

## ASX Announcement

15 October 2021

### **Q3 FY21 QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C**

***Cash outflows improve and growth continues for Hemp Foods Australia despite COVID-19 impacts; Elixinol Americas revenue impacted by now resolved supply chain disruptions***

#### Key Highlights

- Q3 FY21 revenue of \$2.3m<sup>1</sup>, down 9% on the prior quarter (Q2 FY21: \$2.5m), due to COVID-19 restrictions impacting Hemp Foods Australia and now resolved supply chain disruptions in the US
- Operating cash used during Q3 FY21, excluding non-recurring items, was \$2.9m, a 12% improvement on the prior quarter (Q2 FY21: \$3.3m) and 14% improvement compared with \$3.5m in the prior corresponding period (PCP)
- Well-funded with \$16.1m in cash and an additional \$1.9m expected from US Employee Retention Credits leaving Elixinol with more than 18 months of funding to take advantage of an improving outlook across key markets
- Hemp Foods Australia revenue up 2% compared to Q2 FY21 despite COVID-19 impacts, led by 38% growth in e-Commerce
- Elixinol Americas revenue 11% lower compared to Q2 FY21, due to now resolved supply chain disruptions
- New US e-commerce site launched post quarter improving user experience and sales conversion
- California's passing of Assembly Bill 45 signals significant regulatory progress and opens new market opportunities
- Elixinol to cease trading in EU/UK markets and is in discussions with licensing partners to manage Elixinol brand

Elixinol Wellness Limited (**Elixinol** or the **Company**) (**ASX:EXL; OTCQB:ELLXF**) a global leader in the hemp derived food and CBD industry, innovating, and selling hemp derived food and CBD products, is pleased to release its Quarterly Activities Report and Appendix 4C cash flow report for the quarter ended 30 September 2021 (**Q3 FY21**).

Global CEO, Oliver Horn, commented: *"While we were down on revenue this quarter due COVID-19 impacts on Hemp Foods Australia and now resolved supply chain issues in the*

---

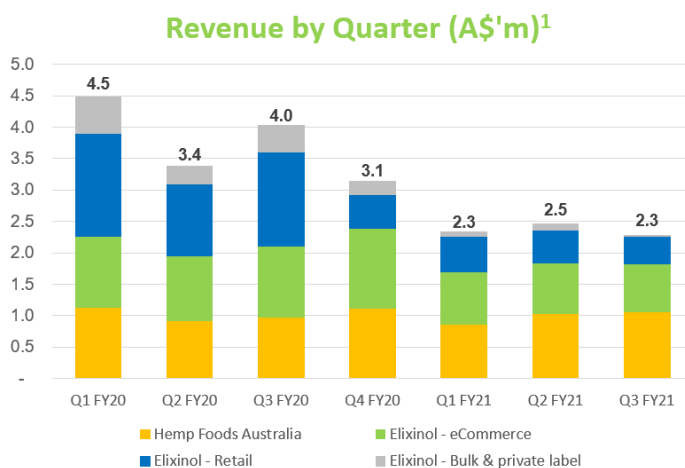
<sup>1</sup> All dollar amounts are in AUD unless otherwise stated; Average AUD/USD for Q3 FY21 = 0.7350; FY21 financials are unaudited.

US, we are pleased by the fact that Elixinol Americas finished the quarter with a strong September and Hemp Foods Australia continued its upwards trajectory, finishing 2% up on the prior quarter despite COVID-19 impacts.

Elixinol Americas experienced temporary out of stock issues worth \$0.2m in revenue as we move towards a completely outsourced model to further optimise our cost base, though pleasingly, there is a strong sense of progress as we come to the end of our supply chain transition period. We are now forging ahead with our digital first strategy, led by an experienced team and supported by an expanding product portfolio.

We are also continuing to see the regulatory environment in the US improving, with the state of California having just passed Assembly Bill 45, formally permitting sale of hemp derived CBD products. California is Elixinol's number one e-commerce sales market and is the largest CBD market in the US, which means the passage of this bill will create a clear and stable regulatory environment and, in turn, this is expected to result in new business opportunities for Elixinol. We have also just upgraded our US online shop to improve user experience and sales conversion and have also appointed a new exclusive national sales representative, Market Performance Group, to access new customers across the US.

