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ECOFIBRE INDUSTRIES OPERATIONS LTD
(formerly known as Ecofibre Industries Operations Pty Ltd)
A.C.N. 140 245 263
AND CONTROLLED ENTITIES

ANNUAL REPORT - 30 JUNE 2018

INDEX

Page

1 - 4	Director's Report
5	Auditor's Independence Declaration
6	Director's Declaration
7	Consolidated Statement of Profit or Loss and Other Comprehensive Income
8	Consolidated Statement of Financial Position
9	Consolidated Statement of Changes in Equity
10	Consolidated Statement of Cash Flows
11 - 33	Notes to and Forming Part of the Financial Statements
34 - 36	Independent Auditor's Report

The company's registered office and principal place of business is:
Level 12, 680 George Street
Sydney NSW 2000

ECOFIBRE INDUSTRIES OPERATIONS LTD

DIRECTORS' REPORT

Your directors present their report on the financial statements of the company and consolidated entity for the year ended 30 June 2018.

Directors

The following persons were directors of Ecofibre Industries Operations Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

Barry Lambert (appointed on 19 October 2017)
Jon Meadmore (appointed on 19 October 2017)
Eric Wang
Philip Warner (resigned on 18 June 2018)

Principal activities

The principal continuing activities of the consolidated entity during the financial year were breeding, growing harvesting, processing and distributing hemp products.

Significant changes in the state of affairs

In the 2018 financial year, the consolidated entity raised $8.9Million from the issue of new shares.

The company became a public company and changed its name to Ecofibre Industries Operations Ltd on 23 February 2018.

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

Review of operations and results

The operating loss of the consolidated entity for the year after income tax was $8.7Million (2017: loss of $8.7Million).

The net assets of the consolidated entity are $1.6Million as at 30 June 2018 (2017: net liabilities of $0.8Million).

During the current year no dividend was paid (2017 - Nil).

Matters subsequent to the end of the financial year

At the date of signing this report, the company has raised additional equity capital of $1.1Million (685,808 shares at $1.61 per share) since 1 July 2018.

On 27 August 2018 the Board approved the issue of 7,355,659 shares into an Employee Share Trust in accordance with the Shareholders Agreement and the 2016 Information Memorandum to Investors.

The Board has also received notice that the Lambert Superanunation Fund intends to partially exercise its equity option under the Convertible Note once the shares have been issued to the Employee Share Trust.

No other matter or circumstance has arisen since 30 June 2018 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.

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ECOFIBRE INDUSTRIES OPERATIONS LTD

DIRECTORS' REPORT (Continued)

Likely developments

The current intention of the directors is that the company will list on the Australian Stock Exchage in the 2018/19 financial year. Other likely developments in the consolidated entity's operations and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulations

The consolidated entity is subject to and is 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.

Information on directors

Name:	Barry Lambert
Title:	Chairman, Non-Executive Director
Experience and expertise:	A well known businessman and philanthropist, Barry accepted the role of Chairman of Ecofibre in October 2017. He is particularly well known in the industry for his significant donations to establish the Lambert Initiative for Cannabinoid Therapeutics at the University of Sydney and the Lambert Centre for the Study of Medicinal Cannabis & Hemp, Thomas Jefferson University. Barry was the long term Chairman of ASX listed companies Class Ltd and Countplus Ltd before resigning to accept the role as Chairman of Ecofibre.
Special responsibilities:	None

Name:	Jon Meadmore
Title:	Non-Executive Director
Experience and expertise:	Jon is a Solicitor admitted to practice in the Supreme Court of Queensland and the High Court of Australia, and Partner at Colin Biggers & Paisley where he leads the corporate and commercial team. He has extensive experience in advising clients on all aspect of commercial activities with a particular focus on acquisitions, corporate structuring and dispute resolution.
Special responsibilities:	Chairman of Audit Risk and Compliance Committee

Name:	Eric Wang
Title:	Managing Director
Experience and expertise:	Eric became a director of Ecofibre in 2015, and was appointed Managing Director in December 2017. He has over 25 years of leadership and executive management experience as an officer in the United States Army and within the financial services industry in Australia and Asia. Eric worked for the global management consulting firm Bain & Company and held a range of senior executive positions at Perpetual and AMP.
Special responsibilities:	None

Name:	Philip Warner
Title:	Non-Executive Director
Experience and expertise:	Philip founded and managed Ecofibre up to his recent retirement from executive duties.
Special responsibilities:	None

Company secretary

Kylie Warner has held the role of Company Secretary since incorporation up to 18 June 2018.
Jonathan Brown was appointed Company Secretary on that date.

