810	(26,004)	-	109,942
Total comprehensive income for the year		-	-	-	2,967	(39,913)	-	(36,946)
Shares issued	10	973	-	-	-	-	17	990
Share-based payments	10	238	443	-	-	-	-	681
Share issue cost	10	(20)	-	-	-	-	-	(20)
Balance 30 June 2023		116,538	4,932	14,300	4,777	(65,917)	17	74,647

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

ECOFIBRE LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Receipts from customers		33,855	31,386
Government grants		2,629	919
Payments to suppliers and employees		(45,012)	(41,957)
Interest received		165	4
Interest paid		(2,355)	(966)
Income tax refunded		3,808	19
		<hr/>	<hr/>
Net cash flows used in from operating activities		(6,910)	(10,595)
Cash flows from investing activities			
Payments for property, plant and equipment		(1,708)	(2,792)
Payments for business acquisition		(399)	(314)
Receipt from sale of property, plant and equipment		495	119
Other		32	(9)
		<hr/>	<hr/>
Net cash flows used in investing activities		(1,580)	(2,996)
Cash flows from financing activities			
Proceeds from borrowings	9	9,170	8,725
Repayment of borrowings	9	(2,000)	-
Repayment of lease liabilities		(405)	(546)
Proceeds from issue of shares		871	4,277
		<hr/>	<hr/>
Net cash flows generated from financing activities		7,636	12,456
		<hr/>	<hr/>
Net decrease in cash and cash equivalents held		(854)	(1,135)
		<hr/>	<hr/>
Cash and cash equivalents at the beginning of the financial year		7,251	8,620
		<hr/>	<hr/>
Effect of movement in exchange rates on cash held		892	(234)
		<hr/>	<hr/>
Cash and cash equivalents at the end of the financial year		7,289	7,251

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

1. Changes in accounting policies

The consolidated entity has adopted all the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

2. Operating segments

Identification of reportable operating segments

The consolidated entity is organised into three operating segments based on differences in products and services provided: nutraceuticals (Ananda Health), food (Ananda Food) and fibre (Hemp Black).

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 the 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, and hemp fibre seed in the United States and 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 - 2023					
Revenue					
Sales to external customers	12,991	17,333	2,186	-	32,510
Intersegment sales	-	-	99	-	99
Total sales revenue	12,991	17,333	2,285	-	32,609
Government grant	-	-	103	-	103
Foreign exchange gain (loss)	(24)	(3)	9	(446)	(464)
Interest income	20	-	-	141	161
Other income	27	20	15	3,603	3,665
Total revenue and other income	13,014	17,350	2,412	3,298	36,074
Impairment loss – inventory	(4,804)	(1,679)	(58)	-	(6,541)
Impairment loss – equipment & intangible assets	(1,688)	(4,035)	(9)	(86)	(5,818)
Other expenses	(18,781)	(20,297)	(5,246)	(9,198)	(53,522)
Intersegment purchases	-	-	(48)	-	(48)
Segment profit (loss) before income tax	(12,259)	(8,661)	(2,949)	(5,986)	(29,855)
Intersegment eliminations					(51)
Profit (Loss) before income tax					<u>(29,906)</u>
Consolidated - 2022					
Revenue					
Sales to external customers	12,922	13,744	3,554	-	30,220
Intersegment sales	-	-	78	-	78
Total sales revenue	12,922	13,744	3,632	-	30,298
Government grant	498	867	10	-	1,375
Foreign exchange gain (loss)	(16)	(7)	(6)	568	539
Interest income	-	-	-	1	1
Other income	73	29	6	121	229
Total revenue and other income	13,477	14,633	3,642	690	32,442
Total expenses	(21,778)	(19,170)	(5,115)	(8,049)	(54,112)
Intersegment purchases	-	-	(49)	-	(49)
Segment profit (loss) before income tax	(8,301)	(4,537)	(1,522)	(7,359)	(21,719)
Intersegment eliminations					(29)
Profit (Loss) before income tax					<u>(21,748)</u>

