

**Elixinol LLC.**

**Special Purpose Financial statements**

**For the six months ended 30 June 2017**

**and financial years ended 31 December 2016**

**and 31 December 2015**

**Special Purpose Financial statements**  
**For the years ended 31 December 2015, 31 December 2016 and six**  
**months ended 30 June 2017**

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## Managers' report

The Managers of Elixinol LLC. (the Company) submit herewith this special purpose financial report for the six months ended 30 June 2017 (HY2017) and financial years ended 31 December 2016 (FY2016) and 31 December 2015 (FY2015) as follows:

### Managers

Elixinol LLC was organised on 3 December 2014. An operating agreement was entered into by the members on 20 February 2015 and the members have appointed following Managers:-

Paul Benhaim  
Gabriel Davis Ettenson  
David Newman

The above Managers have been in office since the start of the financial periods unless otherwise stated.

The initial Articles of Organization provided for Elixinol LLC to be managed by its Members, whereas the Operating Agreement states that the management will be vested in its Managers. On 26 September 2017, the Company filed Articles of Amendment with the Colorado Secretary of State such that the Articles of Organization reflect the fact that Elixinol LLC is a manager-managed Colorado limited liability company.

### Principal activities

The principal activity of the Company is to manufacture and distribute industrial hemp-based nutraceutical, dietary supplement and skincare products. During the periods there was no significant change in the nature of those activities other than that referred to in the financial statements and notes thereto.

### Review of operations

The profit of the Company after providing for income tax amounted to \$1,050,058 in HY2017 (FY2016: \$339,046 and FY2015: \$406,551).

A review of the operations of the Company during the financial periods and the results of those operations found that during the periods, the Company continued to engage in its principal activity, the results of which are disclosed in the attached financial statements.

### Changes in state of affairs

There were no significant changes in the state of affairs of the Company during the financial year.

### Environmental regulation

The Company's operations are not regulated by any significant environmental regulations under both Commonwealth and State legislation. The Managers believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any significant breaches of those environmental requirements as they apply to the Company.

### Subsequent events

As at the date of signing this financial report, the shareholders are in the process of negotiating a conditional contract for Elixinol Global Ltd to purchase all issued capital of the Company upon Elixinol Global Ltd successfully completing an initial public offering of its securities and listing on the Australian Stock Exchange.

Additionally, on 21 November 2017, the partially paid shares held by Elixinol LLC in Elixinol Pty Limited were forfeited as a consequence of an agreement between the two entities. Upon forfeiture of the shares by the Company, Elixinol Pty Limited cancelled the shares. The total amount previously paid on the shares, being less than US\$1 was not refundable to the Company.

## **Managers' report (cont'd)**

### **Subsequent events (cont'd)**

With the exception of the matters noted above, there has not been any matter or circumstance occurring subsequent to the end of the financial period that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

### **Future developments**

It is not foreseen that the Company will undertake any change in its general direction during the coming financial year. The Company will continue to pursue its trading activities as detailed earlier in the report to produce the most beneficial result for the shareholders

### **Distributions**

The Company made distributions to its members of \$208,885 in HY2017 and \$26,802 in FY2016. No distributions were made in the 2015 year.

### **Indemnification of officers and auditors**

The Company has not, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

### **Proceedings on Behalf of the Company**

No legal claims have been brought against the Company or by the Company during the relevant time periods.

Signed in accordance with a resolution of the Managers:

Signed by the Manager:



Paul Benhaim  
Manager  
21 November 2017

21 November 2017

The Managers  
Elixinol LLC.  
555 Burbank St Unit J,  
Broomfield, CO-80020

Dear Managers,

**Elixinol LLC.**

I am pleased to provide the following declaration of independence to the Managers of Elixinol LLC.

As lead audit partner for the audit of the financial reports of Elixinol LLC. for the six months ended 30 June 2017 and financial years ended 31 December 2016 and 31 December 2015, I declare to the best of my knowledge and belief, there have been no contraventions of any applicable code of professional conduct in relation to the audit.

Yours sincerely

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



Tara Hill  
Partner  
Chartered Accountants

## **Independent Auditor's Report to the Members of Elixinol LLC**

### *Qualified Opinion*

We have audited the financial statements, being special purpose financial statements, of Elixinol LLC (the "Entity") which comprises:

- the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the half year then ended, and notes to the financial statements, including a summary of significant accounting policies;
- the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies; and
- the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the Entity's financial position as at 30 June 2017, 31 December 2016 and 31 December 2015 and of its financial performance and its cash flows for the periods then ended in accordance with Australian Accounting Standards.

### *Basis for Qualified Opinion*

We were not appointed the auditors of the Entity until after 1 January 2017 and thus did not observe the counting of physical inventories at 31 December 2015 or 31 December 2016 and were unable to satisfy ourselves by alternative means concerning the inventory quantities and thus the carrying value of inventory held at 31 December 2015 or 31 December 2016. Since the opening and closing inventory enters into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the cost of sales reported in the statement of profit or loss and other comprehensive income and the net cash flows from operating activities reported in the statement of cash flows for the years ended 31 December 2015 and 31 December 2016 and the half year ended 30 June 2017.

Additionally, an audit was not able to be conducted for the year ended 31 December 2014. As we were unable to satisfy ourselves by alternative means concerning the opening balances of the Entity at 1 January 2015 and the opening balances enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the financial performance reported in the statement of profit or loss and other comprehensive income and the cash flows reported in the statement of cash flows for the year ended 31 December 2015.