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ECOFIBRE INDUSTRIES OPERATIONS LTD

DIRECTORS' REPORT (Continued)

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 2018, and the number of meetings attended by each director were:

Director	*Full board*		*Audit Risk and Compliance Committee*	
	Attended	*Held*	*Attended*	*Held*
Barry Lambert	4	4	1	1
Jon Meadmore	4	4	1	1
Eric Wang	5	5	1	1
Philip Warner	4	4	-	-

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

Shares under option

Unissued ordinary shares of Ecofibre Industries Operations Ltd under option at the date of this report are as follows:

Grant date	*Expiry date*	*Exercise price*	*Number under option*
1 July 2017	30 June 2022	$1.61	4,059,420

All unissued shares are ordinary shares of the Company.

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 to the extent permitted by the Corporations Act 2001.
The contract of insurance prohibits disclosure of the full details of the cover or 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.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company

No person has applied for leave of Court to bring proceedings on behalf of the company or 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 any part of those proceedings.

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

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ECOFIBRE INDUSTRIES OPERATIONS LTD

DIRECTORS' REPORT (Continued)

Auditor's Independence Declaration

The auditor's independence declaration has been received and can be found on page 5 of the annual report.

Auditor

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

Signed in accordance with a resolution of the directors.

Barry Lambert Director	Eric Wang Director

Brisbane, 27 August 2018

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AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE MEMBERS OF ECOFIBRE INDUSTRIES OPERATIONS LTD AND CONTROLLED ENTITIES

I declare that, to the best of my knowledge and belief during the year ended 30 June 2018 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

J A Latif
A Member of the Firm

Brisbane, 27 August 2018

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ECOFIBRE INDUSTRIES OPERATIONS LTD

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 7 to 33 are in accordance with the Corporations Act 2001 and:

    a) comply with Accounting Standards and the Corporations Regulations 2001;

    b) comply with International Financial Reporting Standards as issued by the International Accounting Standards Board; and

    c) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2018 and of their performance for the year ended on that date.

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Barry Lambert
Director

Eric Wang
Director

Brisbane, 27 August 2018

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ECOFIBRE INDUSTRIES OPERATIONS LTD

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $'000	2017 $'000
Revenue	2(a)	5,749	575
Direct costs	3(a)	(3,783)	(3,233)
Gross profit		1,966	(2,658)
Other income	2(b)	3,557	1,625
Other operating expenses	3(b)	(13,190)	(6,998)
Interest expense		(547)	(484)
Loss before income tax		(8,214)	(8,515)
Income tax expense	4	(413)	(134)
Loss after income tax attributable to the members of the company		(8,627)	(8,649)
Other comprehensive income for the year			
Exchange differences on translating foreign controlled entities		(72)	(11)
Total comprehensive income for the year attributable to the members of the company		(8,699)	(8,660)

To be read in conjunction with the accompanying notes.

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ECOFIBRE INDUSTRIES OPERATIONS LTD

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	2018 $'000	2017 $'000
CURRENT ASSETS			
Cash and cash equivalents	5	2,756	2,449
Trade and other receivables	6	990	190
Inventories	7	2,719	1,667
Biological assets	8	955	565
Other current assets	9	794	227
TOTAL CURRENT ASSETS		8,214	5,098
NON-CURRENT ASSETS			
Intangible assets	10	340	-
Property, plant and equipment	11	2,714	979
TOTAL NON-CURRENT ASSETS		3,054	979
TOTAL ASSETS		11,268	6,077
CURRENT LIABILITIES			
Trade and other payables	12	3,561	959
Provisions	13	-	10
Related party loans	14	939	375
Tax payable		80	-
TOTAL CURRENT LIABILITIES		4,580	1,344
NON-CURRENT LIABILITIES			
Related party loans	14	4,452	4,896
Borrowings	15	676	624
		5,128	5,520
TOTAL LIABILITIES		9,708	6,864
NET ASSETS (LIABILITIES)		1,560	(787)
EQUITY			
Issued capital	16	22,536	13,635
Foreign currency translation reserve		(141)	(69)
Accumulated losses		(23,504)	(14,877)
Convertible loan reserve	14	524	524
Share-based payment reserve	25	2,145	-
TOTAL EQUITY		1,560	(787)

To be read in conjunction with the accompanying notes.