2. Operating segments (continued)

b) Segment assets and liabilities

	Ananda Health \$'000	Hemp Black \$'000	Ananda Food \$'000	Ecofibre Corporate \$'000	Total \$'000
Consolidated - 2023					
Assets					
Segment assets	7,138	67,957	2,801	33,549	111,445
<i>Unallocated assets:</i>					
Cash and cash equivalents				7,289	<u>7,289</u>
Total assets					<u>118,734</u>
Liabilities					
Segment liabilities	1,413	2,142	1,415	12,510	17,480
<i>Unallocated liabilities:</i>					
Borrowings					<u>26,607</u>
Total liabilities					<u>44,087</u>
Consolidated - 2022					
Assets					
Segment assets	16,824	82,296	5,374	37,809	142,303
<i>Unallocated assets:</i>					
Cash and cash equivalents					<u>7,251</u>
Total assets					<u>149,554</u>
Liabilities					
Segment liabilities	1,509	15,560	1,331	2,487	20,887
<i>Unallocated liabilities:</i>					
Related party loans and borrowings					<u>18,725</u>
Total liabilities					<u>39,612</u>

3. Revenue and other income

	2023 \$'000	2022 \$'000
a) Revenue		
Sales	32,510	30,220
b) Other income (Expenses)		
Government grant and tax incentives	103	1,375
Foreign exchange gain (loss) *	(464)	539
Interest	161	1
Impairment loss – equipment & intangible assets **	(5,818)	-
Contingent consideration earnout extension	3,484	-
Other income	181	229
	(2,353)	2,144

* Gain (loss) from revaluation of financial assets held in currencies other than Australian dollars.

** Breakdown of impairment loss

	2023 \$'000	2022 \$'000
Property, plant and equipment (note 7)	(2,106)	-
Intangible assets (note 6)	(3,712)	-
	(5,818)	-

During the year the Company decided to close part of its knitting business, specifically the garment business that uses Santoni machines for 3D and tubular knitting, and a write off has been recognised in relation to fixed assets and intangible assets used in this business.

The Company also made the decision to write down the balance of fixed assets, inventory and intangible assets in line with lower capacity utilization at its production facility in Georgetown, Kentucky, and in line with lower market costs for key inputs such as hemp extracts used to blend and manufacture cannabinoid-based nutraceuticals.

4. Expenses

	2023 \$'000	2022 \$'000
a) Direct costs		
Costs of goods sold	14,834	13,688
Impairment loss – inventory *	6,541	-
Other inventory write downs	396	1,838
	21,771	15,526

* a provision for impairment was recognised during the year to reduce inventories to their net realisable value, particularly in the Ananda Health and Hemp Black businesses.

4. Expenses (continued)	2023	2022
	\$'000	\$'000
b) Other operating expenses		
Employees and contractors	15,357	14,095
Share based payments	681	1,671
Sales and marketing	1,318	2,260
Travel and accommodation	647	742
Equipment modification and maintenance	1,268	982
Short-term and low value lease payments	394	235
Legal fees and compliance	2,000	1,790
Accounting and audit	433	437
Depreciation and amortisation	4,739	5,073
Research and development	4,751	6,285
Bad and doubtful debts	16	67
Other	3,767	3,569
	<u>35,371</u>	<u>37,206</u>

5. Inventories	2023	2022
	\$'000	\$'000
Finished goods	2,130	2,048
Work in progress	3,314	9,050
Raw materials	4,399	5,219
Provision for impairment*	(463)	(615)
	<u>9,380</u>	<u>15,702</u>

*At 31 December 2022, \$6,489k had been provided against the value of inventory, most of which was written off against the cost of inventory as at 30 June 2023, leaving a residual provision of \$463k at that date.

