ECOFIBRE

ANNUAL REPORT

2023

ABOUT ECOFIBRE

Ecofibre owns a portfolio of advanced manufacturing businesses in the United States and Australia.

We operate three vertically integrated businesses focused on sustainable polymers and natural materials, natural health care, plant-based foods and seed genetics. In addition, we own a majority interest in a pharmaceutical business that is developing treatments for malignant and non-malignant gynaecological diseases.

Hemp Black is an advanced manufacturing business with specialist capabilities in performance yarn extrusion and polymer compounding, sustainable materials and bioplastics. See hempblack.com.

Ananda Health is a leading US manufacturer of cannabinoid-based health products for human and pet consumption. Our focus is on providing high-quality, research-backed products in Australia and the USA, targeting conditions including sleep, pain, anxiety, endometriosis, and other gynaecological diseases. See anandaprofessional.com and anandahemp.com.au.

EOF Bio LLC owns the rights to commercialise a portfolio of patents for the treatment of gynaecological diseases and continues to grow its portfolio of intellectual property through an active research partnership with the University of Newcastle in Australia.

Ananda Food owns one of the world's largest collections of hemp seed genetics. It is a leading, low-cost manufacturer of high-quality hemp food products in Australia, including oil, seed, and proteins. The business is also a leading supplier of seed genetics to the hemp fibre industry in the US and Australia. See anandafood.com.

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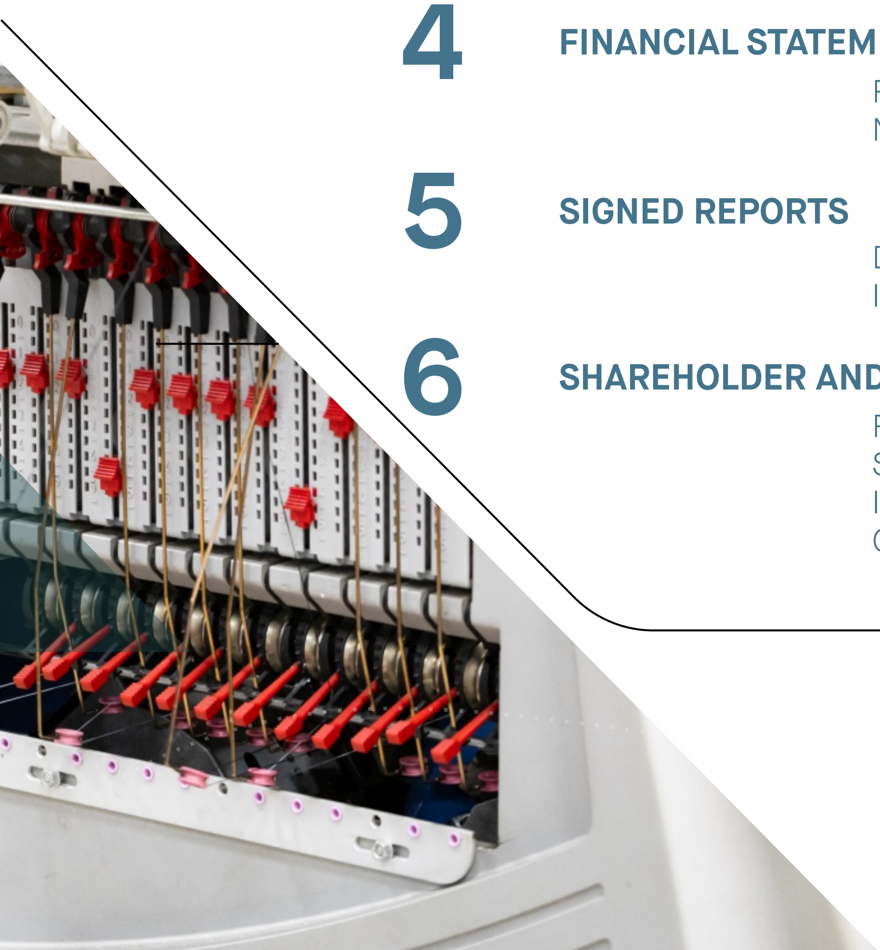


1. OVERVIEW

Our purpose

Seeding the solution

As a global leader in sustainable hemp solutions, Ecofibre, at its core, is an impact company.

Our focus is to be the global leader in sustainable solutions that address health issues and decarbonise a wide range of emission intensive industries around the world.

Group structure and priorities

HEMP BLACK

Be a recognized leader in the USA for sustainable, high-performance polymers, yarns and bio-plastics

anandahealth

Be the preferred provider to practitioners and pharmacy channels

anandafood

Be the leading supplier of hemp foods in Australia, and hemp genetics in the USA and Australia

Our Brands

HEMP BLACK

ananda PROFESSIONAL

BLISS

anandafood

SOULSEED HEMP FOODS

anandafood EQUINE

Our Partners

FY23 Highlights

Refocussed business

- exited non-core operations

Reset cost base

- 27% reduction from 1st half to 2nd half
- $11m annualised cost savings
- $8.8m annualised cash cost savings

Grew revenue

- 8% overall
- 26% for Hemp Black business

Improved EBITDA*

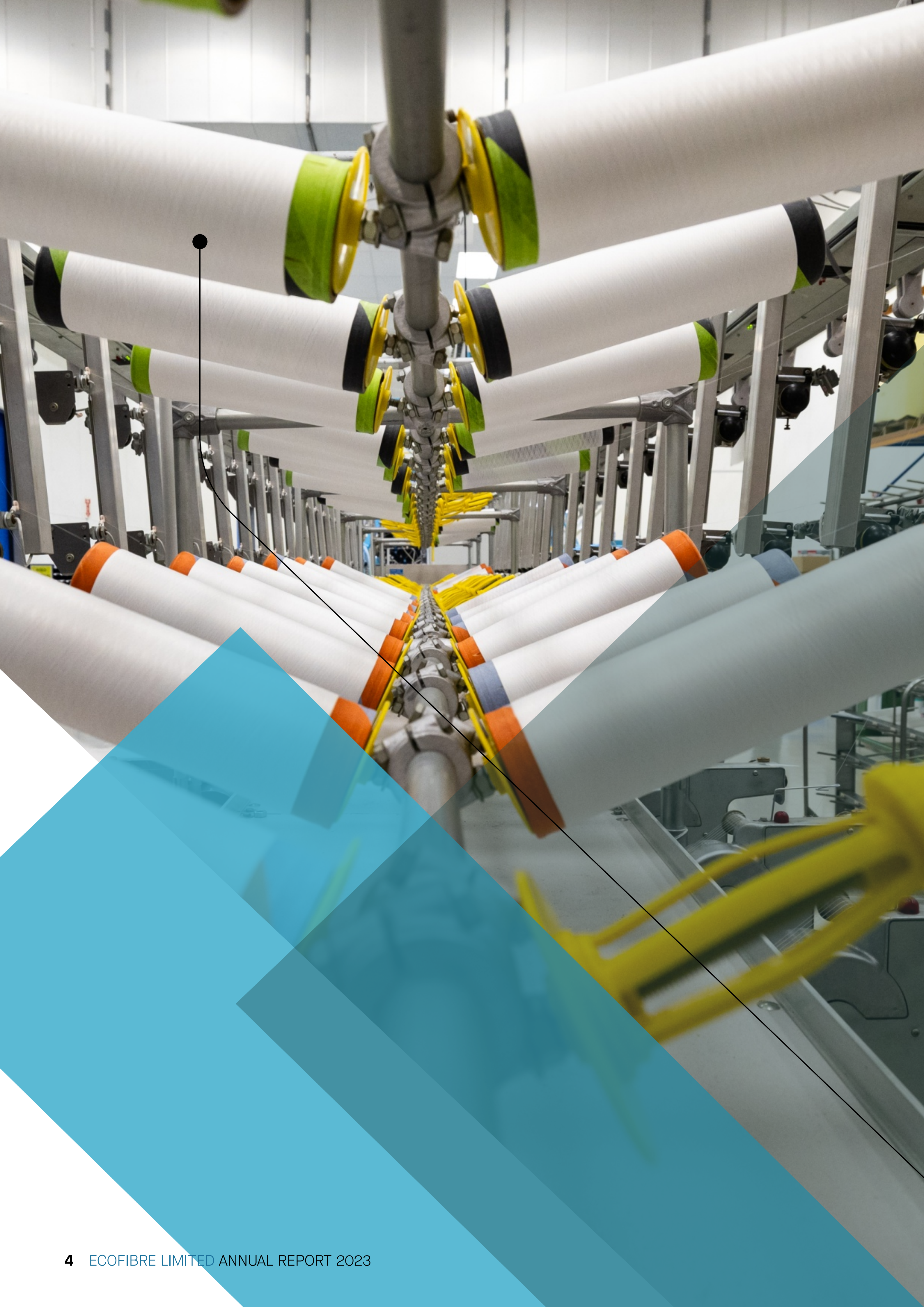
- 1st half: -$8.6m
- 2nd half: -$4.6m

Added quality global partners

Reset balance sheet & reduced financial risk

- EOF-Bio established
- balance sheet adjusted

* Normalised result



Key FY23 metrics

FY23 RESULT

Revenue
up from $30.2m to
$32.5m

Gross Margin
down from 49% to
33%

Other Income
down from $2.1m to
-$2.4m

Operating Costs
down from $37.2m to
$35.4m

EBITDA
down from -$15.3m to
-$22.4m

Loss after Tax
up from $14.7m to
$39.9m

EPS
-11.89cps

FY23 RESULT Normalised

Revenue
up from $30.2m to
$32.5m

Gross Margin
up from 49% to
53%

Other Income
up from $0.2m to
$0.4m

Operating Costs
down from $37.2m to
$35.4m

EBITDA
down from -$17.2m to
-$13.2m

Loss after Tax
up from $16.1m to
$19.4m

EPS
-5.78cps

BALANCE SHEET & OTHER METRICS

Cash
$7.3m

Cash + IRS credits & refund
$7.9m

Investment (R&D)
$4.8m

Investment (Capital)
$1.6m

NTA per share
6.28cps

Chairman’s Message

Dear Shareholders

At last year's AGM, in November 2022, we announced a strategic review of the business. The objective was to set a path for the business to return to cash positive operations and profitability in FY24 with an enhanced growth profile for the business. The implementation of the review was largely completed by June 2023 impacting both the P&L and Balance Sheet in FY23. By the second half of FY24 and beyond will see the full benefit of the cost and growth initiatives.

In FY23 Ecofibre reported a headline loss of $40m. While the size of the loss was obviously disappointing, it included several one-off impairments and accounting adjustments that reflected a business in transition. Normalised EBITDA, an indicator of the cash generating ability of the business, was a loss of $13.2m in FY23.

Costs were significantly reduced, several business product lines stopped, resources refocused on priority commercial contracts and new profitable opportunities have been secured in Ecofibre's key areas of focus.

Due to these changes Ecofibre's underlying results were better year-on-year, and significantly so half-on-half with normalised EBITDA improving from -$8.6m in 1H23 to -$4.6m in 2H23.

The Board and management team has balanced short term cash use and generation with continued investment in long term priorities. We will keep looking through short term economic and market cycles and keep focussed on strategically defensible growth markets where Ecofibre can offer customers differentiated capabilities and build long term value for our shareholders.

Refocused business and reset cost base

Important decisions were made in FY23 to refocus the business.

Ananda Health delivered a significant reduction in costs to better align with current revenues. A new indication-based product range was introduced as we continue to serve the professional market for CBD remedies in the US and Australia. A separately funded vehicle, EOF-Bio, was also established to manage future investment in the clinical research portfolio for gynaecological-related conditions and other diseases.

Hemp Black closed its apparel and 3D knitting businesses to hold costs flat amid ongoing investment in new opportunities, and these investments are now beginning to convert into new commercial customer relationships.

Corporate overheads have been reduced, including the closure of Ecofibre's Brisbane office.

Overall, in addition to lower operating costs, these changes have aligned the company's balance sheet and reduced financial risk. Eric elaborates further on the importance of these shifts in his Managing Director's letter below.

Growth opportunities

With a simpler business portfolio and tighter focus, Ecofibre can better leverage its differentiated capabilities and market positioning, including its advanced manufacturing capabilities. Management time and resources have been released for high priority commercial partnership opportunities that will deliver growth through FY24 and beyond.

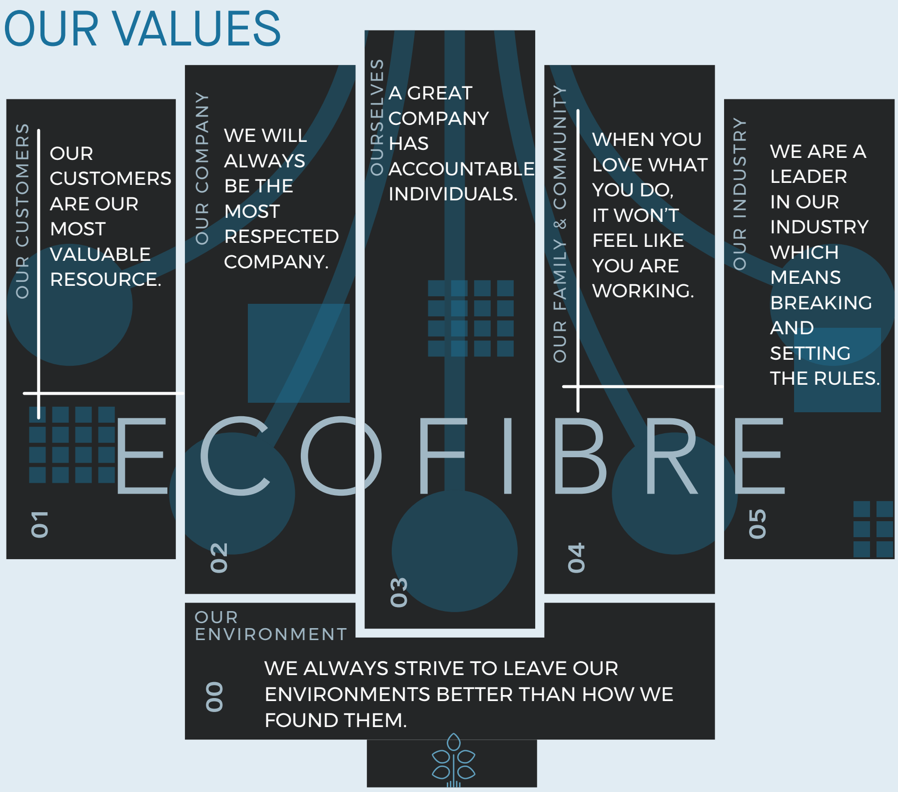
Two recent examples of this are Hemp Black's manufacturing partnerships with Under Armour and Cruz Foam. Both businesses are highly innovative, share our values and our commitment to sustainability, and have strong plans to grow their business with Hemp Black. Under Armour is a household name and a tier-1 global customer, and this relationship is testament to the world-class manufacturing capabilities that Jeff Bruner and his team have built in yarn extrusion and sustainable polymers.

Similarly, the pharmaceutical grade clinical research and manufacturing capability that's been developed in the Ananda Health business in recent years has directly led to the commercialisation opportunity now before us in EOF-Bio.

Together with these successes the team also had setbacks during the year, including the loss of hemp fibre seed crops that were planted to supply the US hemp fibre market. Transport, weather and harvest issues cost a combined $3m in lost revenue – 10% of our total annual revenue in FY23 – which meant a poor financial result for Ananda Food in the year.

Delivering on our purpose

Last year I said that Ecofibre is, at its core, an impact company. As I look at recent initiatives this has never been truer. The company's efforts are focussed on worthwhile and important products, from life-saving yarns for vascular grafts, health and nutrition products, women's health treatments, recyclable polymers and compostable natural foams. The Katlyn's Gift charity continues to provide financial support to children across Australia by providing their families access to life-changing CBD.



In addition to being an industry leader, aiming to influence the standards and ensure the supply chain is established sustainably, we also put a lot of credence in the way we do business.

We consider our customers, suppliers, communities in which we operate and our team members in all decisions we make to create shareholder value.

Thank you

As Ecofibre has evolved the Board has also evolved in line with the business, with Mark Bayliss joining in September 2022 and Jon Meadmore retiring in February 2023. Jon was a Director and also Chair of Audit and Risk since October 2017; and helped guide the Company through its formative years including its ASX listing in February 2019. On behalf of the Board, management and shareholders I'd like to thank Jon for his valuable contribution over this period.

Mark Bayliss joined in September 2022 and is the new Chair of Audit and Risk. Mark is an ACA and brings a wealth of experience across several industrial businesses as a turnaround specialist. He is currently CEO of A2B and since joining has already added significantly to the Board.

As I mentioned in my opening comments, FY23 was a key transitional year for Ecofibre. For Eric and his team, it's been a huge year as they managed existing operations and short-term challenges while keeping their focus on making Ecofibre's long term opportunities a reality.

In FY24, the team are well positioned to deliver on opportunities that will define the company's future. They have proven themselves resilient to get the tough stuff done and maintained an aspirational and external focus to work with and land key new clients. I would like to particularly thank Eric for his leadership and commitment, and continuing to build a business that has a positive impact on so many lives.

I look forward to this time next year when a lot of this great work will be evident in tangible results and more people know about Ecofibre not just as a hemp business but also as an advanced manufacturing company that is:

- creating new treatment options for women's health
- giving customer choices to consider new, sustainable products
- building shareholder value

Vanessa Wallace
Chairman

Managing Director's report

Dear Shareholders,

FY23 marked an important year for Ecofibre, as we refocused the business and reset our cost base to target positive operating cash flow in FY24 and EBITDA-positive operations in 2H24.

We closed several non-core business lines in the second half of the year, reduced our cost base by $11m on an annualized basis ($8.8m lower cash costs), and restructured our balance sheet to reduce financial risk. These changes freed resources and improved our flexibility to focus on the tremendous opportunities ahead of us in the near and mid-term.

Overall, we achieved 8% revenue growth in FY23 while improving margins by 4% on a normalised basis and delivering a 27% reduction in operating costs in the year's second half.

