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20 October 2020

Ecofibre Limited

Profit Guidance and 1Q21 Appendix 4C Report

HIGHLIGHTS

- **Targeting breakeven for FY21**
- **1Q21 revenue $7.1m: down 5% on prior quarter and 51% on pcp**
- **Early signs of recovery in the US independent pharmacy segment**
- **First products shipped to CVS Pharmacy**
- **TexInnovate acquisition completed and business integration well progressed**
- **Agreement to provide range of hemp food products to Coles supplier**
- **Cash on hand $15.6m: limited further investment expected for FY21**

Ecofibre Limited (Ecofibre, Company) (ASX:EOF, OTC-NASDAQ Intl Designation: EOFBY) provides its Appendix 4C Quarterly Report for the three months ended 30 September 2020 (1Q21) together with profit guidance and an update on the Company's trading performance.

FY21 Profit Guidance

As per the 1Q21 4C Quarterly Report below, cash flow and revenue remain generally in line with the 4Q20 result, below the previous corresponding period and below analyst estimates. In the interest of continuous disclosure, the Directors wish to advise that the Company expects to incur a loss in 1H21 and at this time we are targeting a break even result for FY21. The Company will naturally advise the market if there is any material change to this guidance.

Chairman Barry Lambert stated, "Whilst it is disappointing that previous strong profit growth has been interrupted, it is not unexpected due to:

- Severe COVID-19, political and social disruption to US retail;
- Temporary disruption during the recent acquisition and integration of Hemp Black North Carolina;
- Additional investment incurred for product development and placement in CVS Pharmacy. This will negatively impact 1H21 profit, however, should show positive results beginning in 2H21; and
- Costs and time involved in commissioning and moving into our new state of the art US Headquarters"

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Mr. Lambert continues, "The Board will be strengthened with additional skills over the next 12 months with the first appointment being announced today. The Board confirms it is fully supportive of the CEO's fine tuning of the business and noted the Company is well placed to grow in numerous areas as set out by the CEO Eric Wang below."

1Q21 Trading Update

Unaudited revenue for 1Q21 was $7.1m, down 5% from the prior quarter ($7.5m).

CEO Eric Wang states, "Trading conditions remain difficult in the US CBD market and the demand for PPE has reduced. As discussed last quarter, we are reshaping our business priorities to adjust for changes in purchasing behaviours with our distributors and independent pharmacies."

"We are working to ensure we retain and grow our leadership position in the US retail pharmacy channel. There is strong confidence in the long-term future of hemp-derived CBD in this channel as it will be the preferred channel for patients with health conditions that are advised by pharmacist and medical practitioners."

Ananda Health

Independent Pharmacies

Our Ananda Health business continues to focus on supporting our distributors, independent pharmacies and patients through a difficult period. Part of the reshaping of this part of the business is to focus our resources on pharmacies that have the right business model and approach and assist them in making Ananda Health a key lever to helping the future profitability and success of their businesses.

Eric Wang states, "During the quarter wholesale distributor orders were lower due to existing inventory remaining from previous periods. We are heavily focused on patient pull-through to support our pharmacies and distributors which have been impacted by store front closures over the past six months."

"We are pleased to report that we are beginning to see the reopening of many of our independent pharmacy partners and a return to more normal operations that underpinned the growth of our core business. We physically visited many partners during the quarter and based on feedback, we implemented a core initiative that will help pharmacies grow their relationship with us and provide both financial and healthcare benefits to the pharmacy and their patients respectively."

The main elements of this initiative are:

- Helping to bring customers back to the pharmacies
- Engaging customers with Ananda, the #1 Pharmacy CBD brand, within the pharmacy

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- Supporting engagement with customers who do not physically come into pharmacies anymore
- Engaging and educating the medical community around the efficacy, safety and science of hemp-derived CBD leveraging Ecofibre's significant investment in clinical research
- Providing product innovation to support additional patient segments that are underserved

Research

Ecofibre's commitment to research and education is a core value proposition and the Company believes an important contributor to the future growth of the US CBD market.