Summary of inventory by segment:	2023	2022
	\$'000	\$'000
Ananda Health	4,581	9,703
Hemp Black	2,769	3,844
Ananda Food	2,030	2,155
	<u>9,380</u>	<u>15,702</u>

6. Intangible assets

	2023 \$'000	2022 \$'000
Goodwill at 1 July 2022	51,093	46,766
Foreign currency impact	1,973	4,327
Balance at 30 June 2023	<u>53,066</u>	<u>51,093</u>
Patents, customer list and trademarks – at cost	4,039	3,789
Less: Accumulated amortisation	(378)	(146)
Less: Impairment	(3,047)	-
	<u>614</u>	<u>3,643</u>
Software – at cost	320	320
Less: Accumulated amortisation	(257)	(238)
Less: Impairment	(63)	-
	<u>-</u>	<u>82</u>
Website development – at cost	1,129	905
Less: Accumulated amortisation	(527)	(355)
Less: Impairment	(602)	-
	<u>-</u>	<u>550</u>
Total intangible assets	58,554	56,107
Less: Accumulated amortisation	(1,162)	(739)
Less: Impairment	(3,712)	-
	<u>53,680</u>	<u>55,368</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Work in progress \$'000	Goodwill \$'000	Patents, customer list and trademarks \$'000	Software \$'000	Website development \$'000	Total \$'000
Balance at 1 July 2021	30	46,766	3,247	134	465	50,642
Transfer	(30)	-	-	30	-	-
Additions	-	-	536	8	348	892
Amortisation	-	-	(139)	(90)	(243)	(472)
Exchange difference	-	4,327	(1)	-	(20)	4,306
Balance at 1 July 2022	<u>-</u>	<u>51,093</u>	<u>3,643</u>	<u>82</u>	<u>550</u>	<u>55,368</u>

6. Intangible assets (continued)

	Work in progress \$'000	Goodwill \$'000	Patents, customer list and trademarks \$'000	Software \$'000	Website development \$'000	Total \$'000
Balance at 1 July 2022	-	51,093	3,643	82	550	55,368
Transfer	-	-	-	-	-	-
Additions	-	-	250*	-	224	474
Amortisation	-	-	(243)	(18)	(174)	(435)
Impairment	-	-	(3,047)	(63)	(602)	(3,712)
Exchange difference	-	1,973	11	(1)	2	1,985
Balance at 30 June 2023	-	53,066	614	-	-	53,680

* Trademarks, customer lists and know-how acquired from ECS (\$250k).

Goodwill impairment testing

Goodwill acquired through business combinations have been allocated to the following cash-generating units:

	2023 \$'000	2022 \$'000
Hemp Black (acquired business)	53,066	51,093

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model based on a 5 year projection period and a terminal value.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model:

- 11.1% post-tax discount rate (FY22: 9.8%)
- 3% growth rate beyond the five-year forecast period
- 58% projected revenue growth rate for FY24 and 24% growth per annum over the remainder of the projected cash flow period to \$64m by the FY28 financial year.
- As previously announced, Hemp Black is progressing several opportunities to fill its production capacity and grow revenue, working with a strong pipeline of existing and new clients.

The post-tax discount rate of 11.1% has been set using the estimated weighted average cost of capital to equate the present value of future cashflows against the current carrying value of fixed and intangible assets.

Management believes the projected revenue growth rate is prudent and justified.

6. Intangible assets (continued)

Management's estimation of increased operating costs is based on estimated cost inflation and an effort by the consolidated entity to contain costs.

There were no other key assumptions. Based on the above, the recoverable amount of Hemp Black (acquired business) exceeded the carrying amount.