## *Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use*

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements have been prepared to assist the Directors with their reporting requirements. As a result, the financial statements may not be suitable for another purpose. Our opinion is not further modified in respect of this matter.

## *Other Information*

Management is responsible for the other information. The other information comprises the Directors' Report for the half year ended 30 June 2017, years ended 31 December 2016 and 31 December 2015, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 Management and the Directors for the Financial Statements*

Management of the Entity is responsible for the preparation and fair presentation of the financial statements and has determined that the basis of preparation and accounting policies described in Note 2 to the financial statements are appropriate to meet the requirements of Australian Accounting Standards and Interpretations as issued by the Australian Accounting Standards Board and are appropriate to meet the needs of the Members. Management's responsibility also includes such internal control as management determine is necessary to enable the preparation and fair presentation of the financial statements that is free from material misstatement, whether due to fraud or error.

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

## *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 these financial statements.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management and the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



Tara Hill  
Partner  
Chartered Accountants  
Sydney, 21 November 2017



## Managers' declaration

As detailed in Note 2 to the financial statements, the company is not a reporting entity because in the opinion of the Managers there are unlikely to exist users of the financial statements who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, these special purpose financial statements have been prepared to satisfy the Managers' reporting requirements.

The Managers declare that:

- (a) in the Managers' 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; and
- (b) in the Managers' opinion, the attached financial statements and notes thereto are in accordance with accounting standards and giving a true and fair view of the financial position and performance of the company.

Signed in accordance with a resolution of the Managers.

On behalf of the Managers:



Manager: Paul Benhaim

Sydney, 21 November 2017

## **Statement of Profit or Loss and Other Comprehensive Income**

**For the six months ended 30 June 2017 and years ended  
31 December 2016 and 31 December 2015**

	<b>Notes</b>	<b>(HY17) 6 months 30 June 2017 US\$</b>	<b>(FY16) 31 December 2016 US\$</b>	<b>(FY15) 31 December 2015 US\$</b>
<b>Continuing Operations</b>				
Revenue	5	4,380,323	5,314,731	2,095,182
Cost of sales		(1,115,813)	(2,044,015)	(946,039)
		3,264,510	3,270,716	1,149,143
Other Income	5	73	13,973	69
Employee benefits expense	6	(460,297)	(604,493)	(89,217)
Depreciation and amortisation expense	6	(31,325)	(48,722)	(19,240)
Consulting, legal and accounting expense		(26,706)	(70,442)	(27,188)
Research expenses	7	(580,591)	(860,082)	(311,781)
Sales and marketing expenses		(696,972)	(739,355)	(147,634)
Administration expenses		(117,659)	(210,271)	(94,297)
Other operating expenses		(296,196)	(399,197)	(53,304)
Share of associate loss	13	(4,779)	(13,081)	-
<b>Profit before income tax</b>	6	1,050,058	339,046	406,551
Income tax expense	2(d)	-	-	-
<b>Profit for the year</b>		<b>1,050,058</b>	<b>339,046</b>	<b>406,551</b>
Other comprehensive income		-	-	-
<b>Total comprehensive income for the year</b>		<b>1,050,058</b>	<b>339,046</b>	<b>406,551</b>

The accompanying notes form part of this financial report.

## Statement of financial position

As at 30 June 2017, 31 December 2016 and 31 December 2015

	Notes	(HY17) 30 June 2017 US\$	(FY16) 31 December 2016 US\$	(FY15) 31 December 2015 US\$
<b>Current assets</b>				
Cash and cash equivalents	18(a)	592,353	425,382	49,141
Trade and other receivables	8	471,039	282,609	137,889
Prepayments		-	27,603	80,457
Inventories	9	513,736	399,280	340,113
<b>Total current assets</b>		<b>1,577,128</b>	<b>1,134,874</b>	<b>607,600</b>
<b>Non-current assets</b>				
Property, plant and equipment	11	131,292	118,298	110,593
Intangible assets	12	1,540	1,540	1,540
Available-for-sale investments	10	100,000	100,000	-
Investments in associate	13	282,197	142,589	-
<b>Total non-current assets</b>		<b>515,029</b>	<b>362,427</b>	<b>112,133</b>
<b>Total assets</b>		<b>2,092,157</b>	<b>1,497,301</b>	<b>719,733</b>
<b>Current liabilities</b>				
Trade and other payables	14	192,276	266,105	52,551
Provision		13,044	14,434	6,295
Borrowings	15	72,532	243,630	-
<b>Total current liabilities</b>		<b>277,852</b>	<b>524,169</b>	<b>58,846</b>
<b>Total liabilities</b>		<b>277,852</b>	<b>524,169</b>	<b>58,846</b>
<b>Net assets</b>		<b>1,814,305</b>	<b>973,132</b>	<b>660,887</b>
<b>Equity</b>				
Member's capital	16	<b>1,814,305</b>	<b>973,132</b>	<b>660,887</b>

The accompanying notes form part of this financial report.