Hemp Black

FY23 growth was underpinned by a 26% increase in Hemp Black revenues from our existing biomedical and turf yarns businesses. Demand for turf yarn continues to exceed supply, and Jeff and his team have continued to improve the line to increase production volumes and optimize product mix. The capacity and reliability of the bio-medical yarn also improved significantly during the year, and FY23 volumes were particularly strong.

Our aim for Hemp Black is to create more businesses like biomedical and turf: production lines running at full capacity to provide customized, high-end, and scalable manufacturing solutions for tier 1 customers.

Hemp Black has unique capabilities that position the business for solid growth in the coming years:

- Innovate: Jeff and the team have a well-earned reputation for customized, creative solutions in polymers, sustainability, extrusion, and knit-ready yarns.
- Partner: Existing and new customers are leading players in their respective markets
- Scale: The business can take product concepts from R&D to full-scale production, including the design and manufacture of the necessary production equipment

As a result, we have several growth levers in the business, and I'm glad our work with key customers over the last 12 months is coming to fruition. Our agreements with Under Armour and Cruz Foam are the result of hard work and relationships that, in some cases, are new and in other cases, have been built over many decades.

Ananda Health

Our Ananda Health business delivered flat revenues despite headwinds in the US CBD market.

While the US market remains challenging, we are seeing shifts in the industry, which gives me cause for optimism. There is early evidence that demand is returning in wholesale markets for hemp-derived CBD extracts, the raw material and critical input to making CBD products. The US Food and Drug Administration (FDA) is also actively engaging with the US Congress on a way forward for CBD regulation, which can only benefit well-established and high-quality producers like Ananda Health.

The Australian market continues to grow strongly, and although we didn't get the result we hoped for or expected with the S3 clinical trial with Southern Cross University, our Australian business did grow as we refocused our efforts on the S4/S8 CBD market.

The opportunity for Ananda Health is to leverage its manufacturing capacity and target new opportunities, including condition-specific products that include CBD; expanding our traditional focus on independent pharmacies to include all healthcare providers; increasing the regional presence of our sales force; and selectively targeting white-label customers.

Our facility in Georgetown is rated for pharmaceutical-grade manufacturing, including certification by Australia's Therapeutic Goods Administration (TGA), and this allows us to target new, premium segments in the industry.

EOF-Bio

In late FY23, we established a new, separately funded entity to commercialise patents granted by the US Patent and Trademark Office (USPTO) for the treatment of gynaecological and other diseases.

These patents came about from our collaboration with Newcastle University in Australia, and our team is excited to accelerate these trials and, if successful, work with partners to develop drugs that have the potential to revolutionize treatment options for women around the world.

Ecofibre wasn't founded as a pharmaceutical company, and it became clear that we need specialist skillsets and separate funding to commercialise the opportunity and manage the risks associated with a drug development pipeline. Importantly, Ecofibre shareholders retain a majority interest in EOF-Bio through the first fundraising phase and retain significant upside exposure to this investment. Our work is attracting interest from the pharmaceutical industry, and I look forward to providing a more detailed update to all shareholders in the near future.

From FY24, we will include EOF-Bio as a separate segment in our financial and operational reporting.

Ananda Food

The headline result for Ananda Food in FY23 was disappointing, mainly due to ~$3m lost revenues that we expected from US fibre seed sales that did not eventuate due to issues that included severe weather in the US.

In the first half of FY24, we will launch a new hemp-based cat litter for Woolworths and look to re-establish our seed propagation and sales pipeline.

Overall

As Vanessa mentioned, FY23 was a transformational year for Ecofibre. FY24 will be a watershed year, particularly for Hemp Black, as it commissions new production lines and completes the build of some important growth levers to provide long-term profitable growth. The establishment of EOF-Bio brings Ananda Health back to profitability as the core operating business is no longer required to fund biotech research, and EOF-Bio is resourced to maximise the opportunity ahead.

Sustainability and social impact are core to our business model

Ecofibre has always placed positive impact and environmental sustainability at the core of how we operate in our chosen markets. The company has built commercial business models in attractive markets that positively impact society and the environment: environmentally sustainable industrial products, natural health care, plant-based foods, and an emerging pharmaceutical opportunity.

We make things that benefit people and the environment:

- Yarns for life-saving vascular grafts
- Yarns for turf that requires no watering, fertilizers, pesticides, or herbicides
- Foams and packaging that replace polystyrene and bio-degrades by 98% in 60 days
- New recyclable elastomeric polymers that replace non-recyclable polymers which are currently used globally
- Hemp-based cat litter that will replace less sustainable and extractive clay-based products
- Women's health products for a range of treatments with the potential to replace more toxic opioid-based solutions.

Thank you

I sincerely thank all our customers, business partners, and shareholders for your continued support of Ecofibre. We have a strong and committed team across the business, and I want to acknowledge everyone's contribution in a year that has set up the Company to become EBITDA positive in 2H24.

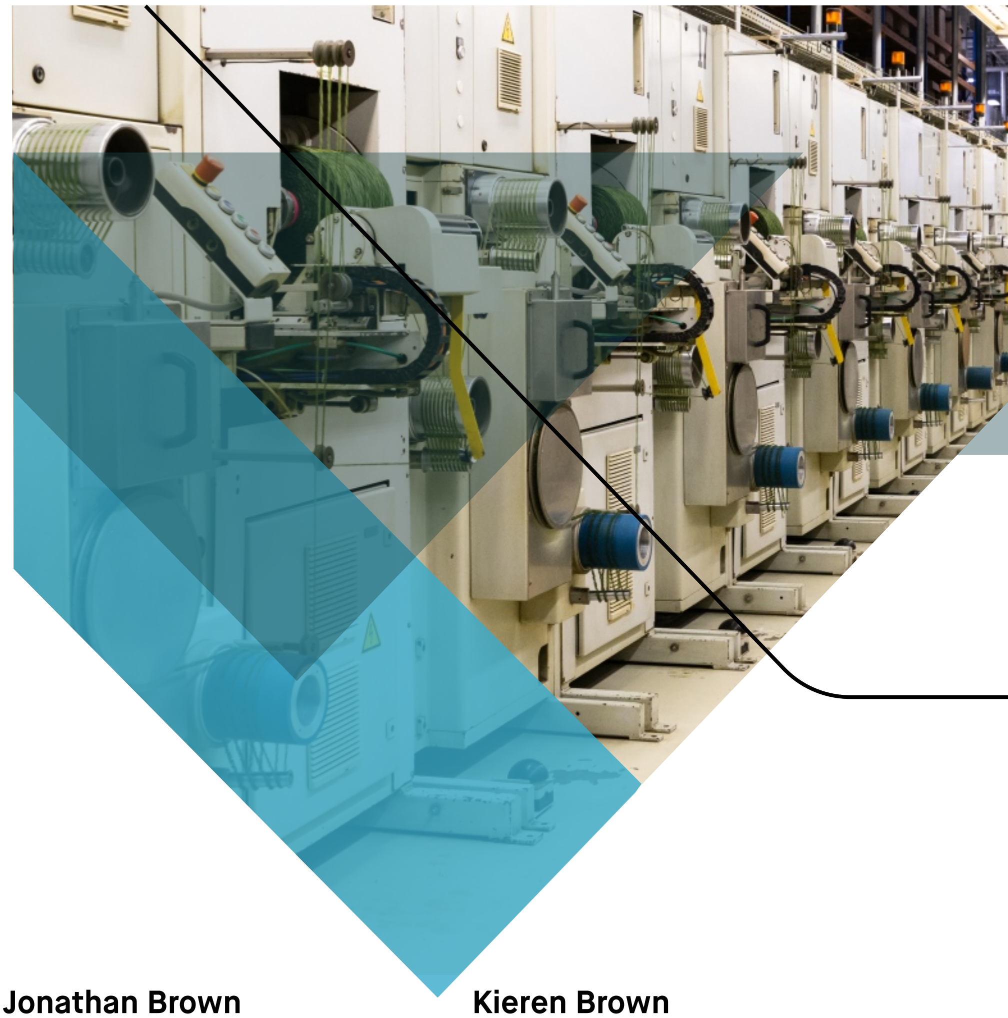
I want to thank my fellow directors for their expertise and support as the Company implemented its business reset during the year and welcome Mark Bayliss who has provided great value to me and the business. I also wanted to echo Vanessa's thanks to Jon Meadmore, who retired from the Board this year. Jon joined the Board when the Company was only beginning to establish commercial business lines, and he was integral in helping us in our Initial Public Offering and providing me counsel in navigating through the constant challenges of any early-stage business.

Finally, I would like to thank my staff and management team for their commitment and hard work in resetting the business to deliver a cash flow-positive operation in FY24 and positive EBITDA in the second half this FY24.

Eric Wang
Managing Director

Leadership Team

Eric Wang
Managing Director



Eric joined Ecofibre as CFO and Director in December 2015. He was appointed CEO and Managing Director in December 2017. Eric has over 25 years of leadership and executive management experience, both as an officer in the United States Army and as a financial services executive in Australia. Prior to joining Ecofibre, Eric served as Captain and Apache pilot in the US Army for eight years in a range of roles, including Troop Commander, Operations Officer, Executive Officer and Personnel Officer in the United States and Europe. After leaving the military, Eric moved to Australia to work for the global management consulting firm, Bain & Company, where he specialized in the financial services industry in Australia and Asia. He then served as the Chief Operating Officer of Perpetual Limited and Director of the APO for AMP Limited.

Alastair Bor
Chief Technology Officer

Alastair joined Ecofibre in July 2018 to drive scale, automation and technical capability across Ecofibre. Alastair is an experienced executive, with a long track record of delivering innovation in both large private and public sector organisations. Alastair oversees both operational and information technology across Ecofibre. Alastair has an MBA from the Tuck School at Dartmouth and previously worked at Booz, Allen & Hamilton, Perpetual Ltd and Transport for NSW in various senior executive strategy, technology and delivery roles.

Jonathan Brown
Chief Financial Officer and Joint Company Secretary

Jonathan joined Ecofibre in April 2016 and established the finance and corporate functions of Ecofibre ahead of the Company's ASX listing in March 2019. Jonathan is a Chartered Accountant with over 25 years commercial experience. Jonathan has a Bachelor of Business (Accounting), a Graduate Diploma in Advanced Accounting, and a Graduate Diploma in Finance and Investment. Prior to joining Ecofibre in 2016, Jonathan worked for AMP, the London Stock Exchange and Ferrier Hodgson in a variety of roles including corporate strategy, M&A, senior finance roles and insolvency & reconstruction.

Kieren Brown
Managing Director, Ananda Foods

Kieren became the MD of Ananda Food in March 2018 with a remit to grow the newly established Australian food business. Kieren has over 25 years' experience within the UK, Spanish and Australian food industries, specialising in the operational and technical disciplines in short shelf-life fresh produce. Kieren's last role was with Australia's largest supplier of pre-packaged salads, where he oversaw several hundred staff across four sites with turnover of over $230 million per annum. Prior to that, Kieren worked overseas for Heinz and has deep experience with some of the largest retailers – including Woolworths, Coles and Marks and Spencer. Kieren holds a BSC (Hons) in Microbiology from University of Wales Aberystwyth.

Jeff Bruner
President, Hemp Black

Jeff founded The Quantum Group, Inc. in 1985 later transitioned into Quantum Materials, LLC in 2017 and then founded TexInnovate, Inc. in 2017 which was later sold to Ecofibre. At Quantum Materials Jeff was responsible for the development and innovation of a wide range of high-performance textile applications across a range of industries to include office furniture, automotive seating, truck tires, road construction fabrics, filtration, composite yarns & fabrics, medical implants, outdoor furniture and many other highly engineered yarns and fabrics. Jeff is a leading textile engineer and inventor of solutions to meet industry needs for high specification applications.

Dr Alex Capano
Chief Science Officer

Dr. Capano earned her DNP at Thomas Jefferson University in Philadelphia, Pennsylvania, where she graduated Summa Cum Laude and was awarded the Sandra Festa Ryan award for Outstanding Creativity and Innovation. She was the first doctoral candidate of any discipline who focused on cannabinoid science under the guidance of the Lambert Center for the Study of Medicinal Cannabis and Hemp. Dr. Capano also holds a BSN and an MSN from the University of Pennsylvania, and a BS in neuroscience from the University of Miami.

Neal Mercado
Chief Marketing Officer

Neal joined the Ecofibre team in 2022 and is responsible for the development and implementation of our global marketing and innovation functions. Neal has over 25 years' experience in in the global vitamin and dietary supplements industry, with an emphasis on strategic marketing, new product development and research. Prior to joining Ecofibre, he was Chief Marketing Officer at a leading practitioner supplement brand in the US. Neal has also held a number of roles focused on portfolio management and global product development for multinational corporations. Neal has a Bachelor's degree in Marketing from Michigan State University, is a graduate of the Australian Institute of Company Directors and holds a Certificate of Western Herbal Therapies from Nature Care College.

Alex Nance
President, Ananda Health

Alex joined Ananda Health in September of 2017 and is responsible for the overall management and delivery of the Ananda product range. He helped to develop the current facility and is also responsible for all aspects of quality control and planning. Alex's background is in toxicology and chemical production. Prior to joining Ananda he worked at Ethos Laboratories as Laboratory Production Manager and Dubois Chemicals as a chemist. Alex holds a Bachelor of Science in Pharmaceutical Sciences from The Ohio State University.

Robin Sheldon
General Counsel and Joint Company Secretary

Robin has over 25 years' experience in corporate law. Prior to joining Ecofibre, Robin was employed by Thomas Jefferson University as Sr, VP of Jefferson Strategic Ventures, VP of its Innovation Pillar and Associate Counsel. Prior to Jefferson, Robin was a partner at Fox Rothschild, LP, where she specialized in mergers & acquisitions, private equity and intellectual property issues, especially in the biotech area. She was the General Counsel of Half.com, Inc. (acquired by eBay, Inc.), Associate Counsel for Sanchez Computers, and Counsel for SEI Investments. Robin has been an adjunct professor at Temple University's Beasley School of Law, and frequent lecturer on the ethics of Intellectual Property.

2. OPERATING + FINANCIAL REVIEW

Group Overview

GROUP RESULT

AUDm	FY23	FY22	%
Revenue	32.5	30.2	+8%
Gross Margin*	53%	49%	+4%
Other Income (Expense)*	0.4	0.2	+100%
Operating Costs	(35.4)	(37.2)	-5%
EBITDA*	(13.2)	(17.2)	-23%
Investments:			
Research & Development	4.8	6.3	-24%
Capital Expenditure	1.6	3.0	-47%

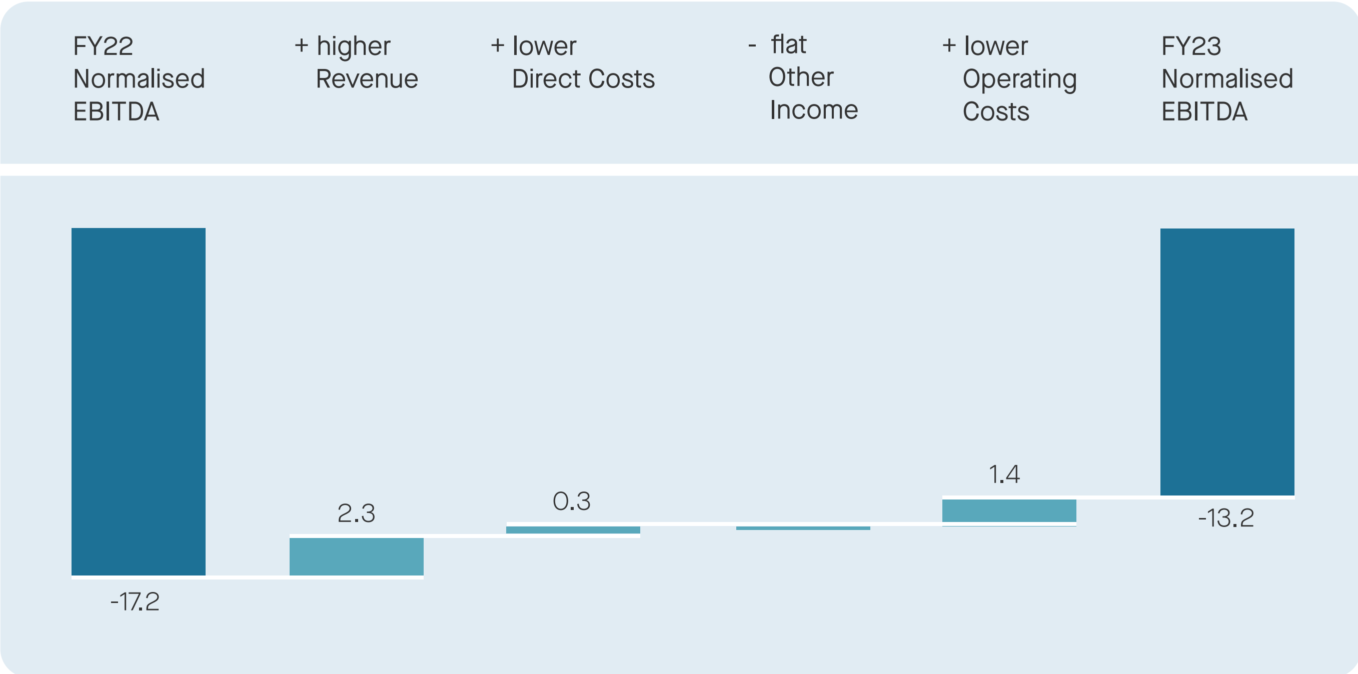
* normalised[1]

1 In this report, normalised items exclude impairments of inventory and fixed and intangible assets, adjustments to the Deferred Tax Asset and Contingent Consideration in 2H23, and any government grants and foreign exchange gains or losses in other income

Improved Underlying Business

In the year to 30 June 2023 ('FY23'), Ecofibre improved its underlying business with normalised EBITDA improving from a loss of $17.2m in FY22 to a loss of $13.2m in FY23. The key drivers of this shift were higher revenues, higher gross margins and lower operating costs.

