

27 January 2023

Ecofibre Limited - 2Q23 Update and 4C Report

HIGHLIGHTS

- Revenue \$8.3m, up 9% pcp and 2% on the prior quarter
- Strategic review of business portfolio nearly complete
 - increased focus on businesses with positive near-term cashflow and growth potential
 - exited Hemp Black apparel 3D-knitting business
 - ensuring clear pathway to operating cash flow positive position by end of 2H23
- Cash as at 31 December: \$7.4m
 - 2Q23 operating cash outflows \$1.3m, includes \$1.2m R&D
 - collected \$0.8m US government receivables, \$5.4m remaining
 - loan repayments renegotiated to spread maturity between 2024 and 2025
- Ananda Health S3 Sleep study did not show statistically significant improvement -v- placebo, evaluating potential follow-on crossover study
- Engagement started with US Patent and Trademark Office on gynecological disease patents
- Hemp Black in commercial production for Tencate turf yarn
- Australian fibre seed crop fully sold (\$1.0m), Texas crop harvest underway (c\$1.5m)

Ecofibre Limited (Ecofibre, Company) (ASX:EOF, ADR:EOFBY) provides its Appendix 4C Quarterly Report for the three months ended 31 December 2022 (2Q23) together with an update on the Company's trading performance.

Operating cash flow improved in the quarter as the Company completes a strategic review to address a more uncertain future economic environment. The review is focussed on prioritising nearer-term cash flow businesses.

2Q23 Trading Update

Unaudited revenue for 2Q23 was \$8.3m, up 9% on the prior corresponding period (pcp) and 2% on the prior quarter.

Ecofibre CEO Eric Wang said, "Revenue growth continued this quarter, which included fibre planting seed sales in Australia and the US."

"As noted last quarter, R&D costs peaked in 1H23. The Company is also implementing several cost saving initiatives as it continues to increase its strategic focus and targets a return to cash-positive operations in FY24".

Hemp Black – 2Q23 revenue \$3.4m (\$3.3m in 2Q22)

Fill manufacturing capacity

Hemp Black started commercial production of new yarns for Tencate in December and is working to increase the combined speed of production for its clients.

The Company has decided to exit its Hemp Black branded and white label apparel business and is in the process of winding this business down. Hemp Black had been developing a range of activewear garments for a major US Department store. However, finalisation of the range was delayed multiple times, and the Company terminated the development contract.

Ananda Health – 2Q23 revenue \$3.3m (\$3.1m in 2Q22)

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

Ananda continued to promote its affordable range of 'myeverdayCBD' products that was launched in 1Q23, which independent pharmacies use as a more affordable range to complement their premium Ananda Professional products. The range has also helped provide an attractive option for new independent pharmacies onboarded by Ananda.

Ananda will launch a new condition-specific range of products in February 2023. These will be specifically formulated for a range of conditions, including pain and inflammation, sleep and stress, and progressively released in all three product formats (tinctures, softgels and fruit chews).

The business' focus on the anti-aging and practitioner market continues to build. Ananda products were launched through a practitioner scripting service in December, and in 3Q23 will begin to be listed by the market-leading scripting platform in the United States.

S3 OTC product registration

Ecofibre's CANN-Sleep phase 3 clinical trial, conducted independently by the National Centre for Naturopathic Medicine, Southern Cross University (SCU), was officially completed in the quarter and initial results show 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 is assessing its options.

Gynecological cancer research portfolio

In October 2022, Ecofibre lodged four Track 1 utility patent applications with the USPTO for endometriosis, gynecological cancers, and other non-malignant gynecological disorders.

The Company has started the engagement process with the USPTO to prioritise the sequence of their review.

Ananda Food - 2Q23 revenue \$1.6m (\$1.2m in 2Q22)

Food revenues were higher in the quarter with strong fibre seed sales (\$1.0m). Ecofibre harvested 230ha of ECO-MS77 fibre seed in late September, which was sold to fibre growers in Australia and the USA.

A further crop was planted in South Texas in October 2022 to meet the demand for the US fiber market for the 2023 summer growing season. Total sales from this crop are expected to be c\$1.5m in 2H23, although crop yield will be c50% lower than initial estimates due to the impact of extreme weather at Christmas this year.

Strategic Review of our Portfolio

Ecofibre is completing a strategic review as a response to more uncertain economic conditions. The review focuses on prioritising positive operating cash flows at the Group level and aligning existing and future investments in growth initiatives with higher return hurdle rates. CEO Eric Wang states, "We will provide a detailed update on our review and the decisions taken on the release of the 1H23 profit result."