## Statement of Changes in Equity

**For the six months ended 30 June 2017 and years ended 31 December 2016 and 31 December 2015**

	Notes	Members equity US\$	Accumulated profit/(loss) US\$	Total US\$
<b><u>2015</u></b>				
Balance at 1 January 2015		254,336	-	254,336
Profit for the year			406,551	406,551
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	406,551	406,551
<b>Transactions with owners</b>				
Transfer from current year profit to members equity	16	406,551	(406,551)	-
<b>Balance at 31 December 2015</b>		<b>660,887</b>	<b>-</b>	<b>660,887</b>
<b><u>2016</u></b>				
Balance at 1 January 2016		660,887	-	660,887
Profit for the year		-	339,046	339,046
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	339,046	339,046
<b>Transactions with owners</b>				
Distributions paid	16	(32,472)	-	(32,472)
Contributions received	16	5,670		5,670
Transfer to members equity		339,046	(339,046)	-
<b>Balance at 31 December 2016</b>		<b>973,132</b>	<b>-</b>	<b>973,132</b>
<b><u>2017</u></b>				
Balance at 1 January 2017		973,132	-	973,132
Profit for the period		-	1,050,058	1,050,058
Other comprehensive income for the period		-	-	-
Total comprehensive income for the period		-	1,050,058	1,050,058
<b>Transactions with owners</b>				
Distributions paid	16	(235,744)	-	(235,744)
Contributions received	16	26,860		26,860
Transfer to members equity	16	1,050,058	(1,050,058)	-
<b>Balance at 30 June 2017</b>		<b>1,814,305</b>	<b>-</b>	<b>1,814,305</b>

The accompanying notes form part of this financial report.

**Statement of cash flows  
for the six months ended 30 June 2017 and years ended 31 December  
2016 and 31 December 2015**

	<b>Notes</b>	<b>30 June 2017 US\$</b>	<b>31 December 2016 US\$</b>	<b>31 December 2015 US\$</b>
<b>Cash flows from operating activities</b>				
Receipts from customers		4,191,893	5,183,799	1,957,293
Payments to suppliers and employees		(3,428,337)	(4,740,444)	(1,819,184)
Interest received		73	186	69
Net cash generated by operating activities	18(b)	763,629	443,541	138,178
<b>Cash flows from investing activities</b>				
Payments for associates	13	(144,387)	(155,670)	-
Payments for AFS investment		-	(100,000)	-
Payments for purchase of property, plant and equipment		(44,321)	(56,425)	(123,833)
Payment for purchase of intangible assets		-	-	(1,540)
Net cash used in investing activities		(188,708)	(312,095)	(125,373)
<b>Cash flows from financing activities</b>				
Proceeds from borrowings		-	923,819	-
Repayment of borrowings		(199,066)	(652,222)	-
Distributions paid		(235,744)	(32,472)	-
Contributions received		26,860	5,670	-
Net cash (used in)/ generated by financing activities		(407,950)	244,795	-
<b>Net increase in cash and cash equivalents</b>		166,971	376,241	12,805
<b>Cash at the beginning of financial year</b>		425,382	49,141	36,336
<b>Cash at the end of financial year</b>	N18(a)	592,353	425,382	49,141

The accompanying notes form part of this financial report.

## Notes to the financial statements

### 1. General information

Elixinol LLC is a limited liability company, incorporated and domiciled in the United States.

The address of its registered office and its principal place of business are as follows:

555 Burbank St Unit J  
Broomfield, CO – 80020

The principal activity of the company is to manufacture and distribute industrial hemp-based nutraceutical, dietary supplement and skincare products.

### 2. Significant accounting policies

#### Statement of compliance

This financial report is a special purpose financial report prepared in accordance with Australian Accounting Standards (AAS) and Interpretations as issued by the Australian Accounting Standards Board (AASB). Elixinol LLC is a for-profit entity for the purposes of preparing this financial report.

The financial report complies with all recognition and measurement requirements aspects of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

All disclosure requirements of the Accounting Standards have been applied with the exception of the requirements of AASB 134.20 for comparative interim period statement of cash flows and statement of profit or loss and other comprehensive income to be provided.

The financial report was authorised for issue by the Managers on 21 November 2017.

#### Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 'Inventories' or value in use in AASB 136 'Impairment of Assets'.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

#### Functional and presentation currency

The functional and presentation currency of the Company is US Dollar.

## Notes to the financial statements

### 2. Significant accounting policies (cont'd)

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

#### (a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

#### (b) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to reporting date.

#### (c) Impairment of assets

At each reporting date the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

#### (d) Income tax

The Company is a limited liability company treated as a partnership for federal and state income tax purposes with all income tax liabilities and/or benefits of the Company being passed through to the member. As such, no recognition of federal or state income taxes for the Company have been provided for in the accompanying financial statements. Any uncertain tax position taken by the member is not an uncertain position of the Company.

In accordance with the operating agreement of Elixinol LLC, to the extent possible without impairing the Company's ability to continue to conduct its business and activities, and in order to permit its member to pay taxes on the taxable income of the Company, Elixinol would be required to make distributions to the member in the amount equal to the estimated tax liability of the member computed as if the member paid income tax in the event that taxable income is generated for the member.

## Notes to the financial statements

### 2. Significant accounting policies (contd.)

#### (e) Leased assets

Leased assets are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

##### Lease incentives

In the event that lease incentives are received to enter into operating leases such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

There was no lease incentive received as per current lease agreement.

#### (f) Property, Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on plant and equipment. Depreciation is calculated using a combination of straight line and diminishing value bases, so as to write off the net cost over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives residual values and depreciation method is reviewed at the end of each annual reporting period. The following basis are used in the calculation of depreciation for the current and comparative year:

- |                                     |                          |
|-------------------------------------|--------------------------|
| • Computer equipment                | diminishing at 30% - 50% |
| • Furniture, fittings and equipment | diminishing at 12% - 30% |

#### (g) Revenue recognition

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

##### Revenue from sale of CBD products

Revenue from the sale of CBD products is recognised when the buyer has accepted the risks and rewards of ownership, generally by taking delivery of the product. Amounts disclosed as revenue are net of sales returns and trade discounts.