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ECOFIBRE INDUSTRIES OPERATIONS LTD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	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 2016		7,235	-	-	(58)	(6,228)	949
Total comprehensive income for the year		-	-	-	(11)	(8,649)	(8,660)
Shares issued	16	12,302	-	-	-	-	12,302
Share buy back	16	(5,902)	-	-	-	-	(5,902)
Convertible loan	14	-	-	524	-	-	524
Balance 30 June 2017		13,635	-	524	(69)	(14,877)	(787)
Total comprehensive income for the year		-	-	-	(72)	(8,627)	(8,699)
Shares issued	16	8,901	-	-	-	-	8,901
Share-based payments	25	-	2,145	-	-	-	2,145
Balance 30 June 2018		22,536	2,145	524	(141)	(23,504)	1,560

To be read in conjunction with the accompanying notes.

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ECOFIBRE INDUSTRIES OPERATIONS LTD

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		4,960	516
R & D tax rebate		3,113	1,522
Payments to suppliers and employees		(13,965)	(8,502)
Interest received		15	36
Finance costs paid		(375)	(252)
Income tax paid		(333)	(170)
Net cash flows used in operating activities	20	(6,585)	(6,850)
Cash flows from investing activities			
Payments for property, plant and equipment		(2,136)	(710)
Receipt from sale of property, plant and equipment		127	-
Net cash flows used in investing activities		(2,009)	(710)
Cash flows from financing activities			
Loan from (repayment to) related entities		-	(6)
Proceeds from issue of shares		8,901	9,690
Proceeds from convertible loan		-	5,000
Share buy back		-	(5,902)
Net cash flows generated from financing activities		8,901	8,782
Net increase in cash and cash equivalents held		307	1,222
Cash and cash equivalents at the beginning of the financial year		2,449	1,227
Cash and cash equivalents at the end of the financial year	5	2,756	2,449

To be read in conjunction with the accompanying notes.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ecofibre Industries Operations Ltd ('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.

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 and financial liabilities 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 24.

b) Principles of consolidation

The consolidated financial statements incorporate the results and assets and liabilities of all entities controlled by Ecofibre Industries Operations Ltd ("parent entity") as at 30 June 2018 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 consolidated 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.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and 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 when the foreign operation or net investment is disposed of.

d) Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

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.

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.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Revenue recognition (continued)

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

e) Income tax

No provision for income tax has been raised for the Australian entities at the end of the financial year as the corresponding R & D tax rebate income cannot be recognised under *AASB 120 Accounting For Government Grants and Disclosure of Government Assistance* untill assessed by the Australian Taxation Office.

In the United States, 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 tax 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) Acquisition of assets

The cost method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up at the date of acquisition plus incidental costs directly attributable to the acquisition.

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ECOFIBRE INDUSTRIES OPERATIONS LTD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

h) Receivables

All trade debtors are recognised at the amounts receivable as they are due for settlement within 60 days.

Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for impaired debts is raised when material doubt as to collection exists.

i) Inventories

Inventories and agricultural produce are valued at the lower of cost and net realisable value on an average 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 at their fair value less costs to sell.

k) Impairment of assets

At the end of each reporting period, the company and consolidated entity review the carrying values of their tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the company and consolidated entity estimate the recoverable amount of the cash-generating unit to which the asset belongs.

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ECOFIBRE INDUSTRIES OPERATIONS LTD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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 7 years.

m) Financial instruments

Recognition
Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities
Non-derivative financial liabilities are recognised at amortised cost, comprising original debt, less principal repayments and amortisation.