Appendix 4C Cash Flow Discussion

The Company's cash position as at 31 December 2022 was \$7.4m (30 September 2022: \$9.7m).

- Cash outflow from **operating** activities in the quarter was \$1.3m, including:
 - Receipts from customers (+\$10.2m) had the benefit of lower debtor balances and customer prepayments for polymer inputs in Hemp Black
 - R&D (-\$1.2m) including the cost of clinical trials with Southern Cross University.
 - Product manufacturing and operating costs (-\$3.8m) included grower payments for Ananda Food (-\$0.5m).
 - \$0.8m was received from the US Federal Government in relation to prior period employee retention credits
- Cashflows used in **investing** activities (-\$0.4m) mainly related to the ongoing development of new Hemp Black yarn extrusion lines.
- Cashflows from **financing** activities in the quarter totalled -\$0.1m.

In accordance with Listing Rule 4.7C.3, and as noted in Item 6 of the Appendix 4C Cashflow Statement, payments to related parties and their associates totaled \$193,000 during the quarter for directors' salaries and fees.

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About Ecofibre

Ecofibre is a diversified industrial hemp company in the United States and Australia.

We operate three vertically integrated businesses focused on growth in natural health care, plant-based foods, and sustainable product solutions.

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. See www.anandafood.com.

Ananda Health is a leading US manufacturer of hemp-based nutraceuticals for the professional market. We produce CBD products for human and pet consumption and topical health and beauty products. Our focus on high-quality, efficacious, and safe products is supported by a commitment to clinical research in Australia and the USA, focused on conditions including sleep, pain, anxiety, endometriosis, and gynecological diseases. See www.anandaprofessional.com. Ananda Hemp provides Australians with medicinal cannabis products as part of the SAS-B program. Ananda Hemp provides a range of products manufactured at our US facility under the S4 and S8 categories. See www.anandahemp.com.au.

Hemp Black is an industrial business focused on textiles and bioplastics, with specialist capabilities in yarn extrusion, knitting, and polymer compounding. We use innovative hemp-based composite technology to help de-carbonise consumer products and supply chains for various industries. See www.hempblack.com.

Authorisation

This document is authorised to be given to the Australian Securities Exchange (ASX) by the Board of the Company.

Appendix 4C

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

Name of entity

Ecofibre Limited

ABN

27 140 245 263

Quarter ended ("current quarter")

31 December 2022

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|---|------------------------------------|--|
| 1. | Cash flows from operating activities | | |
| 1.1 | Receipts from customers | 10,174 | 18,135 |
| 1.2 | Payments for | | |
| | (a) research and development | (1,217) | (3,130) |
| | (b) product manufacturing and operating costs | (3,779) | (8,009) |
| | <i>Grower payments, Ananda Health</i> | - | - |
| | <i>Grower payments, Ananda Food</i> | (532) | (844) |
| | <i>Production costs</i> | (3,247) | (7,165) |
| | (c) advertising and marketing | (301) | (847) |
| | (d) leased assets | (98) | (165) |
| | (e) staff costs | (3,789) | (7,235) |
| | (f) administration and corporate costs | (2,482) | (5,374) |
| 1.3 | Dividends received (see note 3) | - | - |
| 1.4 | Interest received | 16 | 19 |
| 1.5 | Interest and other costs of finance paid | (638) | (1,071) |
| 1.6 | Income taxes | (32) | (58) |
| 1.7 | Government grants and tax incentives | 838 | 1,838 |
| 1.8 | Other (provide details if material) | - | - |
| 1.9 | Net cash from / (used in) operating activities | (1,308) | (5,897) |
| 2. | Cash flows from investing activities | | |
| 2.1 | Payments to acquire or for: | | |
| | (a) entities | - | - |
| | (b) businesses | - | (324) |
| | (c) property, plant and equipment | (459) | (971) |
| | (d) investments | - | - |