##### Interest income

Interest revenue is recognised on a time proportional basis, taking into account the effective interest rates applicable to the financial assets.



## Notes to the financial statements

### 2. Significant accounting policies (contd.)

#### (h) Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. To date the Managers have assessed costs incurred are for research only.

#### (i) Share based payments

For cash settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

#### (j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### (k) Inventories

Inventories are measured at the lower of absorption costing and net realisable value on a first in first out basis. Absorption costing includes anything that is a direct cost in producing a good as the cost base. The direct costs associated with manufacturing a product include wages or workers physically manufacturing a product, the raw materials used in producing a product, and all the overhead costs used in producing a good.

#### (l) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## Notes to the financial statements

### 2. Significant accounting policies (contd.)

#### (m) Investment in associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate or exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the company discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Company share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of AASB 139 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 136 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Company retains an interest in the former associate and the retained interest is a financial asset, the Company measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with AASB 139. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate.

#### (n) Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

## Notes to the financial statements

### 2. Significant accounting policies (contd.)

#### (n) Financial instruments (contd.)

##### Determination of fair value

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions
- the fair value of derivative instruments, is calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve
- for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives
- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

#### (o) Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

##### Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

##### Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each financial year. Fair value is determined in the manner described in note 10. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established.

## Notes to the financial statements

### 2. Significant accounting policies (contd.)

#### (o) Financial assets (contd.)

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

#### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

#### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## Notes to the financial statements

### 3. Adoption of new and revised Accounting Standards

#### 3.1 New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

For the years included in this financial report, the Company has applied a number of amendments to AASBs and a new Interpretation issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2014, 2015 and 2016, and therefore relevant for each year reported.

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the financial statements.

#### 3.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	31 December 2018
AASB 15 'Revenue from Contracts with Customers'	1 January 2018	31 December 2018
AASB 16 'Leases'	1 January 2019	31 December 2019
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	31 December 2017

The potential effect of the revised Standards/Interpretations on the company's financial statements is not yet been quantified. However, management expect that the value of lease assets and lease liabilities will increase as a consequence of taking premises leases to the balance sheet on first time application of AASB 16.

### 4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 2, the Managers are required to make judgements, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### **Critical accounting estimates and judgements**

The Managers evaluate estimates and judgments incorporated into the financial report based upon historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within.

## Notes to the financial statements

### 4. Critical accounting judgements and key sources of estimation uncertainty (contd.)

#### Key estimates include:

##### Impairment

The Company assesses impairment of assets at each reporting date by evaluating market and economic conditions at reporting date. If an impairment trigger exists the market value of the asset is determined and adjustments made to the carrying value where appropriate.

##### Doubtful debts provision

The doubtful debts provision is determined after analysis of the profile of the debtor file. Each debtor account is analysed and historical trends and information used to determine the likelihood of the settlement of the debt. The provision is reviewed on an annual basis. Refer note 8 for more detail.

	<b>HY17</b>	<b>FY16</b>	<b>FY15</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>5. Revenue</b>			
<b>Operating activities</b>			
<b>(a) Sales Revenue</b>			
Sale of goods	4,380,323	5,314,731	2,095,182
<b>(b) Other Income</b>			
Interest income (bank)	73	186	69
Other income	-	13,787	-
Total Other Revenue	73	13,973	69
<b>Total Revenue and Income</b>	<b>4,380,396</b>	<b>5,328,704</b>	<b>2,095,251</b>

### 6. Profit for the year

Profit for the year has been arrived at after crediting/(charging)  
the following items of income and expense:

<b>(a) Depreciation and amortisation</b>			
Depreciation expense	27,039	42,536	16,330
Amortisation expense	4,286	6,186	2,910
	<b>31,325</b>	<b>48,722</b>	<b>19,240</b>
<b>(b) Employee expenses</b>			
Salaries and wages	447,332	559,030	71,906
Other employee benefits	12,965	45,463	17,311
	<b>460,297</b>	<b>604,493</b>	<b>89,217</b>
<b>(c) Lease payments</b>			
Rent	21,014	39,531	16,260
<b>(d) Bad debts</b>			
Bad debts expense	194,411	237,050	-

## Notes to the financial statements

	<b>HY17</b>	<b>FY16</b>	<b>FY15</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>

### 6. Profit for the year (contd.)

#### (e) Inventory write down

Inventory written-off	<b>10,235</b>	<b>-</b>	<b>73,606</b>
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### 7. Research Expenses

Expenditure on research activities is recognised as an expense in the period in which it is incurred:

Research Expenses	<b>580,591</b>	<b>860,082</b>	<b>311,781</b>
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Research expenses related to the investigation and development of new products and manufacturing techniques.

### 8. Trade and other receivables

#### Current

Trade debtors (net of provision)	464,306	275,876	135,856
Other debtors	6,733	6,733	2,033
Trade and other receivables	<b>471,039</b>	<b>282,609</b>	<b>137,889</b>

#### (a) The ageing of trade receivables is detailed below:

##### Gross amount

Not past due	116,180	128,159	45,415
Past due 0-30 days	255,820	58,278	90,375
Past due 31 days plus	504,230	307,561	66
Total	<b>876,230</b>	<b>493,998</b>	<b>135,856</b>

##### Carrying amount

Not past due	116,180	128,159	45,415
Past due 0-30 days	255,820	58,278	90,375
Past due 31 days plus	92,306	89,439	66
Total	<b>464,306</b>	<b>275,876</b>	<b>135,856</b>

## Notes to the financial statements

### 8. Trade and other receivables (contd.)

The maximum credit period on trade sales is 30 days. No interest is charged on the trade receivables from the date of invoice or when past due.