The following graph shows the changes in normalised EBITDA from FY22 to FY23:



Revenue, Direct Costs and Margin

Group revenue increased 8%, from $30.2m to $32.5m (+$2.3m):

- Hemp Black (FY23: $17.3m; FY22: $13.8m)

  Hemp Black grew revenue by 26% in FY23. This growth includes higher production for core turf and biomedical yarn extrusion lines, as well as higher average prices for turf yarn as the business began to shift some of its production capacity toward higher value nylon polymers.

- Ananda Health (FY23: $13.0m; FY22: $12.9m)

  Ananda Health's revenue increased by 1% in FY23, with improved sales in Australia (up $1.8m to $2.4m), partially offset by lower US sales (down $1.7m to $10.6m), including the impact of ceasing to supply CVS.

- Ananda Food (FY23: $2.2m; FY22: $3.6m)

  Ananda Food revenue declined in FY23, including the impact of $1.4m sales credits provided to US hemp seed customers in 2H23 year following damage to planting seed in transit. Overall, the revenue lost from this issue, and weather-related damage to US seed crops, totalled approximately $3m.

Review of Operations and Results (continued)

Normalised gross margin (excluding inventory impairments) for the Group increased from 49% to 53%. Within each business segment:

- Hemp Black margin was higher (FY23: 50%; FY22: 44%)
- Ananda Health margin was higher (FY23: 70%; FY22: 61%)
- Ananda Food's margin was lower (FY23: -15%; FY22: 20%). FY23 margin was +32% if 2H23 crop losses are also excluded.

Other Income

Normalised Other Income (excluding fixed and intangible asset impairments, FX income and losses and government grants) increased from $0.2m to $0.4m. In the prior period, Other Income included the final benefit from the US Federal Government ERC program which ceased effective 1 October 2021 ($1.4m).

Operating Expenses

Operating expenses reduced by 5%, from $37.2m to $35.4m (-$1.8m), which compares favourably to the increase in both revenue and normalised gross margins, demonstrating the operational leverage inherent in Ecofibre's businesses.

The reduction in operating expenses from the first half ($20.4m) to the second half ($15.0m) was 27%. The primary drivers of this reduction were lower costs for R&D, staff, legal expenses and depreciation.

By business segment, the half-on-half reduction in operating costs is split as follows: Ananda Health (-$3.6m), Hemp Black (-$0.9m), Ananda Food (-$0.3m) and Corporate (-$0.7m).

Review of Operations and Results (continued)

Loss After Tax and Balance Sheet Adjustments

Ecofibre incurred a loss after tax of $39.9m (FY22 loss: $14.7m) in FY23. The result included several impairment charges and adjustments as set out below:

1. Pre-tax impairment charges against the carrying value of assets in Hemp Black and Ananda Health totalled $12.4m. The impairments were recognised in the first half of the year ('1H23') and resulted from the Group's decision to close the Hemp Black apparel and 3D knitting business, and to reflect the lower level of capacity utilisation required for cannabinoid extraction at Ananda Health's production facility in Georgetown, Kentucky.

Impairment Expense by Asset Type and Business Segment	AUDm	
Inventory		
Ananda Health	4.8	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.
Hemp Black	1.7	
Ananda Food	0.1	
Corporate	-	
Total	6.5	
Property, Plant and Equipment		
Ananda Health	1.1	Ananda Health equipment written down to reflect lower utilisation, such as cannabinoid extraction equipment, and provisions against 3D knitting equipment and pyrolysis equipment to be sold.
Hemp Black	1.0	
Ananda Food	-	
Corporate	-	
Total	2.1	
Intangible Assets		
Ananda Health	0.6	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.
Hemp Black	3.1	
Ananda Food	-	
Corporate	0.1	
Total	3.7	
Total Impairment Expense	**12.4**	

2. Pre-tax gain of $3.5m recognized following the extension of the earnout period for Contingent Consideration on the August 2020 acquisition of the TexInnovate business from 5 to 7 years.

3. Post-tax charge of $13.7m in relation to the balance of the Deferred Tax Asset which was no longer able to be recognised pursuant to the requirements of AASB 112 Income Taxes.

Where noted, these impairments and adjustments, together with foreign exchange gains and losses in Other Income, have been normalised and removed from the results shown in this Operating + Financial Review to provide a clearer comparison of the underlying performance of the business in FY23 and FY22.

Income Tax

Ecofibre recognised a $13.7m reduction in the value of its Deferred Tax Asset during the period pursuant to the requirements of AASB 112 Income Taxes.

Review of Operations and Results (continued)

Cashflows and Balance Sheet

FY23 cash movements comprised

- $6.9m operating cash outflows, including $5.0m cash expenditure on R&D and $6.4m received in relation to US government income tax refunds and Employee Retention Credits (ERC)
- $1.6m investing cash outflows, including $1.7m for plant and equipment and $0.4m for business acquisitions, partially offset by $0.5m in equipment sales.
- $7.6m financing cash inflows, including $9.2m (USD 6.4m) secured loan funds received from Nubridge Capital, $2.0m repaid on an unsecured loan and $0.9m received on the issue of preferred units to external investors in EOF-Bio.

At year-end, the Group had $7.9m available to fund its operations and ongoing investments, including:

- Cash on hand, $7.3m
- The balance of the one-off ERC receivable from the US Federal Government, $0.6m

The Group remains focused on rapidly improving underlying operating cashflows whilst balancing the need to invest in revenue growth and client development.

In addition to delivering savings in direct manufacturing costs and operating costs, the Group continues to use existing inventory balances and other working capital wherever possible to improve cash operating margins. Trade Receivables reduced by $1.2m during the period.

Non-current assets reduced by $15.8m during the period, from $112.9m to $97.1m.

- Property, Plant and Equipment reduced by $3.9m to $43.1, reflecting an increase in accumulated depreciation and $2.1m in impairment charges.
- Intangible Assets reduced from $55.4m to $53.7m, reflecting impairments for patents and software costs.

  The balance at 30 June 2023 mainly relates to Goodwill recognised on the acquisition of the business and assets of TexInnovate in August 2020 ($53.1m).

  The Group also has a corresponding liability from the TexInnovate acquisition that becomes payable in cash ($11.5m Contingent Consideration liability) and equity ($14.3m Share Capital Reserve) if the acquired business delivers Earnings before Interest and Tax of US6.0m in two consecutive annual periods within seven years from the date of the acquisition.

  The earnout period was extended from 5 years to 7 years during the year, and the present value of the Contingent Consideration liability consequently reduced by $3.5m during the year.
- The value of the Group's Deferred Tax Asset which is recognized on the balance sheet was reduced from $9.7m to Nil pursuant to the requirements of AASB 112 Income Taxes. Notwithstanding this adjustment all tax losses remain available for future use.

Current liabilities total $6.5m, down from $8.1m at the beginning of the period. The FY23 balance includes $1.0m which was due and paid to the James & Cordelia Thiele Trust Fund (J&CTTF) in July 2023.

Non-current liabilities total $37.6m, including the non-current portion of the J&CTTF term loan ($7.0m), Lambert Super Fund loan ($3.5m), the NuBridge loan (USD 10.0m), and TexInnovate Contingent Consideration ($11.5m).

Review of Operations and Results (continued)

Overall, the Group's net assets reduced from $109.9m at 30 June 2022 to $74.6m during the period, and the number of shares on issue increased slightly from 335.5m to 335.7m as 0.2m shares were issued to a supplier for the provision of services. At the end of the period the Net Tangible Assets per share was 6.28 cps (30 June 2022: 13.23 cps).

The value of net assets, and the Consolidated Statement of Other Comprehensive Income, included a benefit of $3.0m in FY23 because US dollar strengthened against the Australian dollar, and as a consequence the net assets of the group's US entities were revalued.

Review of Operations and Results (continued)

HEMP BLACK

AUDm	FY23	FY22	%
Revenue	17.3	13.7	+26%
Gross Margin*	50%	44%	+6%
Other Income (Expense)*	-	-	-%
Operating Costs	(11.6)	(11.5)	1%
EBITDA*	(1.3)	(3.6)	-64%
Investments:			
Research & Development	1.8	2.5	-28%
Capital Expenditure	0.9	2.2	-59%

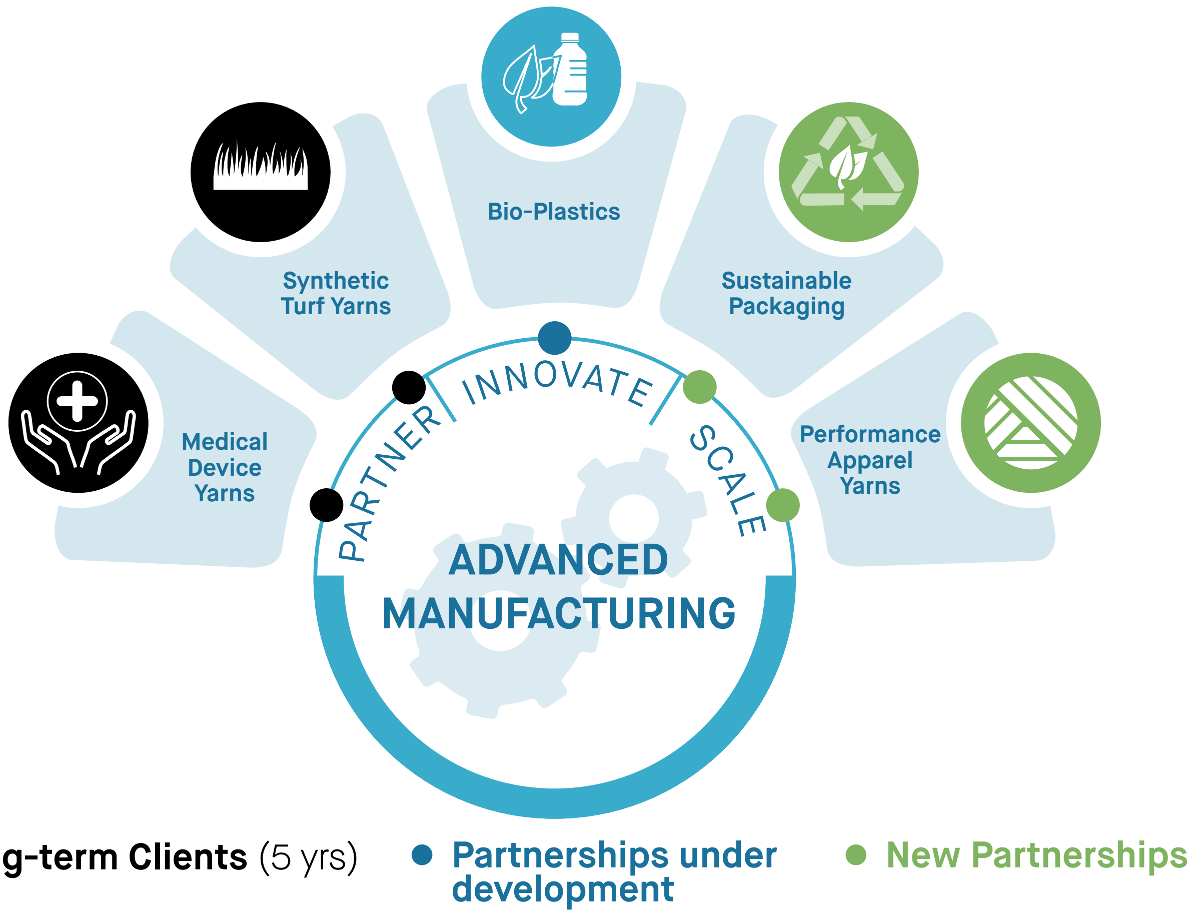
* normalised[1]

The core existing business lines for Hemp Black delivered strong growth during FY23 with new turf clients being onboarded and operational improvements in both the turf and biomedical yarn extrusion businesses. These operational improvements increase yields for these 24x7 manufacturing operations. Operating costs remained flat during the year and reductions in R&D and Capital Expenditure were because of exiting non-core operations.

In FY24 two new long-term partners are being onboarded and these businesses will add incremental value to Hemp Black's turf and biomedical yarn business lines.

Strategy overview

Hemp Black's strategy is focused on 5 core areas:



1 In this report, normalised items exclude impairments of inventory and fixed and intangible assets, adjustments to the Deferred Tax Asset and Contingent Consideration in 2H23, and any government grants and foreign exchange gains or losses in other income

Review of Operations and Results (continued)

Hemp Black is focussed on supplying existing customers and developing new customer relationships to operate in scalable businesses that generate strong cash flows and / or have good growth profiles. The business' range of operations include yarn extrusion (synthetic turf yarns, medical device yarns, performance apparel yarns) and polymer compounding and other sustainable materials technologies (bio-plastics, sustainable packaging).

The business offers customers product development capabilities including small batch production and specialist testing services, and the ability to rapidly scale production to commercial levels.

Hemp Black develops polymer compounds to suit a wide variety of customer specifications and applications. This includes cooling, fluorescence, magnetic properties, EMF shielding, x-ray shielding, infrared reflection and natural pest control, and other bio-content and customised solutions.

Hemp Black has developed patented technology to incorporate hemp products such as full and broad-spectrum hemp oil extract and concentrated cannabidiol ('CBD oil'), and eco6™ (pyrolized and micronized hemp stalk) into traditional polymer yarns and plastics to provide a range of benefits, including natural anti-microbial, anti-odor and anti-fungal properties, and conductive and anti-static properties.

Synthetic turf yarns

Hemp Black supplies specialised, textured turf yarns to three of the largest synthetic turf manufacturers in the United States. Two of the customers are long term clients, and a new customer, Tencate, was onboarded in 1H23 following period of development using a new polymer with different physical properties and new colours.

As demand for turf yarn continues to expand in the US, production is running at capacity 24/7. Regular, incremental improvements have been made to line speed throughout the year, and the ongoing focus is to maximise production volumes and revenues.

Industry demand for artificial turf is driven by year-round use for customers, no requirement for watering, mowing, pesticides, herbicides, or fertilizers, and lower maintenance costs. Opportunities may exist in the future to secure additional production capacity in conjunction with a large customer.

Medical device yarns

Hemp Black operates a dedicated, ISO9001 production facility supplying yarn for vascular grafts to a long-term customer, Intervascular SAS which is part of the Getinge AB group.

In the US the product and its manufacture are regulated by the US FDA, and barriers to entry for new suppliers are very high due to the certification process for medical devices. The business operates 24x7 and the reliability and production capacity of the line were substantially improved in FY23 to maximise revenue.

The business performed strongly in FY23. For FY24 Intervascular have advised that volumes for the six months of 1H24 will be very low as the customer has decided to reduce inventory levels due to greater supply chain certainty that now exists. Normal production volumes and revenues are expected to resume in 2H24.

Performance apparel yarns

Hemp Black has signed a memorandum of understanding with Under Armour for a three-year supply partnership to produce a new specialty yarn for apparel use. Hemp Black began installing new equipment for this production line at its Greensboro facility in 1Q24, and expects to conclude the purchase of the equipment, an indirect supply agreement with Under Armour, and supply agreements with Under Armour's mills in 2Q24. Once fully commissioned, the expected annual revenue potential of the production line is approximately $9m.

Hemp Black will work with Under Armour on potential additional opportunities to expand yarn production beyond one machine in the future.

Review of Operations and Results (continued)

Hemp Black had previously developed and manufactured its own range of branded, high performance athleisure clothing, and had also been developing a new clothing range exclusively for a leading US-based department store. These businesses, including the company's 3D knitting production line, were closed in late 1H23.

Bio-plastics

Bio-plastic products are manufactured with a proportion (typically 25% or above) of bio-based material, providing an advantage to customers looking to meet ESG (Environmental, Social and Governance) objectives.

Hemp Black has worked with supply chain partners to formulate and manufacture BioPallets that include a minimum of 25% bio-based content and has provided samples at commercial volumes which are currently being used in trials with large potential customers.

Bio-pallets are an alternative to the traditional wood pallets utilised in the transport and logistics industry, particularly in environments where pallet hygiene is important, for example in food and pharmaceuticals.

The company is also in active discussions with potential customers for other bio-based plastic solutions, including totes for storage and transport of high value pharmaceutical goods.

Sustainable packaging

Hemp Black has entered into a three-year agreement with Cruz Foam to manufacture sustainable, bio-degradable packaging foam products for Cruz Foam's customers. Hemp Black will operate the full production line for these products, which is able to replace polystyrene in several different applications. For further details on Cruz Foam and its products, see cruzfoam.com.

Manufacturing equipment and production materials will be supplied by Cruz Foam, with production gradually increasing to full capacity at which time the estimated annual revenue of this business is expected to be $3m.

Outlook

Hemp Black will experience continued growth with new core clients. We expect the business to be profitable from 2H24 with the contribution from new supply partnerships and the resumption of sales from the bio-medical business.


HEMP

Review of Operations and Results (continued)

anandahealth

AUDm	FY23	FY22	%
Revenue	13.0	12.9	+1%
Gross Margin*	70%	61%	+9%
Other Income (Expense)*	0.0	0.1	-100%
Operating Costs	(14.8)	(16.8)	-12%
EBITDA*	(3.8)	(6.7)	-43%
Investments:			
Research & Development	2.7	3.5	-23%
Capital Expenditure	0.3	0.3	-%

* normalised [1]

Ananda Health was able to maintain flat revenues despite challenging market conditions in the US CBD market where the industry continues to see the dislocation of many smaller brands. During the year operating costs were substantially reduced, and with the establishment of EOF Bio, most R&D costs will no longer exist in the core operating business.