Sensitivity

The directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill carrying amount may decrease. If revenue in years 2 to 5 grows by less than 24% then goodwill would need to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of goodwill is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

7. Property, plant and equipment

	2023	2022
	\$'000	\$'000
Capital work in progress	3,583	6,294
Land	3,001	2,900
Buildings	32,116	31,856
Less: accumulated depreciation	(2,405)	(1,603)
	29,711	30,253
Motor vehicles	294	522
Less: accumulated depreciation	(246)	(199)
	48	323
Office equipment	1,586	1,555
Less: accumulated depreciation	(1,509)	(1,089)
	77	466
Plant and machinery	16,259	13,719
Less: accumulated depreciation	(9,558)	(6,964)
	6,701	6,755
Total property, plant and equipment	56,839	56,846
Less: accumulated depreciation	(13,718)	(9,855)
	43,121	46,991

7. Property, plant and equipment (continued)

	Capital WIP \$'000	Land \$'000	Building \$'000	Motor vehicles \$'000	Office equipment \$'000	Plant and machinery \$'000	Total \$'000
2023 Movement Schedule							
Carrying value 1 July 2022	6,294	2,900	30,253	323	466	6,755	46,991
Additions	1,590	-	-	44	12	126	1,772
Transfer	(3,805)	-	-	-	7	3,798	-
Disposals	-	-	-	(282)	-	(77)	(359)
Depreciation	-	-	(802)	(47)	(420)	(2,594)	(3,863)
Impairment	(730)	-	-	-	-	(1,376)	(2,106)
Exchange difference	234	101	260	10	12	69	686
Carrying value 30 June 2023	3,583	3,001	29,711	48	77	6,701	43,121

	Capital WIP	Land	Building	Motor vehicles	Office equipment	Plant and machinery	Total
2022 Movement Schedule							
Carrying value 1 July 2021	4,904	2,680	30,412	365	720	7,999	47,080
Additions	1,439	-	52	-	137	570	2,198
Transfer	(497)	-	-	-	-	497	-
Disposals	-	-	-	-	-	(116)	(116)
Depreciation	-	-	(789)	(66)	(440)	(2,722)	(4,017)
Exchange difference	448	220	578	24	49	527	1,846
Carrying value 30 June 2022	6,294	2,900	30,253	323	466	6,755	46,991

8. Other current assets

	30 Jun 2023 \$'000	30 Jun 2022 \$'000
Employee retention credit grant	654	3,139
Prepayments	711	1,451
Other	90	496
	1,455	5,086

9. Borrowings

	2023 \$'000	2022 \$'000
Current		
Unsecured term loan	1,000	2,000
Chattel mortgage	-	12
	1,000	2,012
Non-current		
Unsecured term loans	10,500	11,500
Secured term loan	15,107	5,225
Chattel mortgage	-	40
	25,607	16,765

Unsecured term loans

In June 2020, the Company obtained a \$10m loan from James & Cordelia Thiele Trust Fund. On 15 July 2022, \$2m was repaid. In December 2022 the terms of the loan were renegotiated as follows: \$1m repayable on 15 July 2023, \$1m repayable on 15 July 2024 and \$6m repayable on 15 July 2025 and the interest rate on the loan was 11% p.a.

In March 2022, Ecofibre received a \$3.5m loan from the Lambert Superannuation Fund. The interest rate on the loan was 10% p.a. In December 2022, the term of the loan was extended, and the loan is now repayable on 15 July 2025.

Secured term loan

In June 2022, the Group obtained a USD10m loan from Nubridge Commercial Lending LLC in the United States for a period of 2 years. The interest rate on the loan was 8.49% p.a, and the origination fee was USD0.2m. The loan is repayable on 1 July 2024. The Group's interests in the following properties were pledged as security for the loan: Corporate Boulevard, Georgetown, Kentucky; Cessna Drive, Greensboro, North Carolina; West Market Street, Greensboro, North Carolina. USD3.6m loan funds were received on 30 June 2022, and the balance of the loan funds were received in July 2022.