Impairment
At the end of each reporting period, the consolidated entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

Convertible notes
The debt and equity components of the convertible loan is separately recognised. At the date of recognition of the convertible loan, the debt and equity components of the facility were separated according to their fair values.

n) 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.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) 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.

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.

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ECOFIBRE INDUSTRIES OPERATIONS LTD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Employee entitlements (continued)

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.

p) 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.

q) 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.

r) 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.

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ECOFIBRE INDUSTRIES OPERATIONS LTD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Fair value measurement (continued)

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.

s) Adoption of new and revised accounting standards

New and or revised accounting standards issued between the prior financial year and current reporting date did not have a significant impact on the company.

t) 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 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance.

Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 and the impact of its adoption is expected to be minimal on the consolidated entity.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

AASB 15 Revenue from Contracts with Customers
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 and the impact of its adoption is expected to be minimal on the consolidated entity.

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (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 will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The consolidated entity will adopt this standard from 1 July 2019. Applying AASB 16 to the Group's current operating leases would result in $1.5 million right-of-use asset and lease liability to be recognised in the statement of financial position at 30 June 2018.

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome at 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.

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ECOFIBRE INDUSTRIES OPERATIONS LTD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

	2018 $'000	2017 $'000
2 Revenue and other income		
(a) Revenue		
Sales	5,725	550
Agistment	-	5
Freight costs recovered	24	20
	5,749	575
(b) Other income		
Research and development tax rebate	3,113	1,522
Interest	15	36
Other income	429	67
	3,557	1,625
3 Expenses		
(a) Direct costs		
Cost of goods sold	4,486	772
Write down of inventory	-	2,461
Reversal of inventory provision	(703)	-
	3,783	3,233
(b) Other operating expenses		
Employees and contractors	5,901	2,275
Share based payments	2,292	1,136
Sales and marketing	1,208	366
Travel and accomodation	623	505
Equipment modification and maintenance	609	144
Rent	451	91
Legal fees and compliance	321	161
Accounting and audit	135	71
Make good provision	(10)	(140)
Acquisition costs written off	-	1,476
Others	1,660	913
	13,190	6,998

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ECOFIBRE INDUSTRIES OPERATIONS LTD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

4 Income tax

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

	2018 $'000	2017 $'000
Loss before income tax	(8,214)	(8,515)
Prima facie tax at 27.5%	(2,259)	(2,341)
Adjustment for foreign tax rates	14	(53)
Tax effect of permanent differences:		
- Share based payments	630	-
- R & D tax rebate received	(856)	(419)
- Research and development expenses	933	2,017
- Acquisition costs written off	-	406
Timing differences not brought to account	(131)	413
Tax losses utilised	-	(23)
Tax not provided in prior period	337	134
Current year losses for which no deferred tax asset is recognised	1,659	-
Other	86	-
Income tax expense	413	134

b) Unrecognised deferred tax assets

	2018 $'000	2017 $'000
Unused tax losses	6,033	-
Potential tax effect at 27.5%	1,659	-

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ECOFIBRE INDUSTRIES OPERATIONS LTD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

		2018 $'000	2017 $'000
5	**Cash and cash equivalents**		
	Cash at bank	2,756	2,449
		2,756	2,449
6	**Trade and other receivables**		
	Trade debtors	968	140
	Allowance for doubtful debts	(105)	(19)
	GST receivable	127	69
		990	190
7	**Inventories**		
	Finished goods	1,213	318
	Raw materials	1,506	1,349
		2,719	1,667
8	**Biological assets**		
	Crops planted	955	565
9	**Other current assets**		
	Prepayments	531	227
	Loan receivable	263	-
		794	227
10	**Intangible assets**		
	Patents and trademarks - at cost	340	-
	Less: Accumulated ammortisation	-	
		340	-

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ECOFIBRE INDUSTRIES OPERATIONS LTD

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

	2018 $'000	2017 $'000
11 Property, plant and equipment		
Capital work in progress	767	8
Motor vehicles	243	131
Less: accumulated depreciation	(77)	(51)
	166	80
Office Equipment	44	24
Less: accumulated depreciation	(43)	(24)
	1	0
Farming and Processing Equipment	2,212	1,264
Less: accumulated depreciation	(432)	(373)
	1,780	891
Total property, plant and equipment	3,266	1,427
Less: accumulated depreciation	(552)	(448)
	2,714	979