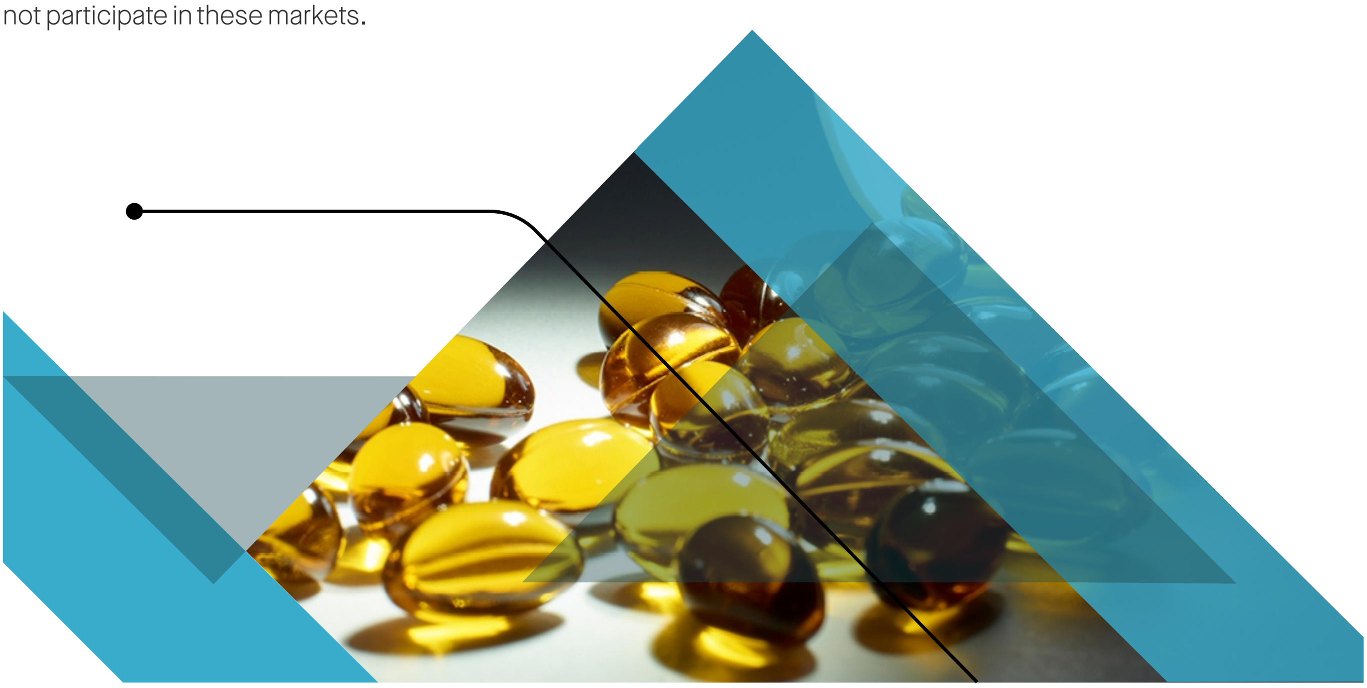
Market overview

The CBD market in the US continues to be challenging, although the wholesale market for hemp-derived CBD extracts, a key input for CBD products, appears to have stabilized with volume buyers beginning to return to the market.

The lack of regulatory classification from the FDA remains a barrier to sustainable growth in the industry. Despite hemp-derived CBD being federally legal since December 2018, the FDA is still yet to approve these products as a dietary supplement. The lack of a regulatory classification constrains growth by limiting financial transactions, hampering demand generating activities, and enabling low-quality non-efficacious products to enter the market.

In January 2023, the FDA recognised that existing regulatory frameworks for foods and supplements are not appropriate for CBD and that it would need to work with Congress to develop a new, tailored regulatory framework.

Market growth in Australia has been stronger, however mainly focused in high-THC segments (THC, or Tetrahydrocannabinol, is the major psychoactive component in cannabis) and smokable flower formats. Ecofibre does not participate in these markets.



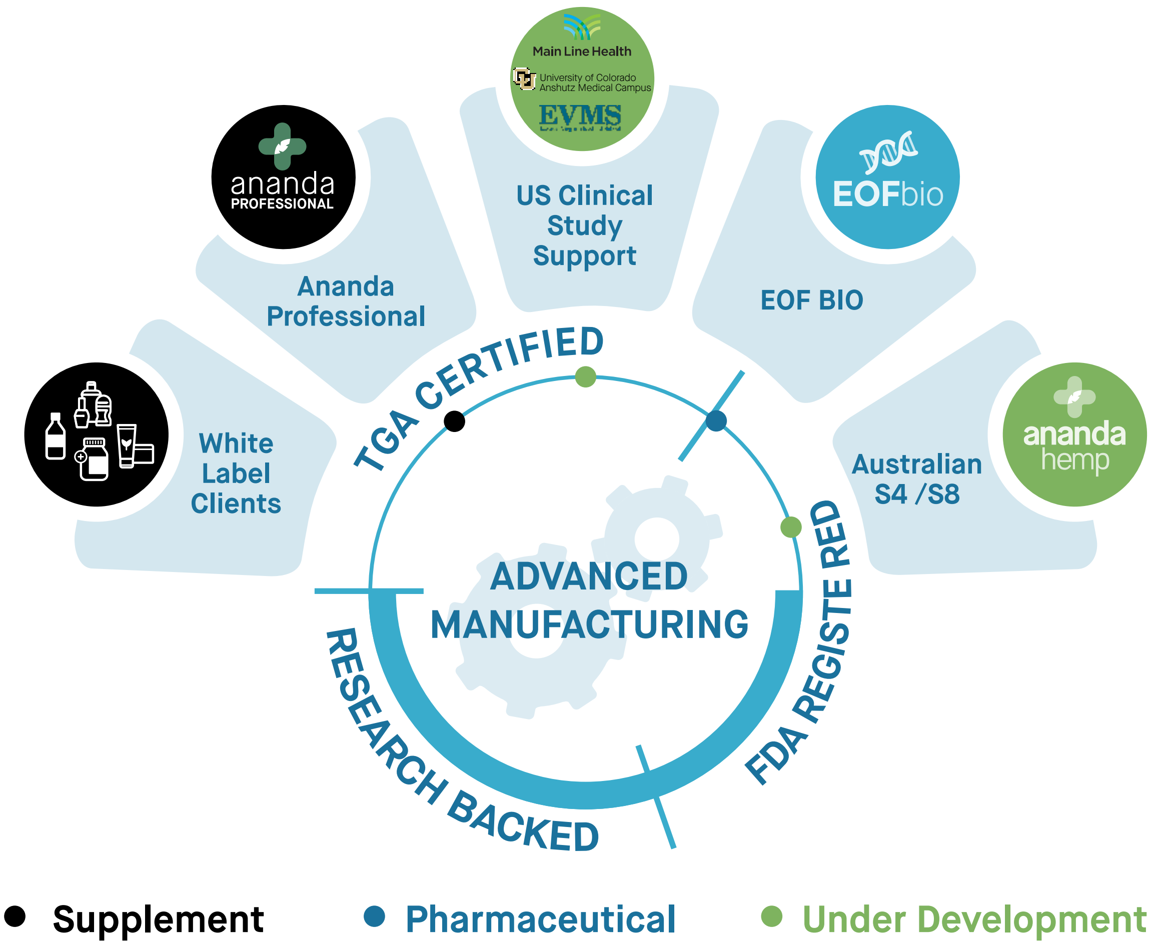
1 In this report, normalised items exclude impairments of inventory and fixed and intangible assets, adjustments to the Deferred Tax Asset and Contingent Consideration in 2H23, and any government grants and foreign exchange gains or losses in other income

Review of Operations and Results (continued)

Strategy overview

Ananda Health has responded to market conditions in the United States, its main market, by substantially reducing costs and stabilizing revenues through product innovation and sales channel expansion.

Ananda Health's strategy is focused on 5 core areas:



US manufacturing and distribution

Ananda Health distributes most of its products in the US as Ananda Professional, the premium brand for US independent pharmacies.

The business also targets selected white label clients, utilising the capabilities and capacity of its production facility in Georgetown, Kentucky, and its research-backed product formulation capabilities.

Ananda Health can supply study material under FDA IND (Investigational New Drug) regulations to support phase 2 clinical studies in cannabinoid science. To date active and placebo products have been provided to four studies at multiple locations across the US.

Review of Operations and Results (continued)

Revenues in the US declined 14% in FY23, which was in line with results reported by major US competitors. The business is positioned for growth due to new product formulas, format innovation, high quality standards and a continued strategic focus on pharmacist and practitioner recommendations to generate demand.

- *Pharmacist and Practitioner Recommendations:* Ananda Health remains focused on the professional healthcare market for CBD products, which it targets through high quality standards, research, and highly efficacious product formulation.

  This channel requires investment in education for both practitioners and their customers, and a focus on treatment protocols and technical marketing initiatives. Practitioners have significant influence with their customers, and they typically focus on customers with a high discretionary spend.

  To support customer acquisition and growth in this channel, Ananda Health has restructured its salesforce in 4Q23 to include more outside sales territory managers, adjusting the responsibilities of its call centre to service regional customers and support onboarding, education and conversion of new practitioners.

- *Condition-specific formulations:* Ananda Health has introduced a range of condition-specific formulations that include a range of 'minor' cannabinoids and terpene blends beyond CBD, as well as other well-known active ingredients and supplements, to target specific health outcomes. These formulas use a new naming convention to assist both practitioner recommendations and customer self-selection: SereniPlex for stress, SomniVive for sleep and InflaEze for a healthy inflammatory response.

- *Format Innovation:* in addition to tinctures, Ananda Health has launched these same condition-specific cannabinoid blends in a multi-active chewable, or 'gummy', formulation.

  Gummy formats are driving growth in the dietary supplement market due to their ease of use compared to other formats. The Ananda Professional gummy range follows the same benefit-driven naming convention described above, and includes additional active ingredients that are supported by research at therapeutic doses.

  Ananda Health has invested to create an internal gummy manufacturing capability, as quality gummy manufacturers are still relatively scarce in the industry, and the internal capability provides the business with an important capability to control quality, taste and product performance.

- *Quality Standards:* Ananda Health has been certified by the Australian TGA for Active Pharmaceutical Ingredient (API) and full product manufacture of medicinal cannabis oil. The certification is a requirement for ongoing Australian medicinal cannabis operations and is also globally recognized as one of the peak quality standards for pharmaceutical manufacturing.

EOF Bio

On 23 May 2023 Ecofibre was granted two patents for the treatment for Ovarian Cancer and Endometriosis from the USPTO. The Endometriosis patent also includes the therapeutic application of cannabinoids for Fibroids and Dysmenorrhea (period pain). The USPTO also granted a third patent for Ecofibre's proprietary System and Method for Producing Hemp Extracts.

Two remaining patent applications filed in October 2022 for the treatment of Head and Neck Cancer and Endometrial Cancer remain under review by the USPTO.

In 4Q23, Ecofibre established EOF-BIO LLC to commercialize the patents and other intellectual property co-developed with The University of Newcastle. The new entity raised $882,000 in June 2023 and aims to raise a total of USD10m from external investors to progress to phase 2 clinical trials and further develop its IP portfolio. The establishment of EOF-BIO will also ensure dedicated management focus and the establishment of key relationships with leaders in the pharmaceutical and oncology industry.

The potential market opportunity to commercialise this intellectual property is significant. The commercialisation approach is to separately finance future R&D costs while retaining the majority of upside through further developing and selling or licensing technology, and through the capacity to manufacture pharmaceutical end products.

Review of Operations and Results (continued)

Patents Overview

Five patent applications involving the use of cannabinoids in treating patients in the following areas

Gynecological cancer

Accounts for over 15% of cancers diagnosed in women globally, some with five-year survival rates ranging 17-39%

Endometriosis

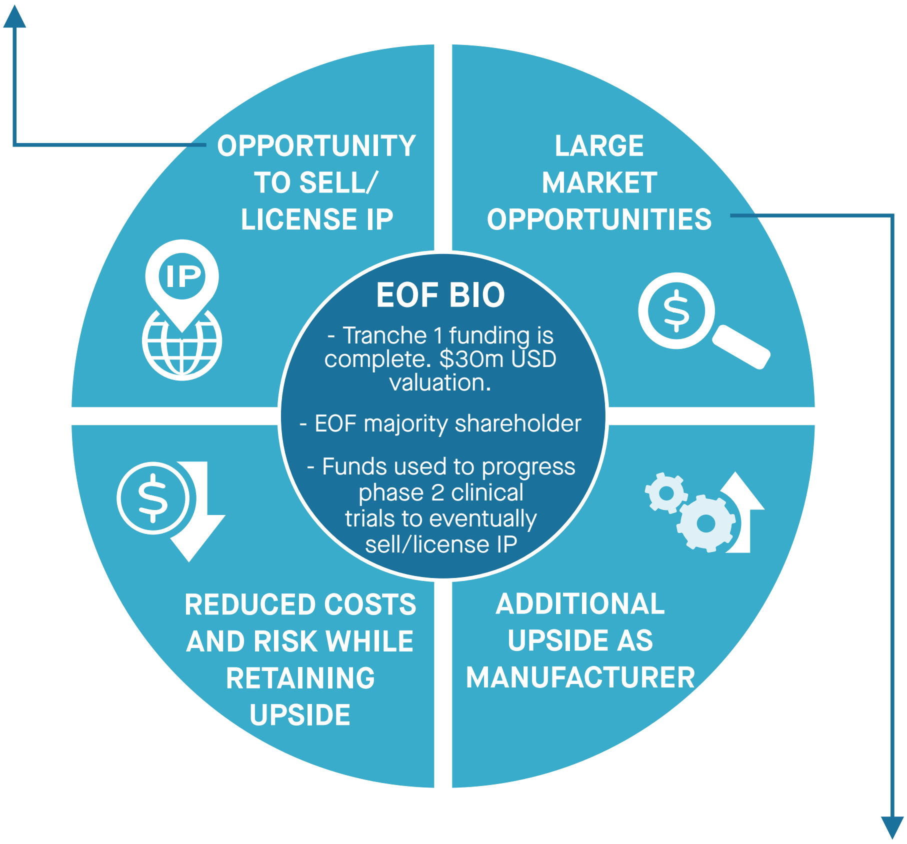
Affects 11% of reproductive age women globally, causing severe pain and infertility – often extends post menopause

Head and neck cancer

Accounts for ~4% of all cancer diagnosis, and incidence increasing in recent years among younger people

US Patent Application No.	USPTO/PCT Application Date	US Patent Number	Patent Status	Name of Patent
18/049,961	26 Oct 2022	11,654,171	Issued May 2023	Methods of Treating Ovarian Cancer with Hemp Extract
18/049,966	26 Oct 2022		Under Review	Methods of Treating Head and Neck Cancers with Hemp Extract
18/049,977	26 Oct 2022		Allowance granted	Systems and Methods for Producing Hemp Extracts and Compositions
18/050,021	26 Oct 2022		Under Review	Methods of Treating Endometrial Cancer Using Hemp Extract
18/050,023	26 Oct 2022	11,654,172	Issued May 2023	Methods of Treating Endometriosis and Other Non-Cancer Gynecological Disorders with Hemp Extract

These patents protect key methodology components such as pH range, dosage levels (composition), and delivery (oral, intravaginal, etc.)



Indication	Market Size BN USD (2022-2023)	% CAGR	Future Market BN USD (2030)
Ovarian Cancer[1]	2.2	23.7	9.7
Endometrial Cancer[2]	28.3	4.9	41.0
Head & Neck Cancer[3]	0.6	11.7	1.2
Endometriosis[2]	3.2	6.9	5.1
Dysmenorrhea[4]	3.8	8.2	6.6

Polaris Market Research[1], Research and Markets[2], Grandview Research[3], MRFR Database and Analyst review[4]

Review of Operations and Results (continued)

Australian S4 / S8

In Australia, Ananda Health imports CBD dominant (< 0.3% THC) products to Australia from its production facility in the US and does not participate in the high-THC or dried flower market segments. Products are distributed through pharmacies as medicinal cannabis under Schedule 4 and Schedule 8 (S4 and S8) regulations issued by the Australian TGA, via the Special Access Scheme and via prescription through Authorised Prescribers.

Ecofibre undertook a Phase III Double-Blind, Randomised Placebo-Controlled clinical trial (Sleep Study) to support a commercial objective of being the first provider of CBD for the Schedule 3 over-the-counter market. The Sleep Study did not show statistically significant improvement vs placebo and Ecofibre has decided that it will not currently schedule a follow-on crossover study to complete the clinical trial.

Outlook

Ananda Health expects to see growth in its US Independent Pharmacy and Functional Medicine Practitioner channel through its new sales focus with the establishment of territory manager sales representatives. The business is on track to become cash flow positive through sales growth and cost containment. Future FDA decisions to establish a clear regulatory pathway for CBD sales in the US will determine growth potential, although the Ananda Professional brand is well positioned as a CBD brand of choice for healthcare practitioners and pharmacists.

Review of Operations and Results (continued)

ananda food

AUDm	FY23	FY22	%
Revenue	2.2	3.6	-39%
Gross Margin*	15%	20%	-5%
Other Income (Expense)*	-	-	-%
Operating Costs	(2.7)	(2.2)	+23%
EBITDA*	(2.2)	(0.8)	+175%
Investments:			
Research & Development	0.2	0.1	+100%
Capital Expenditure	0.4	0.2	+100%

* normalised[1]

Ananda Food's FY23 result was negatively impacted by the loss of hemp fibre seed and crops that were planted to supply the US hemp fibre market, which resulted in $3m lost revenues and impacted gross margins as there were no sales to offset production costs. The loss was caused by a combination of transport, weather and harvest issues, part of which may be recoverable from the company's insurers in FY24.

Overview

Ananda Food operates two businesses in Australia and the United States. Each business is based on unique, registered varieties of hemp genetics:

- *Hemp foods:* Ananda Food supplies 100% Australian hemp seed products that are rich in digestible protein, fibre, omega 3 and omega 6 fatty acids, iron and other essential vitamins and minerals.

  Ecofibre's hemp varieties enable high yields and progressive grain harvests in growing regions from Tasmania to North Queensland. Varieties such as ECO-Excalibur produce reliable, high-yielding grain crops and are bred for optimal performance in specific growing latitudes.

