

ECOFIBRE

APPENDIX 4E PRELIMINARY FINANCIAL REPORT FY20



1. Company details

Name of entity:	Ecofibre Limited
ACN:	140 245 263
Reporting period:	For the year ended 30 June 2020
Previous period:	For the year ended 30 June 2019

2. Results for announcement to the market

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

The Group has adopted Accounting Standards AASB 16 ‘Leases’ for the year ended 30 June 2020. The Accounting Standards were adopted using the modified retrospective approach and as such comparatives have not been restated.

			\$'000
Revenues from ordinary activities	up	42% to	50,717
Profit from ordinary activities after tax attributable to the owners of Ecofibre Limited	up	119% to	13,156
Profit for the year attributable to the owners of Ecofibre Limited	up	119% to	13,156
Basic earnings per share (cents)			4.43
Diluted earnings per share (cents)			4.34

Dividends

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

Comments

The profit from ordinary activities for the Group after providing for income tax amounted to \$13.2m (30 June 2019: \$6.0m).

The financial position of the consolidated entity is strong with net assets of \$63.0m (FY19: \$42.3m).

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

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>19.60</u>	<u>13.81</u>

4. Control gained over entities

EOF Distribution Inc. was incorporated by Ecofibre USA Inc. on 18 March 2020.

Ecofibre Holdings Pty Ltd was incorporated by Ecofibre Limited on 29 June 2020.

5. Loss of control over entities

Not applicable.

6. Details of associates and joint venture entities

Not applicable.

7. Audit qualification or review

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


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

8. Attachments

Details of attachments (if any):

The Preliminary Financial Report of Ecofibre Limited for the year ended 30 June 2020 is attached.

9. Signed



Signed _____

Date: 29 July 2020

Barry Lambert
Chairman
Sydney

Ecofibre Limited

ACN 140 245 263

Preliminary Financial Report – 30 June 2020

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ECOFIBRE LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 \$'000	2019 \$'000
Revenue	3(a)	50,717	35,605
Direct costs	4(a)	(12,255)	(9,833)
Gross profit		38,462	25,772
Other income	3(b)	6,482	1,864
Other operating expenses	4(b)	(27,549)	(22,679)
Interest expense		(144)	(372)
Profit before income tax		17,251	4,585
Income tax (expense)/ benefit		(4,095)	1,415
Profit after income tax attributable to the members of the company		13,156	6,000
Earnings per share:			
Basic earnings per share - cents		4.43	2.28
Diluted earnings per share - cents		4.34	2.17

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

ECOFIBRE LIMITED
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

	2020 \$'000	2019 \$'000
Profit after income tax attributable to the members of the company	13,156	6,000
Other comprehensive income for the year:		
Exchange differences on translating foreign controlled entities	(425)	391
Total comprehensive income for the year attributable to the members of the company	<hr/> 12,731	<hr/> 6,391

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

ECOFIBRE LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Note	2020 \$'000	2019 \$'000
CURRENT ASSETS			
Cash and cash equivalents		18,252	25,740
Trade and other receivables		9,442	2,808
Inventories		10,014	6,573
Biological assets		2,321	2,405
Prepayments and other assets		5,434	969
Tax recoverable		-	251
TOTAL CURRENT ASSETS		45,463	38,746
NON-CURRENT ASSETS			
Intangible assets		659	340
Right-of-use assets		1,047	-
Property, plant and equipment		34,634	6,655
Deferred tax assets		2,492	2,034
TOTAL NON-CURRENT ASSETS		38,832	9,029
TOTAL ASSETS		84,295	47,775
CURRENT LIABILITIES			
Trade and other payables		9,381	3,740
Related party loans		-	1,340
Lease liabilities		491	-
Tax payable		829	-
TOTAL CURRENT LIABILITIES		10,701	5,080
NON-CURRENT LIABILITIES			
Lease liabilities		593	-
Related party loans		10,000	-
Deferred tax liability		-	392
TOTAL NON-CURRENT LIABILITIES		10,593	392
TOTAL LIABILITIES		21,294	5,472
NET ASSETS		63,001	42,303
EQUITY			
Issued capital	5	62,376	56,189
Foreign currency translation reserve		(175)	250
Accumulated losses		(4,348)	(17,504)
Convertible loan reserve		-	139
Share-based payment reserve		5,148	3,229
TOTAL EQUITY		63,001	42,303

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

ECOFIBRE LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020

Consolidated	Note	Issued capital \$'000	Share-based payment reserve \$'000	Convertible loan reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total \$'000
Balance 30 June 2018		22,536	2,145	524	(141)	(23,504)	1,560
Total comprehensive income for the year		-	-	-	391	6,000	6,391
Shares issued		27,323	-	-	-	-	27,323
Share issue cost		(207)	-	-	-	-	(207)
Share-based payments		2,687	1,084	-	-	-	3,771
Convertible loan conversion to shares		3,850	-	(385)	-	-	3,465
Balance 30 June 2019		56,189	3,229	139	250	(17,504)	42,303
Total comprehensive income for the year		-	-	-	(425)	13,156	12,731
Shares issued	5	3,836	-	-	-	-	3,836
Share-based payments	5	918	1,919	-	-	-	2,837
Convertible loan conversion to shares	5	1,433	-	(139)	-	-	1,294
Balance 30 June 2020		62,376	5,148	-	(175)	(4,348)	63,001