As reported in July 2020, the Coala-T-CBD Study™ is led by oncologist Dr. Marisa Weiss, the founder and chief medical officer of www.Breastcancer.org and Director of Breast Radiation Oncology and Breast Health Outreach at Lankenau Medical Center. The Coala-T-CBD Study™ is the first and only FDA-approved randomised controlled trial of a hemp-based cannabidiol (CBD) product vs. placebo in the treatment of chemotherapy-induced peripheral neuropathy (CIPN).

The Coala-T-CBD Study™ began the enrolment of patients during the quarter and is fully operational. The purpose of this study is to assess the efficacy of a hemp-based CBD product, Ananda Health Spectrum gel caps, on the severity and duration of CIPN among breast, colon, uterine, and ovarian cancer patients who received common types of neurotoxic chemotherapy.

Dr. Marisa Weiss states, "I am pleased to report that, despite the restrictions caused by the pandemic, the study has been very successful in enrolling patients. I look forward to providing interim updates on the results of this very important study for CIPN patients."

EOF Distribution, Inc. (EOFD)

At the end of the quarter we commenced shipping our first lines of Balans Labs products to CVS. Balans Labs is a brand that will be available exclusively at CVS in the coming weeks. This line brings together the best in new product formulations with targeted merchandising and promotional activity. Expansion plans are underway for additional items.

Eric Wang states "We are pleased to have our EOF Distribution business manufacture a high-quality range of topical hemp products. Additionally, we manufactured a Balans Labs brand of reusable facemasks that can be currently found in over 4,000 CVS retail locations across the US".

Hemp Black

Ecofibre completed the acquisition of TexInnovate in late August 2020 and integration is well underway. Revenues for this division were $2.6m for the quarter, split approximately evenly between face mask

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sales and revenues from the original TexInnovate businesses. During the quarter, we sold ~132,000 face masks, which included the initial order under the Balans Labs brand.

As previously announced, TexInnovate (now Hemp Black North Carolina) underpins the capability and future commercialisation of the existing technologies of Hemp Black.

Hemp Black now has customers in diverse segments including medical yarns, high performance polymers, outdoor turf, furniture applications and most recently PPE. Going forward, the business will expand the use of Hemp Black technologies into existing product lines and expand applications into new segments over the medium to long-term.

The Company continues to address market demand for face masks and PPE. Whilst demand has slowed since 4Q20, the business continues to manage to a capacity of 1.0m – 1.2m masks a year. This figure will be reviewed regularly based on the supply and demand dynamics that we experience.

Eric Wang said, "As previously reported, we are focused on supplying a target segment that we expect will exist over the medium term. Our 3D knitted technology, combined with the anti-odor and anti-microbial properties of our Hemp Black Element and copper yarns, provide a very different value proposition from disposable non-woven and cloth masks."

Hemp Black expects to launch its initial line of protective athleisure wear in November. The design will incorporate proprietary Hemp Black yarns to provide anti-microbial benefits in specific parts of the clothing and will be available on hempblack.com.

Ananda Food

During 1Q21 Ananda Food commenced supply of hemp seed oil under Woolworths Macro brand, which was ranged in over 550 stores by the end of September.

Ananda Food signed an agreement with Trichomia Pty Ltd, the owner of the 'Soul Seeds' brand of health products developed exclusively for Coles, to supply bulk and packaged hemp seed oil, protein powder and de-hulled seed. The agreement term is 2 years and covers potential future purchase orders over that period. There is no minimum or maximum order volume specified in the contract. Trichomia expects to distribute the products to over 700 Coles stores, with first deliveries expected 2Q21.

Eric Wang states, "We expect plant-based proteins to continue to grow as a category. Hemp seeds, oil and protein are generally regarded as a "Super Food". As consumer awareness and education increase, we expect this category to continue to grow. Whilst it will not be as profitable as our other businesses, we are expecting a near break-even result in FY21 with slowly growing profits thereafter.

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Corporate

On 24 August US Senate Majority Leader Mitch McConnell toured Ecofibre's new US headquarters and production facility in Georgetown, KY and held a press conference discussing the CARES Act.

In a speech to media, local and state political representatives and staff, Senator McConnell noted the importance of Ecofibre to local jobs, the level of innovation in the company's products and building design and the importance of Ecofibre to the future fabric of a developing industrial hemp industry.