  The business operates a highly efficient BRCGS[2] and HACCP[3] rated food processing facility in Beresfield, Australia. This facility has the only processing capability in Australia that can produce all three major categories of hemp food: de-hulled seed, oil and protein / fibre, as well as a pelletising line.

- *Fibre planting seed:* Ananda Food propagates and sells planting seed to hemp fibre growers in the United States and Australia. Varieties such as ECO-MS77 produce a high biomass in a short growing season and are adaptable to a wide range of growing conditions.

Hemp foods

The food business continues to focus on being the lowest cost producer through building scale as the white label and wholesale partner-of-choice; and expanding the hemp food category in Australia through product innovation and brand.

The business has a quality customer base, including both the Coles and Woolworths supermarket chains. To expand market demand and share and expand distribution with large customers, Ananda Food has developed new hemp product formats to improve usability and use of by-products, and in 1H24 will launch a new cat litter product in Woolworths that will replace existing, less sustainable, extractive clay-based products.

The facility has the only processing capability in Australia that can produce all three major categories of hemp food: de-hulled seed, oil and protein, and also has a pelletising line.

Equine feed and other emerging pet markets are also a key area of focus.

In FY23 the business continued to invest in automation and processing efficiency to improve its cost position.

1 In this report, normalised items exclude impairments of inventory and fixed and intangible assets, adjustments to the Deferred Tax Asset and Contingent Consideration in 2H23, and any government grants and foreign exchange gains or losses in other income
2 British Retail Consortium - Brand Reputation through Compliance of Global food safety Standards
3 Hazard Analysis and Critical Control Point

Review of Operations and Results (continued)

Fibre planting seed

The US market for hemp fibre seed has been growing strongly as new industrial applications are developed for hemp stalk (inner 'hurd' and exterior 'fibre') materials, and Ecofibre's ECO-MS77 is widely considered to be the best fibre genetic in the US based on yield and ability to grow in all US latitudes.

Market demand continues to exceed supply, however FY23 was a disappointing year for the seed business as weather and other issues contributed to ~$3m lost seed sales.

Outlook

The launch of the new cat litter product with Woolworths, and the re-establishment of fibre planting seed inventory and sales, will be core to profitable growth.

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:

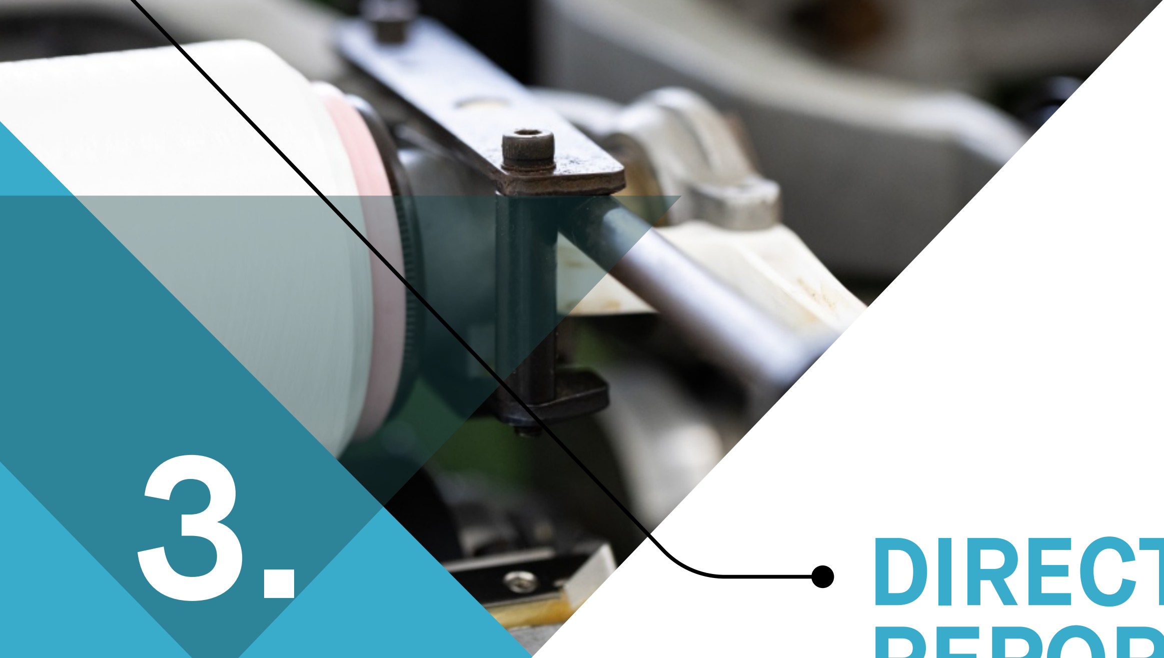
- Improvement of operating profits and cashflows across each of the Group's businesses through revenue growth, the sale of surplus assets, and cost control, to deliver cash positive operations and profitability.
- Managing working capital, including through the improved profitability, to finance the operations of the business and re-pay Group loans on agreed timeframes.
- Hemp Black's ongoing growth strategy and implementation, including filling existing production capacity and commissioning new capacity for new market and product segments, such successful commissioning of production equipment for Under Armour and Cruz Foam, signing final binding agreements with Under Armour, and successfully establishing new product lines including bio-plastics. Continued revenue growth and consequent profits for Hemp Black are necessary to support the carrying value of the Goodwill asset and the Contingent Consideration liability on the Group's balance sheet.
- Implementing strategy to improve Ananda Health revenue growth, including the focus on professional healthcare and independent pharmacies, and responding to high levels of competition in the US CBD market.
- US FDA position on CBD as a dietary supplement and managing ongoing regulatory change.
- Ananda Health executing on its strategy and growing revenues to return to profitability.
- Delivering a commercial return on the Group's investment in research and development, including Ananda Health's clinical research program.
- Successful completion of EOF Bio's capital raising, the further outcomes of the research program with the University of Newcastle, and the need to commercialise research outcomes including by securing access to new, specialist skillsets in pharmaceutical drug development.
- Ananda Food's ongoing growth strategy and implementation, including growth of the overall hemp food category in Australia, and retaining and building market share through key distribution relationships, and balancing the production and sale of different outputs from seed processing including through new products such as cat litter
- Managing agricultural and yield risks in the fibre seed business as the business seeks to re-establish seed inventory and its sales pipeline.
- Mitigating loss or damage to inventory and other assets, or the group being unable to sell any assets it identifies as surplus to current needs at or higher than book value.
- Changes to key customer purchasing trends, preferences and intentions.
- Managing the impact of inflation on Group margins and operating costs.
- Mitigating key person risk and retention of critical staff.
- Global instability, including impacts on major customer strategies, supply chains and foreign exchange rates.

Review of Operations and Results (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 considered material to the Group's business strategies and financial prospects, particularly in relation to agricultural and yield risks. Any current risk from climate change may include unpredictable high impact weather events such as tornados in the United States or rain and frost events impacting crops which can cause significant damage in a short period, and the risk that any disaster recovery actions may not be sufficient to mitigate consequent losses.

Ecofibre published its most recent Governance Report in September 2023.



3. DIRECTORS' REPORT

Board of Directors

Your Board of Directors, as at the date of this report, is profiled adjacent.

Vanessa Wallace
Independent Chairman

Experience and expertise:

Vanessa has a long track record as a director of listed and non-listed companies including Wesfarmers Ltd, SEEK Ltd, Doctor Care Anywhere PLC and Palladium Global Holdings Inc. Her executive career includes almost 30 years as a strategy management consultant, where she focused on financial services, health and consumer product industries, including co-leading the Booz & Company business in Japan for 4 years. Earlier in her career she was a Portfolio Manager with investment bank Schroders. Vanessa is an early-stage investor in the health sector and the founding Chairman of Australian digital health & biotechnology business, Drop Bio Pty Ltd.

Board Committee Memberships
Chairman of the Board
Member of the Audit, Risk and Compliance Committee
Member of the Health and Government Relations Committee
Member of the People and Nominations Committee

Qualifications
BCom (UNSW), MBA (IMD, Switzerland)

Other current directorships
Wesfarmers Ltd and SEEK Ltd

Former directorships in last 3 years
Doctor Care Anywhere PLC

Eric Wang
Managing Director & CEO

Experience and expertise:

Eric joined Ecofibre as CFO and Director in December 2015. He was appointed CEO and Managing Director in December 2017. Eric has over 25 years of leadership and executive management experience, both as an officer in the United States Army and as a financial services executive in Australia. Prior to joining Ecofibre, Eric served as Captain and Apache pilot in the US Army for eight years in a range of roles, including Troop Commander, Operations Officer, Executive Officer and Personnel Officer in the United States and Europe. After leaving the military, Eric moved to Australia to work for the global management consulting firm, Bain & Company, where he specialized in the financial services industry in Australia and Asia. He then served as the Chief Operating Officer of Perpetual Limited and Director of the APO for AMP Limited.

Board Committee Memberships
Member of the Health and Government Relations Committee
Member of the Audit, Risk and Compliance Committee

Qualifications
BS Engineering (WestPoint)
MBA (Tuck School, Dartmouth College, USA)

Other Current directorships
None

Former directorships in last 3 years
None.

Professor Bruce Robinson
Independent
Non-Executive Director

Experience and expertise:

Prof. Robinson has over 25 years leadership experience as a board director, academic physician and scientist across research, healthcare and medicine, and tertiary education. He has extensive experience covering academia, government, public and private health providers, research institutes and philanthropic organisations. He is currently a director of Cochlear, an ASX listed global hearing implants business; MaynePharma, an ASX listed pharmaceutical manufacturer; and QBiotics, a drug development company. Since 2015 Prof. Robinson has also chaired the Australian Government's National Health and Medical Research Council, and the Medical Benefits Schedule Review Task Force.

Board Committee Memberships
Chairman of Health and Government Relations Committee
Member of the Audit, Risk and Compliance Committee (from 1 July 2023)

Member of the People and Nominations Committee

Qualifications
MD (USyd), MSc (USyd), FRACP, FAAHMS, FAIRCD

Other current directorships
Cochlear Limited, Mayne Pharma Group Limited and Qbiotics

Former directorships in last 3 years
None.

Michele Anderson
Independent
Non-Executive Director

Experience and expertise:

Michele's executive career spans 30 years as an operating business executive, independent director and founder working across the technology, wine and professional services sectors. Her leadership contributions and passion lie in developing and implementing growth strategy, scaling brands and businesses, driving digital growth and transformation, and supporting positive environmental impact and de-carbonisation. She began her career in Australia as a management consultant with Booz Allen and Hamilton and then spent most of her career to date working in the US, including running Shutterfly's US$1B revenue consumer ecommerce business in Silicon Valley and Staples' Print and Marketing Services business across 1,200 US stores. Michele holds bachelor's degrees in Commerce and Law from UNSW, an MBA from Wharton, and a Master of Wine.

Board Committee Memberships
Chair of the People and Nomination Committee
Member of the Audit, Risk and Compliance Committee (from 1 July 2023)

Member of the People and Nominations Committee

Qualifications
BCom (UNSW), LLB (UNSW), MBA (Wharton, University of Pennsylvania, USA)

Other current directorships
None

Former directorships in last 3 years
None.

Mark Bayliss
Independent
Non-Executive Director

Experience and expertise:

Mark is a director and senior executive with extensive experience in a variety of roles across listed and private companies, management buyouts, private equity and turnarounds in Australia, NZ, UK and US.

He has been the CEO of three listed companies and one private company and the Chairman of 3 companies and 2 not-for-profits. His industry experience is broad including eCommerce, Technology, Credit Finance, Retail, FMCG, Media & Publishing, Advertising & Marketing Services and Manufacturing

Board Committee Memberships
Chairman of the Audit, Risk and Compliance Committee (from 20 February 2023)

Qualifications
BSc Economics (LSE), ACA, MAICD

Other current directorships
A2B Australia Limited

Former directorships in last 3 years
None.

Directors’ report

Your directors present their report, together with the financial statements, on the consolidated entity consisting of Ecofibre Limited (referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the year ended 30 June 2023.

Board of Directors

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

Vanessa Wallace, Chairman
Eric Wang, Managing Director
Jon Meadmore (retired on 20 February 2023)
Prof. Bruce Robinson
Michele Anderson
Mark Bayliss (appointed 1 September 2022)

Company Secretaries

Jonathan Brown and Robin Sheldon are the joint company secretaries of the Company. Robin was appointed by the board as a General Counsel and Joint Company Secretary of the Company with effect from 22 January 2021 to act jointly with Jonathan who is the Company’s Chief Financial Officer and has been the Company Secretary of the Company since 18 June 2019.

Jonathan Brown is a Chartered Accountant with over 25 years’ commercial experience. He has a Bachelors Degree in Accounting, Graduate Diploma in Advanced Accounting and a Graduate Diploma in Finance and Investment from FINSIA.

Robin Sheldon has 29 years’ experience in corporate law. Prior to joining Ecofibre, Ms. Sheldon was employed by Thomas Jefferson University as Sr, VP of Jefferson Strategic Ventures, VP of its Innovation Pillar and Associate Counsel.

Principal activities

The principal continuing activities of the Group during the year were researching, producing, and selling sustainable polymer-based industrial products and hemp derived nutraceuticals and foods.

Significant changes in the state of affairs in FY23

In July 2022, the Group received USD6.4m from NuBridge Commercial Lending LLC, being the balance of funds due on a USD10m loan. The Group also repaid $2.0m due to the James & Cordelia Thiele Trust Fund (Thiele) in July 2022.

On 1 September 2022, Director Mark Bayliss joined the Board of the Company as an independent, non-executive director. Mr Bayliss assumed the role of Chair of the Audit, Risk & Compliance Committee.

In October 2022 Ecofibre lodged four Track 1 utility patent applications with the US Patent and Trademark Office (USPTO) for endometriosis, gynaecological cancers, and other non-malignant gynaecological disorders.

Ecofibre's CANN-Sleep phase 3 clinical trial, conducted independently by the National Centre for Naturopathic Medicine, Southern Cross University (SCU), was completed and initial results showed that whilst there was improvement in sleep outcomes compared to baseline, the improvements did not reach statistical significance compared to placebo. Ecofibre met with Therapeutic Goods Administration (TGA) officials to discuss the result and has deferred any decision to undertake a follow-on study.

Between December 2022 and February 2023, the Company undertook a strategic review of its business portfolio, with a focus on prioritising nearer-term cash flow businesses and returning the Company to positive operating cashflows.

As a result of the review, Ecofibre decided to close part of its Hemp Black knitting business, specifically the garment business that used Santoni machines for 3D and tubular knitting, and an impairment expense was recognised in relation to fixed assets, intangible assets and inventory 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 utilisation 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.

On 31 December 2022 Ecofibre renegotiated the terms of loans from the James & Cordelia Thiele Trust Fund (Thiele) and the Lambert Superannuation Fund (LSF) to extend maturity from 15 July 2023 to 15 July 2025, except for $1m payable to Thiele on 15 July 2023. Interest on the Thiele loan increased from 8% to 11%.

On 20 February 2023, Director Jon Meadmore retired.

Patents for the treatment of Ovarian cancer, and the treatment of Endometriosis, were issued on 23 May 2023. The Endometriosis patent includes the therapeutic application of cannabinoids for Fibroids and Dysmenorrhea (period pain). Two remaining patent applications for the treatment of Head and Neck Cancer and Endometrial Cancer remain under review by the USPTO.

Ecofibre subsequently established EOF Bio LLC and raised initial funds totalling $882,000 in June 2023 to commercialise the patents and other intellectual property co-developed by Ecofibre and the University of Newcastle.

During the year 150,000 shares vested from the Employee Share Trust pursuant to the Group's Employee Share Scheme.

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

Matters subsequent to the end of the financial year

The Group repaid $1.0m due to the James & Cordelia Thiele Trust Fund (Thiele) in July 2023.

Following the establishment of EOF Bio in June 2023, an additional USD0.5m has been received from external investors to purchase preferred units in the entity.

The Ecofibre Group and the University of Newcastle finalised licensing arrangements with EOF Bio to enable commercialisation of the intellectual property, which gives EOF Bio the exclusive, worldwide rights to commercialise the intellectual property developed by Ecofibre and the University of Newcastle.

In late 1H23, Ecofibre exported 132 tonnes of hemp fibre planting seed from Australia to customers in the United States. Subsequent crop germination rates were low, and the seed appeared to have been damaged in transit despite the use of refrigerated containers. The issue remains under investigation with the transport company and Ecofibre's marine transit insurers, and net financial impact of the seed damage is expected to be $1m - 2m.

Hemp Black agreed a Memorandum of Understanding (MOU) with Under Armour Inc (Under Armour) to supply a specialty yarn for apparel use. Equipment for production of the yarn began to be installed at Hemp Black's facility in Greensboro in 1Q24.

In August 2023 Ecofibre announced that it had agreed to extend the earnout period for contingent consideration under the original agreement for the acquisition of the Hemp Black business from TexInnovate Inc from 5 years to 7 years.

In August 2023, Ecofibre completed a placement to institutional and sophisticated investors to raise $5m in new equity capital, and up to a further $0.5m from directors and management subject to approval by shareholders at the

2023 annual general meeting. The company also announced a share placement plan for retail and other investors up to $30,000 per eligible investor.

No other matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments

For further information about likely developments in the operations of the Group, refer to the Review of Operations and Result section. The expected results from those operations in future financial years have not been included because they depend on factors such as general economic conditions, the risks outlined and the success of the Group strategies.

Environmental regulation

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

Ecofibre takes its ESG responsibilities seriously. At its core the business aims to have a positive impact on society and on the environment.

Any current risk from climate change is not considered material, however 'random' high impact weather events such as tornados or floods in the United States could 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.