2018 Movement schedule

	Capital WIP $'000	Motor vehicles $'000	Office furniture $'000	Farming and processing equipment $'000	Total $'000
Carrying value 1 July 2017	8	80	-	891	979
Additions	767	113	21	1,235	2,136
Transfer	-	-	-	-	-
Disposals	(8)	-	-	(49)	(57)
Depreciation	-	(27)	(20)	(297)	(344)
Carrying value 30 June 2018	767	166	1	1,780	2,714

2017 Movement schedule

	Capital WIP $'000	Motor vehicles $'000	Office furniture $'000	Farming and processing equipment $'000	Total $'000
Carrying value 1 July 2017	121	74	4	483	682
Additions	-	17	21	670	708
Transfer	(113)	-	-	114	1
Disposals	-	-	(1)	(36)	(37)
Depreciation	-	(11)	(24)	(340)	(375)
Carrying value 30 June 2017	8	80	-	891	979

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	2018 $'000	2017 $'000
12 Trade and other payables		
Trade creditors*	405	167
Employee entitlements	286	73
Other creditors and accruals	2,383	719
Accrual for cash settled share-based payment	147	-
Accrual for intangible assets purchased	340	-
	3,561	959

* Trade creditors in prior year included balances payable to Warneroo Pty Ltd (a company of which Phillip Warner is a director).

13 Provisions

Lease make good	-	10

The prior year provision represented the present value of the estimated costs to make good the premises leased by the parent entity at Jerry's Plains, New South Wales at the end of the respective lease term.

14 Related party loans

	2018 $'000	2017 $'000
Current		
Payable		
Loan - P&K Warner (USD) ^	187	-
Loan - P&K Warner (AUD) ^	285	-
Loan - Warneroo Pty Ltd ^	92	-
Convertible loan - Lambert Superannuation Fund *	375	375
Net related party loans payable	939	375
Non-current		
Receivable		
Loan - United Hemp Mills	-	2
	-	2
Payable		
Loan - P&K Warner (USD) ^	-	182
Loan - P&K Warner (AUD) ^	-	288
Loan - Warneroo Pty Ltd ^	-	96
Convertible loan - Lambert Superannuation Fund *	4,452	4,332
	4,452	4,898
Net related party loans payable	4,452	4,896

^ These loans are unsecured, incur interest at 5% per annum and repayable by 31 October 2018.
* The convertible loan is payable to Lambert Superanunation Fund (a related party of Barry Lambert)

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ECOFIBRE INDUSTRIES OPERATIONS LTD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

14 Related party loans (continued)

The terms of the convertible loan are as follows:

Agreement date:	7 January 2017
Principal balance:	$5,000,000
Interest rate:	7.5% per annum (fixed)
Repayment term:	4 years from the agreement date.
Conversion right:	The Lender has the right but not the obligation to convert part or the whole of the loan into ordinary shares in Ecofibre Industries Operations Ltd at $0.77 per share (price to be adjusted to reflect any share split or consolidation that occurs after 7 January 2017 but before the earlier of the repayment date or the conversion).
Early repayment:	The loan may be repaid by EIO earlier than 4 years without penalty.

The convertible loan is presented in the statement of financial position as follows:

	2018 $'000	2017 $'000
Related party loans	4,827	4,707
Convertible loan reserve	524	524
	5,351	5,231

15 Borrowings

Non-current

	2018 $'000	2017 $'000
Payable		
Loan **	676	624
	676	624

** These loans are unsecured, incur interest at 5% per annum and repayable by 21 June 2020.

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ECOFIBRE INDUSTRIES OPERATIONS LTD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