Hemp Face Masks To Prevent Coronavirus Spread

Published 19 hours ago on August 24, 2020
By Kyle Jaeger

Senate Majority Leader Mitch McConnell (R-KY) is urging Americans to wear face masks to prevent the spread of coronavirus—and he wants those coverings to be made of hemp.

During an event at the Kentucky-based hemp company Ecofibre on Monday, McConnell talked about the challenges the burgeoning market for the newly legal crop has faced, especially amid the pandemic, but he said it represents a viable commodity that is bolstering the economy.



Sen. McConnell talks about CARES Act funding in Georgetown

By Andrea Walker
Published: Aug. 24, 2020 at 12:30 PM EDT

GEORGETOWN, Ky. (WKYT) - Senate Majority Leader Mitch McConnell made a stop in Georgetown Monday for a tour of Eco-Fibre.

Eco-Fibre is a new hemp processing plant that specializes in finding new, high tech uses for hemp and CBD.

In response to the COVID-19 pandemic, the company developed a reusable face mask, made from Kentucky proud hemp.

During the quarter, Ecofibre's US Headquarters received its official designation as a LEEDS platinum building, the highest sustainability rating possible. The design reflects the Company's broader social and environmental commitment that extends to food security, natural healthcare, community business and sustainability.

Ecofibre manages its business and impacts for the long term, operating in sustainable industries segments with partners that share the same values and beliefs.

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Appendix 4C Cash Flow Discussion

As at 30 September 2020 the Company's cash position was $15.6m (30 June 2020: $18.3m).

- Cashflows from operating activities in the quarter were -$5.4m, including:
  - Receipts from customers of $7.1m, in line with revenue for the quarter ($7.1m);
  - Research and Development costs ($0.6m) related to clinical trials conducted at the Lankenau Institute for Medical Research and Eastern Virginia Medical School.
  - Product manufacturing and operating costs include
    - Ananda Food payments to Tasmanian growers for the 2019/20 hemp crops ($1.0m)
    - Ananda Health payments for Kentucky CBD crop supply ($1.1m)
    - Air freight costs to expedite deployment of face masks to Australia in June ($0.3m)
  - Income and withholding taxes relating to prior financial periods ($0.9m)
  - 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 totalled $124,000 during the quarter for directors' salaries and fees.
- Cashflows for investing activities in the quarter of -$25.5m relate to
  - Cash component of the TexInnovate acquisition which completed on 21 August 2020, including the business ($13.7m) and associated real estate ($9.2m).

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- Payments for the Georgetown facility ($2.2m). Remaining payments on the building of $1.3m will be paid in 2Q21, subject to final certifications and invoices.

- Cashflows from ***financing*** activities of +$29.0m relate to equity capital raised in July 2020 to fund the cash portion of the acquisition of TexInnovate, the buildings and land associated with the business and working capital requirements.

In accordance with Listing Rule 4.7C.2, the Company has attached a comparison of actual expenditure against the estimated expenditure on the individual items in the "Use of Proceeds" statement in the Company's Prospectus since the date of its admission to the official list. This document is unchanged from the previous quarter.

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About Ecofibre

Ecofibre is a provider of hemp products in the United States and Australia.

In the United States, the Ananda Health is the #1 provider of hemp-derived CBD for retail pharmacies. The Company produces nutraceutical products for human and pet consumption, as well as topical creams and salves. See www.anandahemp.com and www.anandaprofessional.com. The Company also supplies its leading Ananda Hemp CBD products to Australians via the SAS B program.

In Australia, the Company produces 100% Australian grown and processed hemp food products including protein powders, de-hulled hemp seed and hemp oil. See www.anandafood.com.

The Company is also developing innovative hemp-based products in textiles and composite materials in the United States. See www.hempblack.com.

The Company owns or controls key parts of the value chain in each business, from breeding, growing and production to sales and marketing. Our value proposition to customers is built on strong brands and quality products.