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

ECOFIBRE LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	2020 \$'000	2019 \$'000
Cash flows from operating activities		
Receipts from customers	42,954	33,835
Government grants	1,691	1,476
Payments to suppliers and employees	(34,917)	(32,013)
Interest received	274	111
Interest paid	(189)	(493)
Income tax paid	(4,004)	(479)
Net cash flows generated from operating activities	5,809	2,437
Cash flows from investing activities		
Payments for property, plant and equipment	(22,605)	(4,833)
Payments for intangible assets	-	(340)
Receipt from sale of property, plant and equipment	203	238
Other	(126)	248
Net cash flows used in investing activities	(22,528)	(4,687)
Cash flows from financing activities		
Repayment of borrowings	-	(1,173)
Proceeds from borrowings	10,000	-
Repayment of lease liabilities	(598)	-
Proceeds from issue of shares	-	27,323
Transaction costs related to issues of shares	-	(1,040)
Net cash flows generated from financing activities	9,402	25,110
Net (decrease)/ increase in cash and cash equivalents held	(7,317)	22,860
Cash and cash equivalents at the beginning of the financial year	25,740	2,756
Effect of movement in exchange rates on cash held	(171)	124
Cash and cash equivalents at the end of the financial year	18,252	25,740

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

1. Changes in accounting policies

The consolidated entity has adopted all 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.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 16 Leases

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated.

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 Group 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 Group 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.

1. Changes in accounting policies (continued)

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 Group'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.

2. Operating segments

Identification of reportable operating segments

The consolidated entity is organised into three operating segments based on differences in products and services provided: nutraceuticals, food and fibre. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (BOD) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

Other segments represent the research and development and corporate headquarter activities of the consolidated entity.

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

Types of products and services

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

Ananda Health	Production and sale of hemp related nutraceutical products focused on the United States.
Ananda Food	Production and sale of hemp related food products in Australia.
Hemp Black	Development of innovative hemp related fibre products globally.
Ecofibre Corporate	Research and development and group corporate functions.

2. Operating segments (continued)

Intersegment transactions

Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans

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

Operating segment information

a) Segment performance

	Ananda Health \$'000	Ananda Food \$'000	Hemp Black \$'000	Ecofibre Corporate \$'000	Total \$'000
Consolidated - 2020					
Revenue					
Sales to external customers	46,819	1,469	2,429	-	50,717
Intersegment sales	213	327	-	-	540
Total sales revenue	47,032	1,796	2,429	-	51,257
R&D tax rebate	-	-	-	-	-
Interest income	22	-	-	235	257
Other income	1,824	371	-	4,030	6,225
Total segment revenue	48,878	2,167	2,429	4,265	57,739
Total expenses	(27,950)	(4,225)	(2,420)	(5,353)	(39,948)
Intersegment purchases	(100)	(141)	-	-	(241)
Segment profit/ (loss) before income tax	20,828	(2,199)	9	(1,088)	17,550
Intersegment eliminations					(299)
Profit before income tax					<u>17,251</u>
Consolidated - 2019					
Revenue					
Sales to external customers	34,241	1,364	-	-	35,605
Intersegment sales	-	111	-	-	111
Total sales revenue	34,241	1,475	-	-	35,716
R&D tax rebate	-	-	-	1,476	1,476
Interest income	33	-	-	116	149
Other income	109	146	15	(31)	239
Total segment revenue	34,383	1,621	15	1,561	37,580
Total expenses	(21,639)	(2,557)	(2,692)	(5,996)	(32,884)
Intersegment purchases	-	(38)	-	-	(38)
Segment loss before income tax	12,744	(974)	(2,677)	(4,435)	4,658
Intersegment eliminations					(73)
Profit before income tax					<u>4,585</u>

2. Operating segments (continued)

b) Segment assets and liabilities

	Ananda Health \$'000	Ananda Food \$'000	Hemp Black \$'000	Ecofibre Corporate \$'000	Total \$'000
Consolidated - 2020					
Assets					
Segment assets	25,205	7,767	6,229	26,842	66,043
<i>Unallocated assets:</i>					
Cash and cash equivalents					18,252
Total assets				<u>26,842</u>	<u>84,295</u>
Liabilities					
Segment liabilities	6,949	2,600	311	1,434	11,294
<i>Unallocated liabilities:</i>					
Related party loans and borrowings					10,000
Total liabilities				<u>1,434</u>	<u>21,294</u>
Consolidated - 2019					
Assets					
Segment assets	12,501	4,818	2,221	2,495	22,035
<i>Unallocated assets:</i>					
Cash and cash equivalents					25,740
Total assets				<u>2,495</u>	<u>47,775</u>
Liabilities					
Segment liabilities	2,184	931	24	993	4,132
<i>Unallocated liabilities:</i>					
Related party loans and borrowings					1,340
Total liabilities				<u>993</u>	<u>5,472</u>