	2018 $'000	2017 $'000	2018 Quantity	2017 Quantity
16 Issued capital				
Ordinary shares	22,536	13,635	80,195,441	74,648,953
Movement in ordinary shares				
Opening balance 1 July	13,635	7,235	74,648,953	68,846,415
Shares issued at $0.318 per share	-	2,000	-	6,289,309
Shares issued to acquire a controlled entity at $0.318 per share	-	1,476	-	4,640,591
Shares issued at no cost to directors and employees at $0.318 per share	-	1,136	-	3,524,743
Share buy-back at $0.318 per share	-	(5,902)	-	(18,639,130)
Shares issued at $0.77 per share	-	7,690	-	9,987,025
Shares issued at $1.61 per share	8,901	-	5,546,488	-
Closing balance 30 June	22,536	13,635	80,195,441	74,648,953

17 Remuneration of auditors

	2018	2017
Amounts received or due and receivable by the auditors of the company in respect of services to the group:		
Audit - William Buck (Qld)	47	35

18 Contingent liabilities and commitments

There are no contingent liabilities.

	2018	2017
Commitment for non-cancellable leases are as follows:		
Less than one year	616	162
Between one and five years	878	285
Later than five years	-	-
	1,494	447
Capital expenditure commitments not provided for in the financial statements	608	-

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19 Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 1:

Name	Principal place of business / Country of Incorporation	Ownership interest 2018 %	Ownership interest 2017 %
United Life Science Inc. (ULS)	United States of America	100%	100%
Ecofibre Kentucky LLC (EK) *	United States of America	100%	100%
Hemp Australia Pty Ltd (HAPL)	Australia	100%	100%
Ecofibre Uruguay SA (EU)	Uruguay	100%	100%
SativaL Inc. (SativaL)	United States of America	100%	100%

ULS's principal activity is the marketing and distribution of hemp nutraceutical products.
EK's principal activity is the farming of hemp, including subsequent extraction for manufacture of nutraceuticals.
HAPL's principal activity is the growing, processing and distribution of hemp food products.
SativaL's principal activity is to commercialise hemp fibre products.
EU is a dormant entity.

20 Reconciliation of loss after income tax to net cash flows from operating activities

	2018 $'000	2017 $'000
Operating loss after income tax	(8,627)	(8,649)
Depreciation and amortisation	344	375
(Gain)/Loss from disposal of fixed assets	(191)	38
Provision for doubtful debt	86	19
Acquisition costs written off	-	1,476
Share-based payments	2,292	1,136
Fair value adjustment for convertible loan	120	232
Movement in foreign currency translation reserve	(72)	(11)
Change in operating assets and liabilities		
Decrease (increase) in assets		
Trade and other debtors	(765)	(56)
Other current assets	(567)	(165)
Inventories	(1,052)	(1,340)
Biological assets	(390)	158
Increase (decrease) in liabilities		
Trade creditors	238	44
Other creditors and accruals	1,664	34
Interest payable	52	-
Provisions	(10)	(140)
Tax payable	80	(37)
Employee entitlements	213	36
Net cash flows from operating activities	(6,585)	(6,850)

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21 Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables, convertible loans 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 interest rates and assessments of market forecast for 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.

	2018 **$'000**	2017 **$'000**
Financial Assets		
Cash and cash equivalents	2,756	2,449

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 2018, if interest rates had moved, as illustrated in the table below, with all other variables held constant, loss after tax and equity would have been affected as follows:

	Loss after tax Higher/ (lower)		Equity Higher/ (lower)	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Consolidated				
+ 1% (100 basis points)	(28)	(24)	28	24
- 0.5 % (50 points)	14	12	(14)	(12)

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

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ECOFIBRE INDUSTRIES OPERATIONS PTY LTD

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

21 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 has a convertible note facility in place and will rely on increasing sales and operating cashflows to finance ongoing operations, together with government incentives. Further equity raising may also be required to fund ongoing growth. Liquidity risk is monitored through rolling cash flow forecasts that are tabled and reviewed by the Board. The convertible loan is payable as follows:

	2018 $'000	2017 $'000
Less than one year	4,580	1,344
Between one and five years	5,128	5,520
Later than five years	-	-
	9,708	6,864

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.

Fair value
Except for the convertible loan (refer note 14), 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.

22 Key management personnel disclosures

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

	Consolidated	
	2018 $'000	2017 $'000
Short-term employee benefits and directors fee	343	291
Share based payments	859	-
Post-employment benefits	25	25
	1,227	316

See also Note 23 for other related party transactions.