Reconciliation of proceeds from borrowings in 2023 as follows:

	\$'000
Secured term loan from Nubridge Commercial Lending LLC	9,170
Total proceeds from borrowings during the financial year	9,170

10. Issued capital

	2023 \$'000	2022 \$'000	2023 Quantity	2022 Quantity
Ordinary shares	116,538	115,348	335,744,765	335,510,772
Movement in ordinary shares				
Opening balance 1 July	115,347	108,132	335,510,772	326,696,691
Shares issued for services rendered	108	-	233,993	-
EOF Bio preferred units issued*	882	-	-	-
Share options exercised	-	6,344	-	7,964,581
Shares issued by the EST	238	911	150,000	849,500
Share issue cancelled	-	-	(150,000)	-
Share issue cost	(20)	(40)	-	-
Non-controlling interest	(17)	-	-	-
Closing balance 30 June	116,538	115,347	335,744,765	335,510,772

*EOF Bio LLC has issued 584 Incentive Units for \$882,275 contributed capital into the company.

349,064,551 total shares are on issue by the parent entity, which includes 335,744,765 consolidated shares on issue plus shares held by the EST (13,319,786) which have been issued by the parent entity and are eliminated on consolidation.

Reconciliation to the Consolidated Statement of Changes in Equity:

	\$'000
Balance at 30 June 2021	108,132
Shares options exercised	6,344
Share based payment: shares issued as part of the ESS	911
Share issue cost	(40)
Balance at 30 June 2022	115,347
Shares issued for services rendered	108
Share based payment: shares issued as part of the ESS	238
EOF Bio preferred units issued	882
Share issue cost	(20)
Non-controlling interest	(17)
Balance at 30 June 2023	116,538

11. 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	
		2023 %	2022 %
Ecofibre Services Pty Ltd (ES)	Australia	100%	100%
Ananda Food Pty Ltd (AF)	Australia	100%	100%
Ecofibre Asia Pacific Pty Ltd (EAP)	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 USA RE LLC (EUSARE)	United States of America	100%	100%
Ecofibre Uruguay SA (EU)	Uruguay	100%	100%
EOF Bio LLC (BIO)	United States of America	98.1%	0%

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.

EUSARE is a special purpose entity for the securitisation of loans.

EU is a dormant entity.

BIO's principal activity is to research and commercialise gynecological and other treatments using hemp derived cannabinoids.

12. Non-controlling interest

	2023 \$'000	2022 \$'000	2023 Quantity	2022 Quantity
Preference shares issued	882	-	30,584	-
Held by Ecofibre USA Inc	866 98.1%	- -	30,000 98.1%	- -
Non-controlling interest	17 1.9%	- -	584 1.9%	- -

For the FY23 financial year 0% of the net loss after tax was attributable to the non-controlling interest.

13. Earnings per share

	2023 \$'000	2022 \$'000
Earnings (Loss) used in the calculation of basic and diluted EPS (\$'000)	<u>(39,912)</u>	<u>(14,670)</u>
	No. 2023	No. 2022
Weighted average number of shares* outstanding during the period used in the calculation of basic and diluted EPS:		
Basic	335,670,317	332,533,170
Diluted**	<u>335,670,317</u>	<u>332,533,170</u>

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

** Options granted are not included in the diluted weighted average number of shares because they are antidilutive. Adding these options would result in a lower loss per share.

14. Deferred tax assets

	2023	2022
	\$'000	\$'000
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Property, plant and equipment	(1,056)	(2,307)
Inventory	1,627	-
Accrued expenses	323	512
Allowance for expected credit losses	25	32
Blackhole expenditure	88	53
Employee share transactions	1,524	1,360
Prepayments	(73)	(117)
R&D non-refundable offsets	3,391	1,702
Carried forward losses	7,873	8,449
Other	(133)	(103)
Deferred tax asset written off	(13,678)	-
	<u>(89)</u>	<u>9,581</u>
Amounts recognised in equity:		
Transaction costs on share issue	89	89
	<u>-</u>	<u>9,670</u>
Deferred tax asset	<u>-</u>	<u>9,670</u>
<i>Movements:</i>		
Opening balance	9,670	3,906
Credited to profit or loss	3,968	5,724
Credited to equity	40	40
Deferred tax asset written off	(13,678)	-
Closing balance	<u>-</u>	<u>9,670</u>

The Group has significant carried forward losses available in Australia and the United States which are able to be used to offset future taxable income in both countries. Nevertheless the value of these losses and other timing difference are no longer recognised in the Consolidated Statement of Financial Position as a Deferred Tax Asset pursuant to the requirements of AASB 112 Income Taxes.