Authorisation

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

Appendix 4C

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

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Name of entity	
Ecofibre Limited	
ABN	**Quarter ended ("current quarter")**
27 140 245 263	30 September 2020

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	7,055	7,055
1.2	Payments for		
	(a) research and development	(608)	(608)
	(b) product manufacturing and operating costs	(6,291)	(6,291)
	Grower payments, Ananda Health	(1,137)	(1,137)
	Grower payments, Ananda Food	(1,034)	(1,034)
	Production costs	(4,120)	(4,120)
	(c) advertising and marketing	(420)	(420)
	(d) leased assets	(52)	(52)
	(e) staff costs	(3,206)	(3,206)
	(f) administration and corporate costs	(1,181)	(1,181)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	11	11
1.5	Interest and other costs of finance paid	(218)	(218)
1.6	Income taxes paid	(928)	(928)
1.7	Government grants and tax incentives	427	427
1.8	Other (provide details if material)	-	-
1.9	**Net cash from / (used in) operating activities**	**(5,411)**	**(5,411)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	(13,689)	(13,689)
	(c) property, plant and equipment	(11,892)	(11,892)

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	13	13
	(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)	15	15
2.6	**Net cash from / (used in) investing activities**	**(25,553)**	**(25,553)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	29,500	29,500
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	(392)	(392)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (payment for principal portion of lease liabilities)	(137)	(137)
3.10	**Net cash from / (used in) financing activities**	**28,971**	**28,971**

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	18,252	18,252
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(5,411)	(5,411)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(25,553)	(25,553)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	28,971	28,971
4.5	Effect of movement in exchange rates on cash held	(615)	(615)
4.6	**Cash and cash equivalents at end of period**	**15,644**	**15,644**

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	7,382	4,117
5.2	Call deposits	-	2,912
5.3	Bank overdrafts	-	-
5.4	Other (term deposits and credit card clearing accounts)	8,262	11,223
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**15,644**	**18,252**

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	124
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

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7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	10,000	10,000
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	**Total financing facilities**	10,000	10,000

7.5	**Unused financing facilities available at quarter end**	-

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

- Lender: James & Cordelia Thiele Trust Fund
- Principal amount: AUD 10.0m
- Repayment date: 15 July 2021
- Two options to extend: at EOF's option, and on the giving of three month's notice,
- the repayment date may be extended twice for periods of 6 months each
- Partial repayment: on each date that the repayment is extended EOF may elect to
- repay the loan in whole multiples of AUD1.0m
- Interest rate: 8.0% p.a
- Lender costs payable: nil
- Security / collateral: nil
- Financial covenants: nil

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	(5,411)
8.2	Cash and cash equivalents at quarter end (item 4.6)	15,644
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	15,644
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	3

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.

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

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8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
Answer:	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
Answer:	

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

20 October 2020

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.

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APPENDIX

Use of Funds Raised under the Offer [1]		April 2019 - September 2020 [3]		
Categories	Total [2]	Planned Spend	Actual Spend	Comments
Accelerate the establishment and commercialisation of Hemp Black				
• product development, sales and marketing, customer samples and other commercialisation expenses	2,083,000	2,083,000	2,083,000	All funds allocated for Hemp Black commercialisation have now been disbursed as operating and capital expenditure.
• fund the design, construction and commissioning of new premises in Georgetown Kentucky	7,792,000	7,792,000	8,954,000	All funds allocated to the Georgetown premises in the Prospectus have been spent - remaining costs funded from operating and other cashflows.
Provide additional working capital to accelerate the growth of Ananda Food	$4,000,000	$4,000,000	$2,923,000	Net increase in the investment in inventories (including biological assets), trade receivables and current liabilities for Ananda Food.
Provide additional general working capital	$5,000,000	$5,000,000	$5,000,000	Includes net increase in investment in inventories (including biological assets), trade receivables and current liabilities, particularly Ananda Health.
Costs of the offer	$1,125,000	$1,125,000	$1,040,000	Actual transaction costs lower than initial estimate, as previously disclosed in the Appendix 4C statement for 4Q19.
Total	**$20,000,000**	**$20,000,000**	**$20,000,000**	

[1] Refer page 88 of the Company's Prospectus dated 22 February 2019

[2] Based on Maximum Subscription amount of $20.0m

[3] Unchanged from June 2020 as all proceeds had already been fully disbursed by that date

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