Ecofibre published its most recent Governance Report, and a separate Sustainability Report, on the same date as this annual report.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2023, and the number of meetings attended by each director, were:

Director	Board		ARCC		HGRC		PNC (RNC)	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Vanessa Wallace	8	8	5	5	2	2	3	3
Eric Wang	8	8	5	5	2	2	3***	3***
Jon Meadmore *	5	5	4	4	-	1	2	2
Bruce Robinson	8	8	4	5	2	2	3	3
Michele Anderson	8	8	4	5	-	-	3	3
Mark Bayliss **	7	7	3	3	-	-	3***	3***

ARCC – Audit, Risk and Compliance Committee
HGRC – Health & Government Relations Committee
PNC – People and Nominations Committee (formerly known as Remuneration & Nomination Committee (RNC))
* until 20 February 2023
** from 1 September 2022
*** attended by invitation

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

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

Proceedings on behalf of the company

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

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

Non-audit services

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

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

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

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

Dividend

No dividend was declared or paid during the year (FY22: Nil).

Rounding of amounts

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

Auditor's independence declaration

The auditor's independence declaration has been received and can be found on page 49 of the annual report.

Auditor

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

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

On behalf of the directors

Vanessa Wallace
Director

29 September 2023
Sydney

Eric Wang
Director

29 September 2023
Lexington

Remuneration report

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

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

The key management personnel of the consolidated entity in the period consisted of the directors, including the managing Director, and the CFO of Ecofibre Limited:

- Vanessa Wallace – Non Executive Director & Chairman
- Eric Wang – Managing Director and CEO
- Jon Meadmore – former Non-Executive Director
- Prof. Bruce Robinson – Non-Executive Director
- Michele Anderson – Non-Executive Director
- Mark Bayliss – Non-Executive Director (appointed 1 September 2022)
- Jonathan Brown – CFO and Joint Company Secretary

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

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

Principles used to determine the nature and amount of remuneration

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives.

The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high-quality personnel.

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

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

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

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

Group performance, shareholders wealth and key management personnel remuneration

The Board is cognisant of the link between Directors' and executives' remuneration to the achievement of strategic goals and performance of the Group. In setting the remuneration policy the Group seeks to align key management personnel rewards with overall shareholder value creation. The Board review senior management remuneration on a regular basis to ensure base remuneration and any performance payments are directly linked to the achievement of profit contribution targets.

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

Details of shareholder returns are provided below:

	Unit	2019	2020	2021	2022	2023
Share price at year end	$/share	2.10	2.22	0.68	0.20	0.21
Quantity of shares	Qty	291,951,478	305,619,401	326,696,691	335,510,772	335,744,765
Market capitalisation	$'000	613,098	678,475	222,154	67,102	70,506
Revenue	$'000	35,605	50,717	28,793	30,220	32,510
Net profit/(loss) after tax	$'000	6,000	13,156	(6,986)	(14,670)	(39,913)
Net assets	$'000	42,303	63,001	111,797	109,942	74,647

Non-executive director remuneration

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by the Company's members in general meeting. Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Board. Any changes to directors fees in FY23 are noted in the Details of Remuneration table on page 44.

Shareholders approved a maximum annual aggregate fee pool of $500,000 at the AGM in December 2017. No increase in this pool has been sought since then.

Shareholders approved the issue of 3 year options over shares for directors at the AGM in November 2022. The value of options over ordinary shares granted, exercised and lapsed for directors as part of compensation during the year ended 30 June 2023 are set out below:

Option holder	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed during the year $
Jon Meadmore	-	-	49,313
Michele Anderson	107,472	-	-
Mark Bayliss	107,472	-	-

Post Jon Meadmore's retirement on 20 February 2023, his 173,700 options lapsed.

The terms and conditions of each grant of options over ordinary shares to directors in this financial year of future reporting years are as follows:

Option holder	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
Vanessa Wallace	386,001	1 Dec 2021	1 Oct 2024	7 Oct 2024	$0.83	$0.2839
Jon Meadmore	173,700	1 Dec 2021	1 Oct 2024	7 Oct 2024	$0.83	$0.2839
Bruce Robinson	144,750	1 Dec 2021	1 Oct 2024	7 Oct 2024	$0.83	$0.2839
Michele Anderson	628,491	1 Dec 2022	1 Oct 2025	7 Oct 2025	$0.22	$0.1710
Mark Bayliss	628,491	1 Dec 2022	1 Oct 2025	7 Oct 2025	$0.22	$0.1710

All options were granted over unissued fully paid ordinary shares in the company. Options granted carry no dividend or voting rights. Options vest based on the provision of service over the vesting period whereby the executive becomes beneficially entitled to the option on vesting date. Options are exercisable by the holder as from the vesting date. There has not been any alteration to the terms or conditions of the grant since the grant date. There are no amounts paid or payable by the recipient in relation to the granting of such options other than on their potential exercise

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

Executive remuneration

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

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

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

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

Long-term incentives (LTI) include share-based payments and any long service leave. Shares are awarded to executives from shares already held by the ESS in an Employee Share Trust (EST) once the executives meet time and performance based vesting hurdles.

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

	Fixed remuneration		*At risk - LTI*	
	2023	*2022*	*2023*	*2022*
Managing Director & CEO:				
Eric Wang	42%	28%	58%	72%
CFO:				
Jonathan Brown	78%	55%	22%	45%

Details of remuneration

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

	Short-term benefits	Post-employment benefits		Share-based payments		
	Cash salary and fees $	Super-annuation $	Long service leave $	Equity-settled shares $	Equity-settled options $	Total $
2022						
Non-Executive Directors:						
Chairman:						
Barry Lambert (retired 19 Nov 21)	35,101	3,510	-	-	-	38,611
Vanessa Wallace (Deputy Chair 1 Jul 21, Chair as of 19 Nov 21)	131,944	-	-	-	22,410	154,354
Directors:						
Jon Meadmore	76,875	-	-	-	10,084	86,959
Kristi Woolrych (retired 31 May 22)	59,375	-	-	-	-	59,375
Bruce Robinson	63,438	-	-	-	8,404	71,842
Michele Anderson (appointed 14 March 22)	24,512	2,451	-	-	-	26,963
Managing Director & CEO:						
Eric Wang	305,071	-	-	792,768	-	1,097,839
CFO:						
Jonathan Brown	200,000	20,000	8,823	179,244	-	408,067
	896,316	25,961	8,823	972,012	40,898	1,944,010
2023						
Non-Executive Directors:						
Chairman:						
Vanessa Wallace	150,000	-	-	-	38,417	188,417
Directors:						
Jon Meadmore (retired 20 February 2023)	49,018	-	-	-	(10,084)	38,934
Bruce Robinson	56,250	-	-	-	14,406	70,656
Michele Anderson	69,570	7,305	-	-	21,977	98,852
Mark Bayliss (appointed 1 September 2022)	61,969	-	-	-	21,977	83,946
Managing Director & CEO:						
Eric Wang	340,881	-	-	473,988	-	814,869
CFO:						
Jonathan Brown	231,730	5,654	8,663	72,984	-	319,031
	959,418	12,959	8,663	546,972	86,693	1,614,705

Service agreements

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

Name:	***Eric Wang***
Title:	Managing Director and Chief Executive Officer
Agreement commenced:	8 December 2017
Term of agreement:	No fixed term
Details:	Base salary of US$220,000 per annum, to be reviewed every 12 months from the date of commencement. Either party may terminate the employment upon 6 months' written notice. No notice is required by the Company upon limited events akin to misconduct or incapacity. Eric is subject to a restraint of trade restricting competition with the company for up to 24 months from termination of his employment.
LTI:	7,200,000 shares are held by the ESS Trustee as potential LTI under the ESS and will vest in tranches upon satisfaction of the following share price hurdles and earliest vesting dates for each tranche:

Share tranches	***Share Price Hurdle***	***Earliest Vesting Date***
2,400,000	Share price on ASX of at least $1.50 based on a rolling 30 day volume weighted average price (VWAP) during the period between 1 January 2022 and 31 December 2024	30 June 2022
2,400,000	Share price on ASX of at least $1.83 based on a rolling 30 day VWAP during the period between 1 January 2023 and 31 December 2024	30 June 2023
2,400,000	Share price on ASX of at least $2.17 based on a rolling 30 day VWAP during the period between 1 January 2024 and 31 December 2024	30 June 2024

Service agreements (continued)

Name:	***Jonathan Brown***
Title:	CFO and Joint Company Secretary
Agreement commenced:	8 December 2017
Term of agreement:	No fixed term
Details:	Base salary of US$165,760 per annum, to be reviewed every 12 months from the date of commencement. Either party may terminate the employment upon 3 months' written notice. No notice is required by the Company upon limited events akin to misconduct or incapacity. Jonathan is subject to a restraint of trade restricting competition with the company for up to 24 months from termination of his employment.
LTI:	1,600,002 shares are held by the ESS Trustee as potential LTI under the ESS and will vest in tranches upon satisfaction of the following share price hurdles and earliest vesting dates for each tranche:

Share tranches	Share Price Hurdle	Earliest Vesting Date
800,001	Share price on ASX of at least $1.83 based on a rolling 30 day VWAP during the period between 1 January 2022 and 31 December 2024	31 July 2022
800,001	Share price on ASX of at least $2.17 based on a rolling 30 day VWAP during the period between 1 January 2024 and 31 December 2024	31 July 2024

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

Additional disclosures relating to key management personnel

The Board believes that all Directors and KMP should think and act as owners of the business. As such we promote the long-term ownership and accumulation of shares.

Directors' interests in shares and options

As at 30 June 2023, the directors and other KMP held the following interests in shares and options:

Additional disclosures relating to key management personnel (continued)

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

	Balance at the start of the year	Net purchased / (sold)	Received on exercising options	Balance at the end of the year^
Ordinary shares				
Jon Meadmore*	538,000	-	-	538,000
Bruce Robinson	30,000	-	-	30,000
Eric Wang	14,651,253	1,093,829	-	15,745,082
Vanessa Wallace	505,000	100,000	-	605,000
Jonathan Brown	2,517,244	-	-	2,517,244
	18,241,497	1,193,829	-	19,435,326

^ Where a director ceased to be a director throughout the year, “Balance at the end of the year” reflects the balance of shares as at the date they ceased to be a director.
* Jon Meadmore retired from the Board and ceased to be a member of the KMP, effective 20 February 2023.

No shares were received as remuneration by the directors.

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

	Balance at the start of the financial year	Granted as compensation	Expired/forfeited	Balance at the end of the financial year
Options over ordinary shares				
Vanessa Wallace	386,001	-	-	386,001
Jon Meadmore	173,700	-	(173,700)	-
Bruce Robinson	144,750	-	-	144,750
Michele Anderson	-	628,491	-	628,491
Mark Bayliss	-	628,491	-	628,491
	704,451	1,256,982	(173,700)	1,787,733

Details of these options are as follows:

Grant date	Expiry date	Exercise price	Balance at the end of the year
1 Dec 2021	7 Oct 2024	$0.83	530,751
1 Dec 2022	7 Oct 2025	$0.22	1,256,982

There were no other options over unissued ordinary shares apart from the 1,787,733 held by directors. No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Employee share scheme (ESS)

The Board believes that employees should be given the opportunity to become shareholders in our business, and that the share scheme helps engage, retain and motivate employees over the long term, and to encourage alignment with the performance of the Group.

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

Key terms of the ESS are:

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

This concludes the remuneration report, which has been audited.

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

I declare that, to the best of my knowledge and belief during the year ended 30 June 2023 there have been:

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

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

William Buck

William Buck (Qld)
ABN 21 559 713 106

M. Monaghan

M J Monaghan
Director

Brisbane: 29 September 2023

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4. FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss
For the year ended 30 June 2023

	Note	2023 $'000	2022 $'000
Revenue	4	32,510	30,220
Direct costs	5	(21,771)	(15,526)
Gross profit		10,739	14,694
Other (expenses) income	4	(2,353)	2,144
Other operating expenses	5	(35,371)	(37,206)
Interest expense		(2,921)	(1,380)
Profit (Loss) before income tax		(29,906)	(21,748)
Income tax (expense) benefit	6	(10,007)	7,078
Profit (Loss) after income tax		(39,913)	(14,670)
Earnings (Loss) per share:			
Basic earnings (loss) per share - cents	30	(11.89)	(4.41)
Diluted earnings (loss) per share - cents	30	(11.89)	(4.41)

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

Consolidated Statement of Other Comprehensive Income For the year ended 30 June 2023

	Note	2023 $'000	2022 $'000
Profit (loss) after income tax		(39,913)	(14,670)
Other comprehensive profit (loss) for the year:			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign controlled entities	33	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

Consolidated Statement of Financial Position
As at 30 June 2023

	Note	2023 $'000	2022 $'000
CURRENT ASSETS			
Cash and cash equivalents	7	7,289	7,251
Trade and other receivables	8	2,885	4,126
Inventories	9	9,380	15,702
Biological assets	10	568	579
Other current assets	11	1,455	5,086
Tax recoverable		51	3,943
TOTAL CURRENT ASSETS		21,628	36,687
NON-CURRENT ASSETS			
Intangible assets	12	53,680	55,368
Right-of-use assets	13	305	838
Property, plant and equipment	14	43,121	46,991
Deferred tax assets	15	-	9,670
TOTAL NON-CURRENT ASSETS		97,106	112,867
TOTAL ASSETS		118,734	149,554
CURRENT LIABILITIES			
Trade and other payables	16	5,113	5,560
Lease liabilities	13	335	467
Tax payable		15	31
Borrowing	17	1,000	2,012
TOTAL CURRENT LIABILITIES		6,463	8,070
NON-CURRENT LIABILITIES			
Lease liabilities	13	92	463
Contingent consideration	32	11,518	13,996
Deferred tax liabilities	18	407	318
Borrowing	17	25,607	16,765
TOTAL NON-CURRENT LIABILITIES		37,624	31,542
TOTAL LIABILITIES		44,087	39,612
NET ASSETS		74,647	109,942
EQUITY			
Issued capital	20	116,538	115,347
Foreign currency translation reserve	33	4,777	1,810
Accumulated losses		(65,917)	(26,004)
Share capital reserve		14,300	14,300
Share-based payment reserve	29	4,932	4,489
Equity attributable to the members of the company		74,630	109,942
Non-controlling interest	24	17	-
TOTAL EQUITY		74,647	109,942

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

Consolidated Statement of Changes in Equity
For the year ended 30 June 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***
Loss for the year		-	-	-	-	(14,670)	-	(14,670)
Other comprehensive income		-	-	-	6,907	-	-	6,907
Total comprehensive income for the year		***-***	***-***	***-***	***6,907***	***(14,670)***	***-***	***(7,763)***
Transactions with owners in their capacity as owners:								
Share Options exercised	20	6,344	(2,067)	-	-	-	-	4,277
Share-based payments	20	911	760	-	-	-	-	1,671
Share issue cost		(40)	-	-	-	-	-	(40)
Balance 30 June 2022		***115,347***	***4,489***	***14,300***	***1,810***	***(26,004)***	***-***	***109,942***
Loss for the year		-	-	-	-	(39,913)	-	(39,913)
Other comprehensive income		-	-	-	2,967	-	-	2,967
Total comprehensive income for the year		***-***	***-***	***-***	***2,967***	***(39,913)***	***-***	***(36,946)***
Transactions with owners in their capacity as owners:								
Shares issued	24	865	-	-	-	-	17	882
Share Options exercised	20	-	-	-	-	-	-	-
Share-based payments	20	346	443	-	-	-	-	789
Share issue cost	20	(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

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 paid		3,808	19
Net cash flows used in from operating activities	25	(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)
Net cash flows used in investing activities		(1,580)	(2,996)
Cash flows from financing activities			
Proceeds from borrowings	17	9,170	8,725
Repayment of borrowings	17	(2,000)	
Repayment of lease liabilities	13	(405)	(546)
Proceeds from issue of shares		871	4,277
Net cash flows generated from financing activities		7,636	12,456
Net decrease in cash and cash equivalents held		(854)	(1,135)
Cash and cash equivalents at the beginning of the financial year		7,251	8,620
Effect of movement in exchange rates on cash held		892	(234)
Cash and cash equivalents at the end of the financial year	7	7,289	7,251

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

Notes to the financial statements

1. Summary of significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

Basis of preparation

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

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

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

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

a) *Parent entity information*

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

1. Summary of significant accounting policies (continued)

b) ***Principles of consolidation***

The consolidated financial statements incorporate the results and assets and liabilities of all entities controlled by Ecofibre Limited ("parent entity") as at 30 June 2023 and results of all controlled entities for the year then ended. The parent entity and its controlled entities together are referred to in the financial statements as "the consolidated entity" or "the Group". Subsidiaries are all those entities over which the parent entity has control. The parent entity controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through the power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the parent entity.

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

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

c) ***Foreign currency translation***

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

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

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

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

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss if the foreign operation or net investment is disposed.

1. Summary of significant accounting policies (continued)

d) Revenue recognition

The consolidated entity recognised revenue as follows:

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

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

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

Bill-and-hold arrangements
Bill-and-hold arrangements occur when there is a sale to a customer and the customer requests the consolidated entity to warehouse its products for a period of time until it can accept delivery or arrange transfer of the products to third parties. Revenue from bill-and-hold arrangements is recognised when the customer obtains title and acknowledges control of a product.

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Government grants
Government grants relating to costs are recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

1. *Summary of significant accounting policies (continued)*

e) ***Income Tax***

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

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

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

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

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

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

f) ***Business combination***

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

1. Summary of significant accounting policies (continued)

f) Business combination (continued)

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

g) *Current and non-current classification*

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

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

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

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

g) *Summary of significant accounting policies (continued)*

h) ***Trade and other receivables***

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

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

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

i) ***Inventories***

Inventories and agricultural produce are valued at the lower of cost and net realisable value on a standard cost basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

j) ***Biological assets***

Biological assets are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell.

k) ***Impairment of non-financial assets***

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

1. Summary of significant accounting policies (continued)

l) Property, plant and equipment

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

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

Depreciation
Depreciation is calculated on the basis of writing off the net cost of each item of property, plant and equipment over its expected useful life to the entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives vary from 3 to 40 years.

m) Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

n) Intangible assets

Goodwill
Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

o) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

1. Summary of significant accounting policies (continued)

p) *Trade and other creditors*

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

q) *Lease liabilities*

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

r) *Employee entitlements*

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

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

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

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

1. *Summary of significant accounting policies (continued)*

r) Employee entitlements (continued)

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

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

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

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

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

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

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

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

1. Summary of significant accounting policies (continued)

s) ***Cash and cash equivalents***

For purposes of the statement of cash flows, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

t) ***Goods and services tax, sales and use tax***

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) and sales and use tax (SUT) except where the amount of GST or SUT incurred is not recoverable. In these circumstances the GST or SUT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST or SUT included. The net amount of GST or SUT recoverable or payable is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST or SUT components of cash flows arising from investing and financing activities which are recoverable or payable are classified as operating cash flows.

u) ***Fair value measurement***

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and assumes that the transaction will take place either in the principal market or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

v) ***Earnings per share***

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

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

1. Summary of significant accounting policies (continued)

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2023. The consolidated entity has assessed the impact of any new or amended Accounting Standards and Interpretations, and concluded that they would not have any material impact.