Included in the gross amount of the trade receivable is amount due from various merchant processors of US\$623,299, 2016: US\$355,303 and 2015: nil. The processor withheld a holding fee range from 5 to 10% of total processed amount. The Company is in negotiation with the processor for the outstanding holding fee. Due to the uncertainty of the outcome of the negotiation, provisions of US\$411,924, 2016: US\$218,122 and 2015: nil have been made.

Other than amount due from merchant processor, based on historical default rates, the Company believes that no impairment allowance is necessary in respect of loans and receivables not past due or past due but not impaired. These receivables are mainly arising by customers that have a good credit record with the Company.

	<b>HY17</b>	<b>FY16</b>	<b>FY15</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>(b) Movement in provision for doubtful receivables</b>			
Opening balance	218,122	-	-
Additional provisions	193,802	218,122	-
Closing balance	411,924	218,122	-

As at the reporting date, the maximum exposure to credit risk for trade and other receivables by type of counterparty was as follow

Merchant processor	211,375	137,181	-
Related parties	3,688	16,126	-
Others	249,243	122,569	135,856
	464,306	275,876	135,856

Intercompany receivables are trade in nature, non-interest bearing, and repayable on demand.

### 9. Inventories

Finished goods at cost	251,403	106,839	119,317
Raw materials at cost	262,333	243,441	220,796
Goods in transit	-	49,000	-
	513,736	399,280	340,113



## Notes to the financial statements

	<b>HY17</b>	<b>FY16</b>	<b>FY15</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>10. Available-for-sale Investments</b>			
Investments in Elixinol Japan	100,000	100,000	-

The company holds a 10% investment in Elixinol Japan.

The Managers have assessed that cost approximates fair value at both 30 June 2017 and 31 December 2016.

The following table gives information about how the fair value of the above asset has been determined:

Financial Asset	Fair value as at			Fair value hierarchy	Valuation technique and key inputs
	HY17 US\$	FY16 US\$	FY15 US\$		
Available-for-sale financial asset	100,000	100,000	-	Level 3	Assessment of future profitability and distribution network.

Significant unobservable inputs is the growth of underlying investee. If the long-term revenue growth rates used were 5% higher/lower the carrying amount of will not be significantly affected.

	<b>HY17</b>	<b>FY16</b>	<b>FY15</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>11. Property, plant and equipment</b>			
Office equipment at cost	3,949	3,449	3,449
Less: Accumulated depreciation	(3,449)	(3,449)	(3,449)
	500	-	-
Lab equipment at cost	193,969	162,651	108,117
Less: Accumulated depreciation	(82,456)	(55,417)	(12,881)
	111,513	107,234	95,236
Leasehold Improvements at cost	32,222	19,721	17,828
Less: Accumulated depreciation	(12,943)	(8,657)	(2,471)
	19,279	11,064	15,357
<b>Total property, plant and equipment</b>	<b>131,292</b>	<b>118,298</b>	<b>110,593</b>

## Notes to the financial statements

### 11. Property, plant and equipment (cont'd)

#### Movement in carrying amounts

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Office equipment US\$	Lab equipment US\$	Leasehold Improvements US\$	Total US\$
<b>Balance at 1 January 2015</b>	-	6,000	-	6,000
Additions	3,449	102,117	18,267	123,833
Depreciation expense	(3,449)	(12,881)	(2,910)	(19,240)
<b>Balance at 31 December 2015</b>	-	95,236	15,357	110,593
Additions	-	54,532	1,893	56,425
Depreciation expense	-	(42,536)	(6,186)	(48,722)
<b>Balance at 31 December 2016</b>	-	107,232	11,064	118,296
Additions	500	31,320	12,501	44,321
Depreciation expense	-	(27,039)	(4,286)	(31,325)
<b>Balance at 30 June 2017</b>	500	111,513	19,279	131,292

	<b>HY17</b> US\$	<b>FY16</b> US\$	<b>FY15</b> US\$
<b>12. Intangible assets</b>			
Patent – at cost	1,540	1,540	1,540
	<u>1,540</u>	<u>1,540</u>	<u>1,540</u>

### 13. Investment in associate

<u>Name of the associate</u>	<u>Country of incorporation/ operation</u>	<u>Proportion of ownership</u>		
		<b>2017</b>	<b>2016</b>	<b>2015</b>
H&W Holdings LLC	Colorado, USA	<u>18.5%</u>	<u>18.5%</u>	<u>N/A</u>

<u>Movement in investment in associate</u>	<b>US\$</b>
Opening balance as at 1 January 2016	-
Investments during the year	155,670
Share of associate loss for the year	(13,081)
<b>Closing balance as at 31 December 2016</b>	<b>142,569</b>
Investments during the year	150,000
Share of associate loss for the year	(4,779)
<b>Closing balance as at 30 June 2017</b>	<b>287,790</b>

## Notes to the financial statements

### 13. Investment in associate (cont'd)

#### H&W Holdings LLC

H&W Holdings LLC is a limited liability company domiciled in Colorado, USA. Its principle activity is the processing of industrial hemp materials. Summarised financial information in respect of the associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements

	<b>HY17</b>	<b>FY16</b>	<b>FY15</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Current assets	15,023	27,820	-
Non-current assets	262,434	3,051	-
Current liabilities	-	-	-
Non-current liabilities	-	-	-
Revenue	118,462	33,000	-
Profit (loss) for the year	(25,832)	(70,710)	-
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	(25,832)	(70,710)	-
Dividends received from the associate during the year	-	-	-

Reconciliation of the above summarised financial information to the carrying amount of the interest in H&W recognised in the financial statements.