3. Revenue and other income

a) Revenue

Sales	50,717	35,605
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b) Other income

	2020 \$'000	2019 \$'000
Government grant and tax incentives *^	1,876	1,476
Foreign exchange gain	3,925	-
Interest	257	149
Other income	424	239
	<u>6,482</u>	<u>1,864</u>

* Included in FY2019 is the Research and Development Tax Incentive received for eligible R&D expenses.

^ Current year income includes US Paycheck Protection Program (PPP) loan forgiveness of \$1.7m and other government grants due to Covid-19.

	2020	2019
	\$'000	\$'000
4. Expenses		
a) Direct costs		
Costs of goods sold	12,009	9,801
Write down of inventory	368	32
Reversal of inventory provision	(122)	-
	12,255	9,833
b) Other operating expenses		
Employees and contractors	12,008	10,537
Share based payments	2,705	3,752
Sales and marketing	2,874	1,645
Travel and accommodation	676	671
Equipment modification and maintenance	360	422
Rent	266	702
Legal fees and compliance	959	1,756
Accounting and audit	391	233
Depreciation and amortisation	2,049	958
Research and trials	2,296	384
Bad and doubtful debts	1,049	44
Other	1,916	1,575
	27,549	22,679

	2020 \$'000	2019 \$'000	2020 Quantity	2019 Quantity
5. Issued Capital				
Ordinary shares	62,376	56,189	305,619,401	291,951,478
Movement in ordinary shares				
Opening balance 1 July	56,189	22,536	291,951,478	80,195,441
Share issued at \$1.61 per share	-	3,127	-	1,942,582
Share issued at \$1.95 per share	-	4,196	-	2,151,630
First conversion of convertible loan	-	1,941	-	2,425,000
Shares issued as part of the ESS	-	2,229	-	1,383,422
Total	56,189	34,029	291,951,478	88,098,075
Share split 3:1	-	-	-	176,196,150
Shares issued from initial public offering at \$1.00 per share	-	20,000	-	20,000,000
Shares issued at \$0.537 per share	3,836	-	7,147,561	-
Second conversion of convertible loan	1,433	1,909	5,148,223	7,057,296
Shares issued as part of the ESS	918	458	1,372,139	599,957
Share issue cost	-	(207)	-	-
Closing balance 30 June	62,376	56,189	305,619,401	291,951,478

321,644,935 total shares on issue by the parent entity, which includes 305,619,401 consolidated shares on issue plus shares held by the EST (16,025,534) 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 2018	22,536
Shares issued	27,323
Share based payment: shares issued as part of the ESS	2,687
Convertible loan conversion to shares	3,850
Share issue cost	(207)
Balance at 30 June 2019	56,189
Shares issued	3,836
Share based payment: shares issued as part of the ESS	918
Convertible loan conversion to shares	1,433
Balance at 30 June 2020	62,376

6. Interests in subsidiaries

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	
		2020	2019
		%	%
Ecofibre Services Pty Ltd (ES)	Australia	100%	100%
Ananda Food Pty Ltd (AF) (formerly Hemp Australia Pty Ltd)	Australia	100%	100%
Ecofibre Holdings Pty Ltd (EOFH)	Australia	100%	-
Ecofibre USA Inc. (EUSA)	United States of America	100%	100%
Ananda Hemp Inc. (AH) (formerly United Life Science Inc.)	United States of America	100%	100%
Ecofibre Kentucky LLC (EK)	United States of America	100%	100%
Hemp Black Inc. (HB) (formerly Satival Inc.)	United States of America	100%	100%
EOF Distribution Inc. (EOFD)	United States of America	100%	-
Ecofibre Uruguay SA (EU)	Uruguay	100%	100%

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

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

EOFH is an asset holding company. EOFH was incorporated on 29 June 2020.

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 the manufacture of hemp nutraceutical products.

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

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

EOFD was incorporated on 18 March 2020.

EU is a dormant entity.

7. Earnings per share (EPS)

	2020	2019
	\$'000	\$'000
Earnings used in the calculation of basic and diluted EPS (\$'000)	13,156	6,000
Weighted average number of shares* outstanding during the period used in the calculation of basic and diluted EPS:		
Basic	296,929,432	262,703,027
Diluted	303,165,688	276,186,752

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

8. Events after the reporting period

On 29 July 2020, Ecofibre Limited entered into conditional Sale and Purchase Agreements for the business and assets of a group of companies that manufacture high performance textiles in Greensboro, North Carolina in the United States.

The Company is in the process of raising equity capital via private placement.

No other matter or circumstance has arisen since 30 June 2020 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.