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23 Related party transactions

Transactions with related parties

The following transactions occurred with related parties:

The parent entity incurred expenses totalling $288,000 (2017: $478,000) with Warneroo Pty Ltd (a company of which Philip Warner is a director) and Sword Superannuation Fund for executive contractor and consultant fees, use of premises at 8 Thynne Court Maleny and other costs.

The parent entity incurred expenses totalling $8,500 (2017: $13,000) with Sword Superannuation Fund as a fee to use its premises.

	2018 $'000	2017 $'000
Interest expense for loan with Warneroo Pty Ltd	2	7
Interest expense for loan with P&K Warner	23	32
Interest expense for convertible loan with Lambert Superanuation Fund	495	232
	520	271

Receivable and payable to related parties
The receivables from and payables to related parties are disclosed in notes 12 and 14.

24 Parent entity information

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

	2018 $'000	2017 $'000
Loss after income tax	(8,429)	(8,735)
Total comprehensive income	(8,429)	(8,735)
Statement of financial postion		
Total current assets	8,132	4,716
Total assets	11,477	7,710
Total current liabilities	3,700	3,009
Total liabilities	9,769	8,619
Equity		
Issued capital	22,536	13,635
Share based payment reserve	2,145	-
Convertible loan reserve	524	524
Retained profits	(23,497)	(15,068)
Total equity	1,708	(909)
Future operating leases not provided for in the financial statements	309	376

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25 Share-based payments

Share options

Ecofibre has entered into an agreement with Thomas Jefferson University (TJU) to provide research services to Ecofibre over 5 years, commencing 1 July 2017. Ecofibre has granted TJU an option to subscribe for fully paid ordinary shares within 6 months of the end of the research.

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

Grant date	Expiry date	Exercise price	Balance at the start of the year	No of options granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
1 Jul 2017	31 Dec 2022	$1.61	-	4,059,420	-	-	4,059,420

None of the option granted are exercisable at 30 June 2018.

For the options granted during the current financial year, the valuation model inputs 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 Jul 2017	30 Jun 2022	$1.61	$1.61	54%	-	2.21%	$0.78

	2018 $'000	2017 $'000
Expenses recognised for share options granted during the year	632	-

Employee shares

During the year, the Group signed employment agreements 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 or cash if certain performance conditions are met.

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

	2018 $'000	2017 $'000
Expenses from equity-settled share-based payment transactions	1,513	1,136
Expense from cash or equity-settled share-based payment transactions	147	-
Total expense from employee share-based payment transactions	1,660	1,136

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25 Share-based payments (continued)

Share-based payment reserve

	2018 $'000	2017 $'000
Share options	632	-
Employee shares	1,513	-
Total share-based payment reserve	2,145	-

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

Share-based payment expense

	2018 $'000	2017 $'000
Share options	632	-
Employee shares	1,660	1,136
Total share-based payment expense	2,292	1,136

26 Events after the reporting period

At the date of signing of this report, the company has raised additional equity capital of $1.1Million (685,808 shares at $1.61 per share) since 1 July 2018.

On 27 August 2018 the Board approved the issue of 7,355,659 shares into an Employee Share Trust in accordance with the Shareholders Agreement and the 2016 Information Memorandum to Investors.

The Board has also received notice that the Lambert Superanunation Fund intends to partially exercise its equity option under the Convertible Note once the shares have been issued to the Employee Share Trust.

No other matter or circumstance has arisen since 30 June 2018 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.

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Ecofibre Industries Operations Ltd
and controlled entities
Independent auditor's report to members

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Ecofibre Industries Operations Ltd (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and 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 Ecofibre Industries Operations Ltd 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 2018 and of its financial performance for the year then ended; 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* (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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditors' report.

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

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William Buck is an association of firms, each trading under the name of William Buck across Australia and New Zealand with affiliated offices worldwide. Liability limited by a scheme approved under Professional Standards Legislation other than for acts or omissions of financial services licensees.

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Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, 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 accordingly 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 going concerns, 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.

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

http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

William Buck

William Buck (Qld)
ABN 21 559 713 106

J A Latif
A Member of the Firm

Brisbane, 27 August 2018

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& ADVISORS

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