### 14. Trade and other payables

#### **CURRENT**

#### ***Unsecured liabilities***

Trade payables	98,289	145,075	136
Other payables	93,987	121,030	52,415
	<u>192,276</u>	<u>266,105</u>	<u>52,551</u>

#### **Trade payables denominated in foreign currency**

EUR	<u>67,789</u>	<u>145,075</u>	<u>-</u>
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## Notes to the financial statements

	<b>HY17</b>	<b>FY16</b>	<b>FY15</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>15. Borrowings</b>			
<b><u>Current</u></b>			
Unsecured borrowings from members	72,532	243,630	-

In 2016, the Company received two loans from the controlling member amounting to US\$784,819 (Loan 1) and US\$175,000 (Loan 2).

### Loan 1

To provide the working capital to the Company, the controlling member has provided raw material of US\$784,819 to Elixinol to produce its products. The inventory has been booked at fair value. In return for the stock, the Company recognized a loan due to the controlling member. The loan bears interest at 3% per annum and is to be repaid in cash. The carrying amount of the loan at reporting date is US\$28,223 (FY16: US\$146,957, FY15: nil)

### Loan 2

In 2016, the controlling member has provided a loan amounting to US\$175,000 to Elixinol in relation to its investment in Elixinol Japan (Note 10) and to provide working capital funding. The loan bears interest at 3% per annum and is to be repaid in cash. The carrying amount of the loan at reporting date is US\$44,309 (FY16: US\$96,673, FY15: nil).

	<b>HY17</b>	<b>FY16</b>	<b>FY15</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>16. Member's equity</b>			
Member's capital	1,827,349	973,132	660,887

Elixinol LLC is structured as a flow through Limited Liability Company. The company's operating agreement governs the activities of the capital accounts, such as the authority of the member keeping the accounts, which activities trigger a change in the capital accounts, and how the accounts are affected by such changes. Each contribution to the capital account is itemised in terms of a dollar amount, reflecting the amount of cash or the fair market value of real property contributed.

The capital account reflects how much money the member would receive if the LLC dissolved, liquidated its assets, paid its debts and distributed remaining proceeds to each member in proportion to his ownership percentages.

The members are entitled to receive periodic distributions from the business's earnings. The company may not provide a distribution in an amount that leaves the company unable to pay debts as they come due in the ordinary course of business. However, members need not prohibit a distribution for a speculative liability that is uncertain or contingent on the occurrence of a future event. A distribution that creates an excess of liabilities over assets immediately upon its payment is also prohibited.

## Notes to the financial statements

### Movement in Members Equity

		Movement in members contributions during the year						
		Opening Contribution	Transfer from prior year accumulated profit/(loss)	Additions	Withdrawals	Transfers	Transfer from current year profit	Total
Member	%	\$	\$	\$	\$	\$	\$	\$
<b>2015</b>								
Raw With Life Pty Ltd atf Benhaim Trading Trust	81.25%	29,523	156,000	-	-	-	330,323	254,336
D&G Health LLC	16.75%	416,086	32,160	-	-	-	68,097	406,551
Danny Schulz	2%	727	3,840	-	-	-	8,131	406,551
<b>Total</b>	<b>100%</b>	<b>446,336</b>	<b>192,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>406,551</b>	<b>660,887</b>
<b>2016</b>								
Raw With Life Pty Ltd atf Benhaim Trading Trust	69.48%	29,523	174,323	3,940	(26,795)	(23,993)	235,569	392,567
D&G Health LLC	19.11%	416,086	35,937	1,084	(5,677)	4,811	64,792	517,033
Danny Schulz	1.99%	727	4,291	113	-	(20)	6,747	11,857
Robotexpert UG (Germany)	4.96%	-	-	281	-	10,111	16,817	27,209
Seaview Group (QLD) Pty Ltd atf Seaview Unit Trust	1.64%	-	-	93	-	3,343	5,560	8,996
Arthur Jaffee (Head of Business Development)	0.99%	-	-	56	-	2,018	3,356	5,431
Elixinol Kabushikigaisha b/d/a Elixinol Japan	0.99%	-	-	56	-	2,018	3,356	5,431
Maokoto Matsumaru	0.09%	-	-	5	-	183	306	494
Leonard Marshall	0.75%	-	-	42	-	1,529	2,543	4,114
<b>Total</b>	<b>100%</b>	<b>446,336</b>	<b>214,551</b>	<b>5,670</b>	<b>(32,472)</b>	<b>-</b>	<b>339,046</b>	<b>973,132</b>