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|---|------------------------------------|--|
| | (e) intellectual property | - | - |
| | (f) other non-current assets | - | - |
| 2.2 | Proceeds from disposal of: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |
| | (c) property, plant and equipment | 94 | 172 |
| | (d) investments | - | - |
| | (e) intellectual property | - | - |
| | (f) other non-current assets | - | - |
| 2.3 | Cash flows from loans to other entities | - | - |
| 2.4 | Dividends received (see note 3) | - | - |
| 2.5 | Other (provide details if material) | 9 | (120) |
| 2.6 | Net cash from / (used in) investing activities | (356) | (1,243) |

| | | | |
|-------------|---|--------------|--------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | - | - |
| 3.2 | Proceeds from issue of convertible debt securities | - | - |
| 3.3 | Proceeds from exercise of options | - | - |
| 3.4 | Transaction costs related to issues of equity securities or convertible debt securities | - | - |
| 3.5 | Proceeds from borrowings | - | 9,170 |
| 3.6 | Repayment of borrowings | - | (2,000) |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (payment for principal portion of lease liabilities) | (114) | (238) |
| 3.10 | Net cash from / (used in) financing activities | (114) | 6,932 |

| | | | |
|-----------|--|---------|---------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 9,710 | 7,251 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (1,308) | (5,897) |

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|---|------------------------------------|--|
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (356) | (1,243) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | (114) | 6,932 |
| 4.5 | Effect of movement in exchange rates on cash held | (557) | 332 |
| 4.6 | Cash and cash equivalents at end of period | 7,375 | 7,375 |

| 5. | Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$A'000 | Previous quarter \$A'000 |
|-----------|---|------------------------------------|-------------------------------------|
| 5.1 | Bank balances | 7,046 | 8,928 |
| 5.2 | Call deposits | - | - |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (Nubridge impound, term deposits and credit card clearing accounts) | 329 | 782 |
| 5.5 | Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 7,375 | 9,710 |

| 6. | Payments to related parties of the entity and their associates | Current quarter \$A'000 |
|---|--|------------------------------------|
| 6.1 | Aggregate amount of payments to related parties and their associates included in item 1 | 193 |
| 6.2 | Aggregate amount of payments to related parties and their associates included in item 2 | - |
| <i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i> | | |

| | | |
|--|---|--|
| 7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i> | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
| 7.1 Loan facilities | 26,195 | 26,195 |
| 7.2 Credit standby arrangements | - | - |
| 7.3 Other (please specify) | - | - |
| 7.4 Total financing facilities | 26,195 | 26,195 |
| 7.5 Unused financing facilities available at quarter end | | - |
| <p>7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.</p> <div style="border: 1px solid black; padding: 10px;"> <p>Lender: James & Cordelia Thiele Trust Fund</p> <ul style="list-style-type: none"> Principal amount: AUD 8.0m Date of original loan: June 2020 Repayment date: \$1m repayable on 15 July 2023, \$1m repayable on 15 July 2024 and \$6m repayable on 15 July 2025 Interest rate: 11.0% p.a Lender costs payable: nil Security / collateral: nil Financial covenants: nil <p>Lender: Lambert Superannuation Fund</p> <ul style="list-style-type: none"> Principal amount: AUD 3.5m Date of original loan: March 2022 Repayment date: 15 July 2025 Interest rate: 10.0% p.a Lender costs payable: nil Security / collateral: nil Financial covenants: nil <p>Lender: Nubridge Commercial Lending LLC</p> <ul style="list-style-type: none"> Principal amount: USD 10.0m Date of original loan: June 2022 Repayment date: 1 July 2024, Ecofibre has the ability to fully or partially repay the loan without penalty during the final 6 months of the term Interest rate: 8.49% p.a Origination fee: USD200,000 + c\$15k costs upfront Security / collateral: the interests of the Ecofibre group in the following properties have been pledged to the lender as security for the loan: Corporate Boulevard, Georgetown, Kentucky; Cessna Drive, Greensboro, North Carolina; West Market Street, Greensboro, North Carolina. Financial covenants: nil </div> | | |

| 8. | Estimated cash available for future operating activities | \$A'000 |
|--|--|----------------|
| 8.1 | Net cash from / (used in) operating activities (item 1.9) | (1,308) |
| 8.2 | Cash and cash equivalents at quarter end (item 4.6) | 7,375 |
| 8.3 | Unused finance facilities available at quarter end (item 7.5) | - |
| 8.4 | Total available funding (item 8.2 + item 8.3) | 7,375 |
| 8.5 | Estimated quarters of funding available (item 8.4 divided by item 8.1) | 5.6 |
| <i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i> | | |
| 8.6 | If item 8.5 is less than 2 quarters, please provide answers to the following questions: | |
| 8.6.1 | Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not? | |
| | | |
| 8.6.2 | Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful? | |
| | | |
| 8.6.3 | Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis? | |
| | | |
| <i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i> | | |

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

27 January 2023

Date:

By the Board

Authorised by:
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the

[*name of board committee – eg Audit and Risk Committee*]. If it has been authorised for release to the market by a disclosure committee, you can insert here: “By the Disclosure Committee”.

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.