2. Critical accounting estimates and judgements

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

Share-based payment transactions
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of inventories
The provision for impairment of inventories requires a degree of estimation and judgement. The level of the provision is assessed by taking into account recent and expected future sales experience, production requirements, the age of inventories and other factors that affect inventory obsolescence.

Taxation
There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities or receivables for anticipated tax issues based on estimates of whether additional taxes will be due or refundable. Where the final tax outcome of these matters is different from the amounts that were actually recorded, such differences will impact the current and deferred tax positions in the period in which such determination is made.

Deferred tax assets are recognised for deductible temporary differences and carried forward tax losses where the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

2. *Critical accounting estimates and judgements (continued)*

Goodwill
The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

3. *Operating segments*

Identification of reportable operating segments
The consolidated entity is organised into three operating segments based on differences in products and services provided: nutraceuticals (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
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.

3. Operating segments (continued)

Operating segment information

a) Segment performance

Consolidated - 2023	Ananda Health $'000	Hemp Black $'000	Ananda Food $'000	Ecofibre Corporate $'000	Total $'000
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					(29,906)

Consolidated - 2022	Ananda Health $'000	Hemp Black $'000	Ananda Food $'000	Ecofibre Corporate $'000	Total $'000
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					(21,748)

3. Operating segments (continued)

b) Segment assets and liabilities

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

c) Geographical information

	Sales to external customers		Geographical non-current assets*	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Australia	3,117	3,944	1,371	2,086
United States of America	29,393	26,276	95,735	101,111
	32,510	30,220	97,106	103,197

* Excluding deferred tax assets.

4. 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

* Breakdown of impairment loss

	2023 $'000	2022 $'000
Property, plant and equipment (note 14)	(2,106)	-
Intangible assets (note 12)	(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.

5. 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.

	2023 $'000	2022 $'000
b) Other operating expenses		
Employees and contractors	15,357	14,095
Share based payments (note 29)	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
	35,371	37,206

6. Income tax

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

Profit/ (loss) before income tax	(29,906)	(21,748)
Prima facie tax (benefit) / tax on (loss) / profit from ordinary activities before income tax at 30% (2022: 30%)	(8,972)	(6,524)
Adjustment for foreign tax rates	317	510
Tax effect of permanent differences:		
- Share based payments	26	16
- Research and development expenses	570	537
- COVID-19 government assistance	-	(24)
- Know-how amortisation	(361)	(345)
- Foreign witholding taxes	29	34
- Contingent consideration	(687)	98
- Tax effect of inter-entity eliminations	5,548	(56)
- Other	156	(118)
Change in opening deferred taxes resulting from change in tax rate	-	-
R & D tax rebate received	(869)	(759)
Currency conversion differences upon consolidation	-	-
Tax over provided in prior period	(200)	(454)
Deferred tax asset written off	14,450	
Current year losses for which no DTA is recognised	-	7
Income tax (benefit)/ expense	10,007	(7,078)

b) Income tax expense

	2023 $'000	2022 $'000
Current tax	248	(80)
Deferred tax - origination and reversal of temporary differences	9,959	(6,544)
Under/(over) provision from previous years		
- Current tax	1	(463)
- Deferred tax	(201)	9
Aggregate income tax expense	10,007	(7,078)

c) Franking credits

Franking credits available for the subsequent financial year amount to $nil (2022 - $nil). This represents the balance of the franking account as at the end of the financial year adjusted for franking credits that will arise from the payment of any income tax payable as at the end of the year.

7. Cash and cash equivalents

	2023 $'000	2022 $'000
Cash at bank	6,942	7,046
Term deposits and other cash equivalents	347	205
	7,289	7,251

8. *Trade and other receivables*

Trade debtors	2,842	4,111
Allowance for expected credit losses	(87)	(119)
GST receivable	130	134
	2,885	4,126

Allowance for expected credit losses

The consolidated entity has recognised a loss of $15,700 (2022: loss of $64,000) in the profit or loss in respect of the expected credit losses for the year.

Movement in the allowance for expected credit losses are as follows:

	2023 $'000	2022 $'000
Opening balance	119	148
Additional provisions recognised	32	115
Receivables written off during the year as uncollectable	(48)	(93)
Unused amounts reversed	(16)	(51)
Closing balance	87	119

9. *Inventories*

Finished goods	2,130	2,048
Work in progress	3,314	9,050
Raw materials	4,399	5,219
Provision for impairment	(463)	(615)
	9,380	15,702

*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 $'000	2022 $'000
Ananda Health	4,581	9,703
Hemp Black	2,769	3,844
Ananda Food	2,030	2,155
	9,380	15,702

10. *Biological assets*

	2023 $'000	2022 $'000
Crops planted	568	579

The risk of crop failure due to weather conditions is managed through planting at different locations and times. Reconciliation of biological assets:

	2023 $'000	2022 $'000
Crops planted at 1 July	579	1,350
Harvested and transferred to raw material inventory	(579)	(1,350)
Crops planted	568	579
Balance at 30 June	568	579

11. Other current assets

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

12. Intangible assets

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

12. Intangible assets (continued)

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	-	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:

- 15% pre-tax discount rate (FY22: 13.2%)
- 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 pre-tax discount rate of 15% 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.

12. 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 recoverable 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.
- The discount rate would be required to increase by 0.68% before 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.

13. Leases

The Group leases warehouse, factory and administrative facilities. The leases typically run for a period of 2 to 3 years with some leases having the option to renew the lease after that date. Lease terms are renegotiated upon expiry of each lease to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group leases office equipment with contract terms of 5 years. These leases are for low-value items, and the Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

The weighted average incremental borrowing rate applied to lease liabilities at the date of initial application was 10% (2022: 10%).

Information about leases for which the Group is a lessee is presented below.

i. Right-of-use assets

Right-of-use assets relate to leased properties that do not meet the definition of investment property and are presented as below:

	Buildings	*Farming and processing equipment*	*Total*
2023	***$'000***	***$'000***	***$'000***
Balance at 1 July 2022	835	3	838
Disposals of right-of-use assets	(96)	-	(96)
Depreciation charge for the year	(438)	(3)	(441)
Exchange difference	4	-	4
Balance at 30 June 2023	305	-	305
2022			
Balance at 1 July 2021	900	11	911
Additions to right-of-use assets	505	-	505
Depreciation charge for the year	(576)	(8)	(584)
Exchange difference	6	-	6
Balance at 30 June 2022	835	3	838

13. Leases (continued)

ii) Lease liabilities

The lease liabilities are presented as below:

	2023 $'000	2022 $'000
Balance at 1 July	930	965
New leases during the period	-	505
Disposals during the period	(96)	-
Payments	(463)	(621)
Interest charges during the period	60	65
Exchange difference	(4)	16
Balance at 30 June	427	930
Lease liability recognised as at 30 June of which are:		
Current lease liabilities	335	467
Non-current lease liabilities	92	463
	427	930

iii) Amounts recognised in profit or loss

Interest on lease liabilities	60	65
Depreciation charge	441	584

iv) Amounts recognised in statement of cash flows

Cash outflow for leases:		
Financing cash outflow	405	546
Operating cash outflow	60	65

v) Extension options

Some property leases contain extension options exercisable by the Group up to 2 to 3 years before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses where it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

14. Property, plant, and equipment

	2023 $'000	2022 $'000
Capital work in progress	3,583	6,294
Land	3,001	2,900
Building	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

	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)
Impairment	(730)	-	-	-	-	(1,376)	(2,106)
Depreciation	-	-	(802)	(47)	(420)	(2,594)	(3,863)
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
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

15. *Deferred tax assets*

	2023 $'000	2022 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	(1,057)	(2,307)
Inventory	1,630	-
Accrued expenses	323	512
Allowance for expected credit losses	25	32
Blackhole expenditure	-	53
Employee share transactions	1,524	1,360
Prepayments	(73)	(117)
R&D non-refundable offsets	3,393	1,702
Carried forward losses	8,664	8,449
Other	(68)	(103)
Deferred tax asset written off	(14,450)	-
	(89)	9,581
Amounts recognised in equity:		
Transaction costs on share issue	89	89
Deferred tax asset	-	9,670
Movements:		
Opening balance	9,670	3,906
Credited to profit or loss	4,740	5,724
Credited to equity	40	40
Deferred tax asset written off	(14,450)	-
Closing balance	-	9,670

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

The Group will continuously assess the Deferred Tax Asset and make any necessary adjustments based on ch legislation.

The group has $19,022k of income tax losses to utilise in Australia and $11,305k of income tax losses to utili been recognised in respect of these tax losses at 30 June 2023.

16. *Trade and other payables*

	2023 $'000	2022 $'000
Trade creditors	2,001	2,154
Employee entitlements	679	614
Other creditors and accruals	2,433	2,792
	5,113	5,560

17. 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

18. Deferred tax liabilities

	2023 $'000	2022 $'000
Deferred tax liability comprises temporary difference attributable to:		
Amounts recognized in profit or loss:		
Property, plant and equipment	2,081	2,007
Accrued expenses	-	-
Employee share transactions	-	-
Prepayments	-	-
R&D non-refundable offsets	-	-
Carried forward losses	(1,674)	(1,689)
Others	-	-
Deferred tax liabilities	407	318

Movements:		
Opening balance	318	1,278
(Credited) / debited to profit or loss	89	(960)
Closing balance	407	318

19. Employee share trust

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

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

	2023 Number of shares	2022 Number of shares
Balance at 1 July	13,469,786	14,319,286
Shares transferred to EST	150,000	-
Shares issued by the EST to employees as part of the ESS	(150,000)	(849,500)
Balance as at 30 June	13,469,786	13,469,786

20. Issued Capital

	2023 $'000	2022 $'000	2023 Quantity	2022 Quantity
Ordinary shares	116,538	115,347	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
Shares transferred to EST	-	-	(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. The difference between consideration received and the amount of the non-controlling interest has been recognised in equity attributable to the owner of the parent within issued capital.

349,214,551 total shares are on issue by the parent entity, which includes 335,744,765 consolidated shares on issue plus shares held by the EST (13,469,786) 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

21. Remuneration of auditors

	2023 $	2022 $
During the financial year the following fees were paid or payable for services provided by William Buck (Qld), the auditor of the company, its network firms and unrelated firms:		
Audit services – William Buck (Qld)		
- Annual audit	70,250	67,000
- Half year review	19,000	18,000
Audit and review of financial statements	89,250	85,000
Audit services – unrelated firms		
- Annual audit	86,415	99,501
- Half year review	21,604	8,686
	108,019	108,187
Total Audit Services	197,269	193,187
Other services – William Buck (Qld)		
- Review of quarterly reporting and accounting assistance	12,500	32,275
Other services – network firms		
- Preparation of income tax return and business advisory	19,495	18,425
- Transfer pricing review and tax advisory	40,895	24,350
Total Other Services	72,890	75,050

22. Contingent liabilities and commitments

i) Contingent liability

There are no contingent liabilities.

ii) Commitment for non-cancellable leases are as follows:

	2023 $'000	2022 $'000
Less than one year	-	142
Between one and five years	-	-
	-	142
Capital expenditure commitments not provided for in the financial statements	-	138

23. 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%	-

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.

24. Non-controlling interest

	2023 $'000	2022 $'000	2023 Quantity	2022 Quantity
Preference units issued	882	-	30,584	-
Held by Ecofibre USA Inc	865	-	30,000	-
	98.1%	-	98.1%	-
Non-controlling interest	17	-	584	-
	1.9%	-	1.9%	-

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

25. Reconciliation of profit after income tax to net cash flows from operating activities

	2023 $'000	2022 $'000
Net profit (loss) after income tax	(39,913)	(14,670)
Depreciation and amortisation	4,739	5,073
Loss from disposal of fixed assets	(52)	-
Impairment of fixed and intangible assets	5,818	-
Provision for expected credit losses	(32)	64
Share-based payments	681	1,671
Movement in foreign exchange	173	93
Unrealised foreign exchange loss	(428)	(76)
Change in operating assets and liabilities		
Decrease (increase) in assets		
Trade and other debtors	4,164	383
Prepayments	740	749
Inventories	6,322	711
Biological assets	11	771
Deferred tax assets	9,670	(5,764)
Tax recoverable	3,892	(659)
Increase (decrease) in liabilities		
Trade creditors	(153)	80
Other creditors and accruals	(359)	403
Interest payable	157	-
Contingent consideration	(2,478)	1,582
Tax payable	(16)	39
Employee entitlements	65	(85)
Deferred tax liabilities	89	(960)
Net cash flows from operating activities	(6,910)	(10,595)

26. Financial risk management objectives and policies

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

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

Risk exposures and responses

Credit risk

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

Interest rate risk

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

	2023 $'000	2022 $'000
Financial Assets		
Cash and cash equivalents	7,289	7,251

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

The following sensitivity analysis is based on the interest rate exposures in existence at the end of the reporting period. At 30 June 2023, if interest rates had moved, as illustrated in the table below, with all other variables held constant, profit after tax and equity would have been affected as follows:

	Profit after tax higher/ (lower)		Equity higher/ (lower)	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Consolidated				
+ 1% (100 basis points)	73	73	73	73
- 0.5 % (50 points)	(36)	(36)	(36)	(36)

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

26. Financial risk management objectives and policies (continued)

Liquidity risk

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

	2023 $'000	2022 $'000
Less than one year	6,463	8,070
Between one and five years	37,624	31,542
Later than five years	-	-
	44,087	39,612

Foreign currency risk

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

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		Liabilities	
Consolidated	2023 $'000	2022 $'000	2023 $'000	2022 $'000
US dollars	12,512	1,537	5,927	-

The consolidated entity had net assets denominated in foreign currencies of US$6,585,000 (assets of US$12,512,000 less liabilities of $5,927,000) as at 30 June 2023 (2022: US$1,537,000). Based on this exposure, had the Australian dollar weakened by 5%/strengthened by 5% against these foreign currencies with all other variables held constant, the consolidated entity's profit before tax for the year would have been $497,400 higher/lower (2022: $112,000 higher/lower). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 30 June 2023 was $464,000 (2022: gain of $539,000).

Fair value

The carrying amount of all other recognised financial assets and financial liabilities are considered a reasonable approximation of their fair value due to their short-term nature.

27. Key management personnel disclosures

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

	2023 $	2022 $
Short-term employee benefits and directors fees	959,418	896,316
Share based payments	633,665	1,012,910
Post-employment benefits	21,622	34,784
	1,614,705	1,944,010

28. Parent entity information

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

	2023 $'000	2022 $'000
Profit (Loss) after income tax	(8,762)	(12,083)
Total comprehensive income	(8,762)	(12,083)
Statement of financial position		
Total current assets	17,773	163
Total assets	122,004	120,029
Total current liabilities	3,887	1,173
Total liabilities	21,358	11,486
Equity		
Issued capital	115,673	115,347
Share based payment reserve	4,932	4,489
Share capital reserve	14,300	14,300
Accumulated losses	(34,259)	(25,593)
Total equity	100,646	108,543

29. Share-based payments

Non-Executive Director (NED) share options

A share option plan has been established by the consolidated entity and approved by shareholders at a general meeting, whereby the consolidated entity may grant options over ordinary shares in the company to the Non-Executive Directors of the consolidated entity. The options are issued for nil consideration and are granted in accordance with the Company's Share and Option Plan, the terms of which were summarized in the Company's 2019 IPO Prospectus.

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

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
1 Dec 2021	7 Oct 2024	$0.83	704,451	-	-	(173,700)	530,751
1 Dec 2022	1 Oct 2025	$0.22	-	1,256,982	-	-	1,256,982
Weighted average exercise price			$0.83	$0.22	$0.00	$0.83	$0.40

None of the options granted are exercisable at 30 June 2023.

Non-Executive Director (NED) share options (continued)

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.0 years.

For the options granted during the current financial year, the valuation model input used to determine the fair value at the grant date, are as follows:

Grant date	*Expiry date*	*Share price at grant date*	*Exercise price*	*Expected volatility*	*Dividend yield*	*Risk-free interest rate*	*Fair value at grant date*
1 Dec 2022	1 Oct 2025	$0.22	$0.22	73%	-	3.4%	$0.1998

	2023 $'000	2022 $'000
Expenses recognized during the year for NED share options	87	41

Employee shares

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

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

	2023 $'000	2022 $'000
Expenses from equity-settled share-based payment transactions	594	1,630

Share-based payment reserve

	2023 $'000	2022 $'000
NED options	129	41
Employee shares	4,803	4,448
Total share-based payment reserve	4,932	4,489

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

Share-based payment expense

	2023 $'000	2022 $'000
NED options	87	41
Employee shares	594	1,630
Total share-based payment expense	681	1,671

30. Earnings per share (EPS)

	2023 $'000	2022 $'000
Loss used in the calculation of basic and diluted EPS ($'000)	(39,912)	(14,670)
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**	335,670,317	332,533,170

* 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.

31. 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				
Assets				
Biological assets	-	568	-	568
Liabilities				
Contingent consideration	-	11,518	-	11,518
Consolidated - 2022				
Assets				
Biological assets	-	579	-	579
Liabilities				
Contingent consideration	-	13,996	-	13,996

There were no transfers between levels during the financial year.