The Group will continuously assess the Deferred Tax Asset and make any necessary adjustments based on changes in circumstances and tax legislation.

The group has \$19,022k of income tax losses to utilise in Australia and \$11,305k of income tax losses to utilise in the USA. An asset has not been recognised in respect of these tax losses at 30 June 2023.

15. 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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated - 2023				
<i>Assets</i>				
Biological assets	-	568	-	568
<i>Liabilities</i>				
Contingent consideration	-	11,518	-	15,002
Consolidated - 2022				
<i>Assets</i>				
Biological assets	-	579	-	579
<i>Liabilities</i>				
Contingent consideration	-	13,996	-	13,996

16. Foreign currency translation reserve

Foreign currency translation reserve consists of exchange differences arising from translation of foreign subsidiary's financial statements, where the subsidiaries reporting currency differs from that of the consolidated entity's currency. The balance sheet is translated either at historical spot rates or the closing rate at the end of the period. Profit and loss is translated at average rates.

The majority of the Company's business is conducted in Australian and United States dollars. The closing exchange rate for this currency pair changed by 4% during the year as the USD appreciated against the AUD (2023: AUD1 for USD0.6619, 2022: AUD1 for USD0.6875).

Foreign currency translation reserve (continued)

The foreign currency translation reserve as at 30 June 2023 consists of the following exchange differences:

Balance sheet component	Rate used for translation	\$'000
Investment in subsidiaries	Historical spot rate	5,821
Retained earnings	Average rate	(1,044)
Total		<u>4,777</u>

Movement in the foreign currency translation reserve:

Balance at 30 June 2022	1,810
Exchange differences on translation of foreign controlled entities	2,967
Balance at 30 June 2023	<u>4,777</u>

17. Contingent consideration

On 21 August 2020, the Group completed the acquisition of TexInnovate, a portfolio of five businesses with deep technical expertise and capabilities across a broad range of high-performance textile disciplines. TexInnovate was acquired to complete a key part of its supply chain for Hemp Black, accelerate commercialisation of the business and underpin the future growth and success of Hemp Black.

Total potential consideration for the businesses and operating assets is USD42.0m, including contingent consideration with a value up to USD21.0m, is also payable subject to the acquired businesses delivering USD6.0m earnings before interest and tax (EBIT) for two consecutive annual periods within seven years of completion. The earliest that any such consideration may become due is in 3 equal tranches of USD7.0m on the 5th, 6th, and 7th anniversaries after completion, payable in equal proportions of cash and shares. 5,924,925 shares will be issued if the performance targets are met.

Reconciliation of acquisition date contingent consideration payable in cash, which is subject to the acquired business achieving the EBIT target, to the balance at 30 June 2023:

	\$'000	\$'000
Balance at 1 July fair value [^]	13,996	12,414
Fair value movement on contingent consideration during the period	458	414
Extension of earnout period*	(3,484)	-
Foreign currency impact	548	1,168
Balance at 30 June 2023	<u>11,518</u>	<u>13,996</u>

[^] The fair value of the contingent consideration is determined based on the probability weighted cash flow projections discounted at the incremental borrowing rate. The inputs used in the valuation falls under level 2 of the fair value hierarchy (inputs other than quoted prices that are observable for the asset of liability, either directly or indirectly).

* To reflect the 2 year interruption due to COVID and the post COVID momentum in the business the earnout period has been extended by 2 years, from 5 years to 7 years.