## Notes to the financial statements

Member	%	Opening Contribution \$	Transfer from prior year accumulated profit/(loss) \$	Movement in members contributions during the year			Transfer from current year profit \$	Total \$
				Additions \$	Withdrawals \$	Transfers \$		
<b>2017</b>								
Raw With Life Pty Ltd atf Benhaim Trading Trust	69.48 %	(17,325)	409,892	26,860	(171,124)	-	729,580	977,883
D&G Health LLC	19.11 %	416,304	100,729	-	(45,053)	-	200,666	672,646
Danny Schulz	1.99%	819	11,038	-	(4,124)	-	20,896	28,629
Robotexpert UG (Germany)	4.96%	10,392	16,817	-	(8,158)	-	52,083	71,134
Seaview Group (QLD) Pty Ltd atf Seaview Unit Trust	1.64%	3,436	5,560	-	(3,402)	-	17,221	22,815
Arthur Jaffee (Head of Business Development)	0.99%	2,074	3,357	-	(2,045)	-	10,396	13,781
Elixinol Kabushikigaisha b/d/a Elixinol Japan	0.99%	2,074	3,356	-	(1,632)	-	10,395	14,194
Maokoto Matsumaru	0.09%	189	305	-	(206)	-	945	1,233
Leonard Marshall	0.75%	1,571	2,543	-	-	-	7,876	11,990
<b>Total</b>	100%	419,534	553,597	26,860	(235,744)	-	1,050,058	1,814,305

### Capital management

The Managers oversee the capital of the Company to ensure the Company can fund its operations and continue as a going concern. The Company's capital is managed by maintaining adequate credit facilities, monitoring future rolling cash flows and adjusting its capital structure as required to meet business objectives. The strategy is to ensure the Company can fund growth and continue as a going concern.

## Notes to the financial statements

	<b>HY17</b>	<b>FY16</b>	<b>FY15</b>
	US\$	US\$	US\$
<b>17. Commitments for expenditure</b>			
<u>Operating lease commitments</u>			
Non-cancellable operating leases contracted for but not capitalized in the financial statements.			
Not longer than 1 year	46,676	45,596	24,917
Longer than 1 year but not longer than 5 years	32,992	66,192	64,441
	<u>79,668</u>	<u>111,788</u>	<u>89,358</u>

### Contingent liabilities

Uncalled and unpaid capital commitment to Elixinol Pty Ltd Note 24.

## **18. Cash and cash equivalents**

### **(a) Reconciliation of cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	<b>HY17</b>	<b>FY16</b>	<b>FY15</b>
	US\$	US\$	US\$
Cash on hand	-	-	-
Cash at bank	592,353	425,382	49,141
	<u>592,353</u>	<u>425,382</u>	<u>49,141</u>

### **(b) Reconciliation of deficit for the year to net cash flows from operating activities**

Profit for the year	1,063,102	339,046	406,551
Depreciation	31,325	48,722	19,240
Share of equity accounted loss	4,779	13,081	-

### **Changes in net assets and liabilities:**

(Increase)/decrease in assets:

Trade and other receivables	(188,430)	(144,720)	(137,889)
Prepayments	27,603	52,854	(80,457)
Inventories	(114,456)	(59,167)	(128,113)

Increase/(decrease) in liabilities:

Trade and other payables	(32,816)	185,598	52,538
Provisions	(27,478)	8,139	6,295
Other liabilities	-	(12)	13
Net cash generated by operating activities	<u>763,629</u>	<u>443,541</u>	<u>138,178</u>

## Notes to the financial statements

### 18. Cash and cash equivalents (contd.)

	<b>HY17</b>	<b>FY16</b>	<b>FY15</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>(c) Non-cash transactions</b>			
Investment in Elixinol Japan (refer to note 10)	-	100,000	-
Unsecured Borrowings (refer to note 15)	72,532	271,599	-
	<u>72,532</u>	<u>371,599</u>	<u>-</u>

### 19. Financial instruments

#### (a) Financial risk management

The Company's activities expose it to a variety of financial risks; market risks (including foreign exchange risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company. The company uses different methods to measure different types of risk to which it is exposed.

The Managers have overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company does not enter into or trade in derivative financial instruments.

#### (b) Credit risk

Credit risk arises from the financial assets of the company, which comprise of cash and cash equivalents, trade and other receivables. Credit risk refers to the risks that a counterparty will default on its contractual obligations resulting in financial loss to the company.

To minimise credit risk, the company trades with recognised, creditworthy third parties. Receivables balances are monitored on an ongoing basis with the result being that the company's exposure to bad debts is not significant.

#### Exposure to credit risk

At the reporting date, the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position.

The Company's major classes of financial assets are trade and other receivables, bank deposits. Bank deposits are held with reputable financial institutions.

Further details of credit risks on trade and other receivables are disclosed in Note 8.

#### (c) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company manages liquidity risk through regularly monitoring the budget, forecasts and monthly financial statements to ensure adequate funds are maintained. Emphasis is placed on ensuring there is sufficient funding in place to meet the ongoing requirements of the company's growth and expansion activities.

As outlined in Note 2, the financial report has been prepared on the going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business and assumes the company will have sufficient cash resources to pay its debts as and when they become due and payable for at least 12 months from the date of signing the financial report.



## Notes to the financial statements

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the reporting date based on contractual undiscounted repayment obligations:

### 19. Financial instruments (contd.)

#### (d) Liquidity and interest risk tables

	One year or less	One to five years	Over five years
	US\$	US\$	US\$
<b>30 June 2017</b>			
Trade and other payables	223,180	-	-
Borrowings	72,532	-	-
	<u>295,712</u>	<u>-</u>	<u>-</u>
<b>31 December 2016</b>			
Trade and other payables	279,186	-	-
Borrowings	243,630	-	-
	<u>522,816</u>	<u>-</u>	<u>-</u>
<b>31 December 2015</b>			
Trade and other payables	52,538	-	-
Borrowings	-	-	-
	<u>52,538</u>	<u>-</u>	<u>-</u>

#### (e) Market risk

##### Interest rate risk

The company has no borrowings at floating rate and has limited exposure to interest rate risk by cash balance.

##### Foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Company has transactional currency exposures mainly arising from borrowings that are denominated in a currency other than the functional currency of USD. The foreign currencies in which these transactions are denominated are mainly Euro (EUR).

The Company's exposures to foreign currency is disclosed in Note 14.

The following table demonstrates the sensitivity of the Group and Company's foreign currency balances denominated in USD held by the Group and the Company whose functional currency is EUR, to a reasonably possible change in the USD exchange rates against the EUR, with all other variables held constant.

## Notes to the financial statements

### 19. Financial instruments (contd.)

	Profit net of tax		
	Increase/(Decrease)		
	HY17	FY16	FY15
	US\$	US\$	US\$
USD/EUR - strengthened 5%	(2,373)	(5,078)	-
- weakened 5%	2,373	5,078	-

### 20. Key management personnel compensation

The aggregate compensation made to Managers and other members of key management personnel of the company is set out below:

	HY17	FY16	FY15
	US\$	US\$	US\$
Short-term employee benefits	115,026	235,771	59,072
Post-employment benefits	-	-	-
	<b>115,026</b>	<b>235,771</b>	<b>59,072</b>

### 21. Related party transactions

The immediate parent and ultimate controlling party respectively of the company is Raw With Life Pty Ltd as Trustee for the Benhaim Trading Trust (incorporated in Australia).

During the year, the company entered into following transactions with related parties:

- a)** On 24 October 2016, 4,800 ordinary shares in Elixinol Pty Limited, a Manager related entity, with a value of AU\$416.67 per share were issued to the company. At 31 December 2016 and 30 June 2017, the paid up value of each share was AU\$0.0001 representing a total investment of less than US\$1. The total uncalled capital of these shares is AU\$2,000,000.

These shares held by the company are held for the purpose of transferring to future investors. Upon transfer the Elixinol Pty Limited can immediately make a call on the unpaid capital sufficient to raise \$2,000,000. There is otherwise no requirement for the company to make a contribution for uncalled amounts or for an amount to be called.

Subsequent to year ends the partially paid shares held in Elixinol Pty Limited were forfeited. Refer to note 23.

## Notes to the financial statements

### 21. Related party transactions (cont'd)

#### (b) Trading Transactions

	<b>HY17</b>	<b>FY16</b>	<b>FY15</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Hemp Foods Australia	(4,918)	(4,884)	(3,881)
H&W	(101,686)	(10,000)	-
Elixinol Japan	66,262	-	-
	<b>(40,342)</b>	<b>(14,884)</b>	<b>(3,881)</b>

Sales of goods to related parties were made at the Company's standard list prices. Purchases were made at market price with a volume discount applied to reflect the quantity of goods purchased.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current or prior years for bad or doubtful debts in respect of the amounts owed by related parties.

#### c) Loans from related parties

	<b>HY17</b>	<b>FY16</b>	<b>FY15</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Loans from Paul Benhaim	-	923,819	-
	<b>-</b>	<b>923,819</b>	<b>-</b>

The Company has been provided loans at rates comparable to the average commercial rate of interest. The loans from the ultimate controlling party are unsecured.

#### d) Loan repayments to related parties

	<b>HY17</b>	<b>FY16</b>	<b>FY15</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Loan repayments to Paul Benhaim	(246,292)	(690,315)	-
	<b>(246,292)</b>	<b>(690,315)</b>	<b>-</b>

#### e) Other related party transactions

In addition to the above, the Company entered into other related party transactions as detailed below:

	<b>HY17</b>	<b>FY16</b>	<b>FY15</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Payments for investments in associates	(150,000)	(150,000)	-
Payment for available for sale assets	-	(100,000)	-
Distributions to shareholders	(189,372)	(32,472)	-
Employee benefits expense paid to non-KMP	(36,154)	(72,123)	(15,605)
Receipts of capital contributions	-	-	-
	<b>(375,526)</b>	<b>(354,595)</b>	<b>(15,605)</b>

## Notes to the financial statements

### 21. Related party transactions (cont'd)

#### e) Other related party transactions

	HY17	FY16	FY15
The following balances were outstanding at the end of the reporting periods:	US\$	US\$	US\$

Loan payable to Paul Benhaim	72,352	243,630	-
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### 22. Segment information

The company operates in a single segment being the sale of hemp based nutraceutical and food products in certain states of the United States of America. The results of which are disclosed in this financial report.

### 23. Subsequent events

#### (a) Shareholder's conditional contract to acquire shares

As at the date of signing this financial report, the shareholders are in the process of negotiating a conditional contract for Elixinol Global Ltd to purchase all issued capital of the Company upon Elixinol Global Ltd successfully completing an initial public offering of its securities and listing on the Australian Stock Exchange.

#### (b) Forfeiture of partially paid shares

On 21 November 2017, the partially paid shares held by Elixinol LLC in Elixinol Pty Limited were forfeited as a consequence of an agreement between the two entities. Upon forfeiture of the shares by the Company, Elixinol Pty Limited cancelled the shares. The total amount previously paid on the shares, being less than US\$1 was not refundable to the Company.

With the exception of the matter noted above, there has not been any matter or circumstance occurring subsequent to the end of the financial period that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.