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 discounting of potential future cash outflow to present value.

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.

32. *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	11,518	13,996

^ 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.

33. *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).

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		4,777

Movement in the foreign currency translation reserve:	*$'000*
Balance at 30 June 2022	1,810
Exchange differences on translation of foreign controlled entities	2,967
Balance at 30 June 2023	4,777

34. Events after the reporting period

The Group repaid $1.0m due to the James & Cordelia Thiele Trust Fund (Thiele) in July 2023.

Following the establishment of EOF Bio in June 2023, an additional USD0.5m has been received from external investors to purchase preferred units in the entity.

The Ecofibre Group and the University of Newcastle finalised licensing arrangements with EOF Bio to enable commercialisation of the intellectual property, which gives EOF Bio the exclusive, worldwide rights to commercialise the intellectual property developed by Ecofibre and the University of Newcastle.

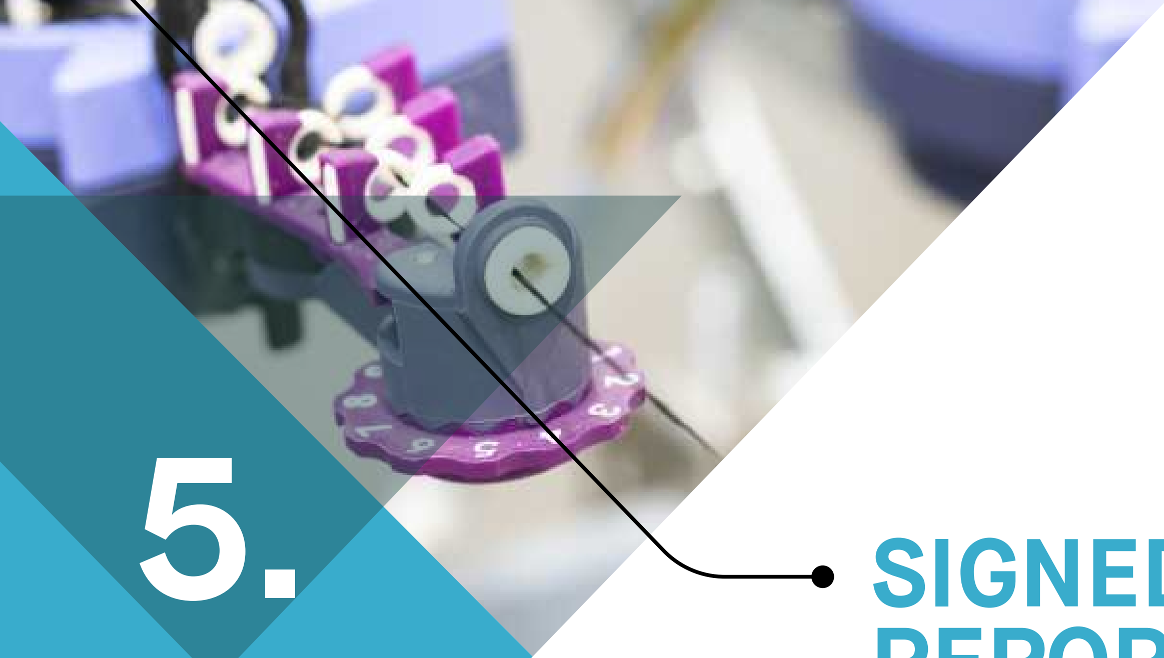
In late 1H23, Ecofibre exported 132 tonnes of hemp fibre planting seed from Australia to customers in the United States. Subsequent crop germination rates were low, and the seed appeared to have been damaged in transit despite the use of refrigerated containers. The issue remains under investigation with the transport company and Ecofibre's marine transit insurers, and net financial impact of the seed damage is expected to be $1m - 2m.

Hemp Black agreed a Memorandum of Understanding (MOU) with Under Armour Inc (Under Armour) to supply a specialty yarn for apparel use. Equipment for production of the yarn began to be installed at Hemp Black's facility in Greensboro in 1Q24.

In August 2023 Ecofibre announced that it had agreed to extend the earnout period for contingent consideration under the original agreement for the acquisition of the Hemp Black business from TexInnovate Inc from 5 years to 7 years.

In August 2023, Ecofibre completed a placement to institutional and sophisticated investors to raise $5m in new equity capital, and up to a further $0.5m from directors and management subject to approval by shareholders at the 2023 annual general meeting. The company also announced a share placement plan for retail and other investors up to $30,000 per eligible investors.

No other matter or circumstance has arisen since 30 June 2023 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.



5. SIGNED REPORTS

Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the financial year ended on that date;

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

The directors have been given the declarations from the CEO and CFO, required by section 295A of the Corporations Act 2001.

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

On behalf of the directors

Vanessa Wallace
Director

29 September 2023
Sydney

Ecofibre Limited

Independent auditor's report to the members

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Ecofibre Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2023 and of its financial performance for the year ended on that date; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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GPO Box 563, Brisbane QLD 4001
+61 7 3229 5100
qld.info@williambuck.com
williambuck.com

WilliamBuck
ACCOUNTANTS & ADVISORS

Key Audit Matters (continued)

<table>
<tr><th colspan="2">Share-based Payments</th></tr>
<tr><th>Refer also to Remuneration Report, note 1(r) and 29</th><th>How our audit addressed it</th></tr>
<tr><td>The Group issued share options to non-executive Directors.

The Group also signed employment agreements with key employees which entitled them to shares in the Company if certain performance or service conditions are met.

The valuation of share-based payment arrangements required significant judgement and estimation by management, including the following:
- The evaluation of the grant date of the arrangements, and the evaluation of the fair value of the share-based payment arrangement as at the grant dates;
- The evaluation of the share-based payment expenses taken to the profit or loss in respect of the accrual of service and performance conditions attached to the share-based payments; and
- The evaluation of key inputs into the valuation model.</td><td>Our audit procedures included:
— In determining the grant date, we evaluated what was the most appropriate date based on the terms and conditions of the share-based payment arrangements;
— Evaluating the fair value of the share-based payment arrangement by agreeing assumptions to third party evidence;
— In evaluating the progress of the vesting of share-based payments with performance milestones, we evaluated the directors' assessment of the likely success or failure of achieving those milestones;
— In assessing the vesting of service conditions, we considered the expensing of each share-based payment tranche granted to the arrangement's beneficiary;
— For specific application of the Black-Scholes Model in the valuation of share options, we retested some of the assumptions used in the model and recalculated those fair values using the skill and know-how of our in-house specialists. We considered that the forecast volatility applied in the model to be appropriately reasonable and within industry norms; and
— We also reconciled the vesting of share-based payment arrangement to disclosures made in the Remuneration Report and financial statements.
— Assessing the adequacy of disclosures in the notes to the financial statements.</td></tr>
</table>

WilliamBuck
ACCOUNTANTS & ADVISORS

Key Audit Matters (continued)

<table>
<tr><th colspan="2">Deferred Tax Assets</th></tr>
<tr><th>Refer also to note 1(e) and 15</th><th>How our audit addressed it</th></tr>
<tr><td>In accordance with AASB 112 Income Taxes, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity.

Deferred tax assets amounting to $13.7million were fully written off in the current financial year as there is no convincing evidence that sufficient taxable profit will be available in the near future to utilise this DTA.

This was assessed as a key audit matter as it involved significant judgement in reaching a conclusion.</td><td>Our audit procedures included:
— Reviewing the Group’s profit forecast for the 2024 financial year. Evaluating management’s judgement and assumptions used in determining the profit forecast;
— Considering the recognition criteria against the relevant Australian Accounting Standard;
— Testing the mathematical accuracy of the deferred tax assets calculation;
— Evaluating the tax losses utilised and accumulated in the current and previous financial years;
— Assessing if convincing other evidence exists where the DTA can be utilised by the Group; and
— Assessing the adequacy of disclosures in the notes to the financial statements.</td></tr>
<tr><th colspan="2">Impairment Assessment of Intangible Assets Including Goodwill</th></tr>
<tr><th>Refer also to note 1(n) and note 12</th><th>How our audit addressed it</th></tr>
<tr><td>Included in the statement of financial position is an intangible asset balance of $53.7 million as at 30 June 2023, which includes goodwill of $53.1 million.

In accordance with AASB 136 – Impairment of assets the Group is required to, at least annually, perform an impairment assessment of goodwill and intangible assets that have an indefinite useful life. For intangible assets with useful lives, the Group is required to review these for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable, and at least annually, review whether there is any change in their expected useful lives.

All intangible assets including goodwill have been allocated to cash generating units (“CGUs”). The recoverable amount of the underlying CGUs are supported by value-in-use calculations which are based on future discounted cash flows models (“DCF Models”). DCF models contain significant judgement and estimation in respect of future cash flow forecasts, discount rate and terminal growth rate assumptions. Changes in certain assumptions can lead to significant changes in the assessment of the recoverable amount.

As such this matter has been determined as a key area of focus for our audit.</td><td>Our audit procedures included:

— A detailed evaluation of the Group’s budgeting procedures upon which the forecast is based and testing the principles and integrity of the discounted future cash flow models;

— Testing the accuracy of the calculation derived from the forecast model and assessing key inputs to the calculations such as revenue growth, discount rates and working capital assumptions;

— Evaluating whether the discount rate used in the model appropriately reflected the risks of the CGU, using the kills and know-how of our inhouse specialists; and

— Reviewing the sensitivity analysis of the calculations.

We also considered the adequacy of the Group’s disclosures in the notes to the financial statements.</td></tr>
</table>

Key Audit Matters (continued)

Other Information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2023, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Ecofibre Limited, for the year ended 30 June 2023, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

William Buck

William Buck (Qld)
ABN 21 559 713 106

M. Monaghan

M J Monaghan
Director

Brisbane: 29 September 2023

6. SHAREHOLDER AND ASX INFORMATION

Shareholder and ASX Information

Five-year financial history

	2023 $'000	2022 $'000	2021 $'000	2020 $'000	2019 $'000
Summarised income statement					
Sales Revenue	32,510	30,220	28,793	50,717	35,605
Other income	(2,353)	2,144	4,951	6,482	1,864
Total revenue and other income	30,157	32,364	33,744	57,199	37,469
Operating profit (loss) before depreciation and amortisation, finance costs and income tax	(22,407)	(15,296)	(4,580)	19,187	5,766
Depreciation and amortisation	(4,739)	(5,073)	(4,290)	(2,049)	(958)
EBIT	(27,146)	(20,369)	(8,870)	17,138	4,808
Net finance costs	(2,760)	(1,379)	(1,173)	113	(223)
Income tax (expense) credit	(10,007)	7,078	3,057	(4,095)	1,415
Profit (Loss) after income tax attributable to members of Ecofibre Limited	(39,913)	(14,670)	(6,986)	13,156	6,000
Factors affecting total shareholders return					
Share price at financial year end ($)	0.21	0.20	0.68	2.22	2.10
Total dividends declared (cents per share)	-	-	-	-	-
Basic earnings per share (cents per share)	(11.89)	(4.41)	(2.16)	4.43	2.28
Financial position as at 30 June					
Total assets	118,734	149,554	141,745	84,295	47,775
Total liabilities	44,087	39,612	29,948	21,294	5,472
Net assets	74,647	109,942	111,797	63,001	42,303
Net tangible asset per ordinary share ($)	6.28	13.23	17.64	19.60	13.81
Net debt to equity (%)	36%	17%	9%	16%	3%
Total liabilities / total assets (%)	37%	26%	21%	25%	11%

* Ecofibre was listed on ASX in March 2019.

Shareholder information

The shareholder information set out below was applicable as at 5 September 2023.

Number of securityholders

There are 4,844 holders of ordinary shares, 4 holders of options (unquoted) over ordinary shares, 11 holders of employee share rights (unquoted), 1 holder of performance rights (unquoted) and 5 holders of preferred units. There were no other classes of equity securities on issue.

Fully paid ordinary shares

Distribution of ordinary shares

Size of shareholding	*Number of shareholders*	*Number of shares*	*% of shares on issue*
1 to 1,000	1,877	922,774	0.24%
1,001 to 5,000	1,556	3,967,324	1.05%
5,001 to 10,000	460	3,615,336	0.96%
10,001 to 100,000	789	24,260,180	6.44%
100,001 and over	162	344,226,715	91.31%
Total	***4,844***	***376,992,329***	***100.00%***
Holding less than a marketable parcel	2,861	2,229,529	

Twenty largest holders of quoted ordinary shares

The names of the twenty largest holders of quoted ordinary shares are listed below:

Name	*Number*	*% of quoted ordinary shares*
HSBC Custody Nominees (Australia) Limited	61,144,094	16.22%
Barry Martin Lambert & Joy Wilma Lillian Lambert	39,555,556	10.49%
Barjoy Pty Ltd	37,688,454	10.00%
Phil Warner Pty Ltd	32,306,381	8.57%
Kylie Warner Pty Ltd	16,340,072	4.33%
Thomas Jefferson University	12,178,259	3.23%
Citicorp Nominees Pty Limited	12,056,522	3.20%
National Nominees Limited	11,062,539	2.93%
Eric Wang	8,644,158	2.29%
Pacific Custodians Pty Limited (Employee Securities TST Unallocated A/C)	7,200,000	1.91%
Warner Research Institute Limited	6,648,700	1.76%
Texsymmetry Inc	6,595,959	1.75%
Pacific Custodians Pty Limited (Employee Securities TST A/C	6,269,786	1.66%
UBS Nominees Pty Ltd	5,459,688	1.45%
Jeffrey Bruner	4,814,148	1.28%
Freshwater Superannuation Fund Pty Limited	4,017,830	1.07%
Yarrawonga Holdings Pty Limited	3,048,553	0.81%
BT Portfolio Services Ltd	2,929,730	0.78%
Troncell Pty Ltd	2,922,078	0.78%
Eric Wang + Christie Wang <ATF The Ghengis Khan Super Fund>	2,574,423	0.68%
Total	***283,456,930***	***75.19%***

Substantial holders

Substantial holders in the Company as disclosed in substantial holding notices given to the Company were as follows:

Name of substantial holder	*Number of shares over which interest is held*	*% of issued capital*
Barry Martin Lambert	77,244,010	23.57%
Perennial Value Management Limited (PVM)	61,144,094	12.66%
Philip & Kylie Warner	55,295,153	14.67%

Unquoted Options

There were 1,787,733 unquoted options over ordinary shares as follows:

Unquoted options – description	*Number of options*	*Number of holders*
Non-executive director options expiring 7 October 2024 exercisable @ AU$0.83 per share	530,751	2
Non-executive director options expiring 1 October 2025 exercisable @ AU$0.22 per share	1,256,982	2
Total	***1,787,733***	***4***

Unquoted Employee Share Rights

Distribution of Employee Share Rights

There are 11,260,002 unquoted performance rights on issue held by 11 holders as follows:

Size of holding	*Number of holders*	*Number of Rights*	*% of Rights on issue*
1-1,000	-	-	0.00%
1,001 – 5,000	-	-	0.00%
5,001 – 10,000	-	-	0.00%
10,001 – 100,000	2	135,000	1.20%
100,001 and above	9	11,125,002	98.80%
Total	***11***	***11,260,002***	***100.00%***

Unquoted Performance Rights

There are 5,924,925 unquoted performance rights on issue as follows:

Unquoted performance rights – description	*Number of rights*	*Number of holders*
TexInnovate performance rights – contingent consideration expiring 21 August 2025	5,924,925	1
Total	***5,924,925***	***1***

Preferred Units in EOF Bio at 5 September 2023

	Number	*%*
Ecofibre Ltd	29,400	96.13%
Non-controlling interest	1,184	3.87%
Total	***30,584***	***100.00%***

Voting Rights

Ordinary shares carry voting rights on a one-for-one basis. Unquoted options, employee share rights, and performance rights do not carry voting rights.

Investor information

Shareholder services

Ecofibre's share register is maintained by Link Market Services Limited. By visiting the Link Investor Centre, shareholders can:

- View their holding details
- Register to receive Annual Reports electronically
- Access and update information held by the Share Registry
- View information relating to transaction history
- Provide their Tax File Number or ABN
- Download forms, change address details, update communication preferences and add or amend direct credit details.

When you visit the Link Investor Centre, you will need your Security Reference Number (SRN) or Holder Identification Number (HIN) to verify your identity. Your SRN/HIN is available on your holding/transaction and distribution statements.

Recent legislative changes to the Corporations Act 2001 (Cth) mean there are new options for how Ecofibre shareholders receive communications. Ecofibre will no longer send physical meeting documents unless a shareholder requests a copy to be mailed.

Electronic communication has the added advantage of being timelier and more cost-effective, which benefits all shareholders, and Ecofibre encourages all shareholders to provide an email address so we can communicate with you electronically when shareholder notices become available online, for items such as meeting documents, dividend statements, and annual reports.

Shareholders can still elect to receive some or all of their communications in physical or electronic form. To review your communication preference or sign up to receive your shareholder communications via email, please update your details at the Link Investor Centre.

For all other questions, please contact the Registry:

Link Market Services Limited
Level 21, 10 Eagle Street, BRISBANE, QLD, AUSTRALIA, 4000
Share registry telephone: 1300 554 474
registrars@linkmarketservices.com.au
linkmarketservices.com.au

Information on Ecofibre

Ecofibre website

Up-to-date information on the company can be obtained from the company's website ecofibre.com.

Securities Exchange listing

Ecofibre shares are listed on the Australian Securities Exchange under the code EOF.

Share prices can be accessed from major Australian newspapers, on the Ecofibre website, or at asx.com.au.

Privacy

A copy of the Ecofibre Privacy Policy is available on the Ecofibre website.

Ecofibre Investor Relations department

Further information and publications about the company's operations are available by contacting the Investor Relations department via the Ecofibre website.

Corporate directory

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Eric Wang
Prof. Bruce Robinson
Michele Anderson
Mark Bayliss

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Jonathan Brown
Robin Sheldon

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

Corporate Governance Statement
ecofibre.com/investors/corporate/

ECOFIBRE

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