Hemp Foods Australia's continued growth this quarter is testament to our focus on driving the e-commerce channel, with online orders up by 38% on prior quarter. Strategically we have also focused on consolidating our distributors to focus on bigger partners and were delighted to have secured a national distribution deal with Australia's largest supermarket chain, Woolworths.



With very solid fundamentals in place for both our Elixinol and Hemp Foods Australia businesses, we will concentrate our focus on key growth drivers in these markets in order to improve profitability.”

Elixinol reported revenue of \$2.3m for Q3 FY21, representing a 9% decline on Q2 FY21, due to now resolved supply chain disruptions in the US.

Operating cash used during Q3 FY21 excluding non-recurring items was \$2.9m, a 12% improvement on the

previous quarter (Q2 FY21: \$3.3m) and a 14% improvement compared with PCP (Q3 FY20: \$3.5m).

Elixinol finished the quarter well-funded with \$16.1m in cash and an additional \$1.9m expected from US Employee Retention Credits. With a steadily reducing cost base and with more optimisation initiatives on foot, including the Employee Retention Credits, Elixinol has more than 18 months of funding to take advantage of an improving outlook in the US and Australia.

### **Hemp Foods Australia update**

Hemp Foods Australia's growth trajectory continued to improve, with revenue up 2% (Q3 FY21: \$1,057k vs Q2 FY21: \$1,037k), led by new national distribution gains and continued growth in the e-commerce channel.

During the quarter, Hemp Foods Australia secured a distribution deal with Woolworths to supply its Hemp Gold Seeds Oil to more than 100 stores nationwide. COVID-19 restrictions prevented Hemp Foods Australia from achieving a greater improvement with reduced store traffic slowing down sales and resulting in reduced replenishment orders.

Hemp Foods Australia's strong e-commerce channel growth continued, with e-commerce orders up 38% for the quarter and up 56% September YTD versus prior YTD. All e-commerce metrics showed significant improvement throughout the quarter over the prior quarter.

In recognition of its exports to Japan, Korea, the US and South Africa, Hemp Foods Australia has been nominated as a finalist in the Premier's NSW Export Awards 2021. Final award recipients will be announced on 23 October 2021.

### **Americas business transformation continues**

The Elixinol Americas business showed a revenue decline through the quarter, down 11% (Q3 FY21: \$1,159k vs Q2 FY21: \$1,302k), driven by now resolved supply chain challenges associated with transitioning to an outsourced supply chain model.

The US regulatory environment is evolving favourably, with Assembly Bill 45 (AB45) being signed into law by Californian Governor, Mr Gavin Newsom on 6 October 2021. This has established a comprehensive regulatory framework for the manufacture and retail sale of products in California containing hemp derived cannabidiol (CBD), including dietary supplements, topicals, over-the-counter, and pet products, among others. This is a very positive development for reputable hemp derived CBD product providers like Elixinol, and the many retailers and consumers seeking to enjoy the benefits of high quality and safe CBD products. This Bill is expected to create new trade opportunities between Elixinol and major retailers, who were previously seeking clear regulatory guidance at the state level.

The business continued its transition to a fully outsourced supply model. In-house production ceased in August 2021. Elixinol is currently managing warehousing and fulfilment and is on track to move to a fully outsourced supply chain model by early Q1 FY22.

The Market Performance Group was appointed as Elixinol's exclusive sales representative to access customers in the Food, Drug and Mass retail channels nationwide. This is a strategic move to prepare Elixinol's US business for anticipated future positive federal and FDA regulations which could make CBD permissible as a dietary supplement federally and thus open up national retail channels.

A new website and e-commerce platform was launched immediately post quarter. The new online shop loads over 140% faster, is mobile optimised and now includes a loyalty reward points program; access to Sezzle's buy now, pay later option, and digital gift-cards, all designed to accelerate e-commerce revenue growth. Since launch on the 8 October, the site is performing well showing increased traffic to sales conversion.



Growth through innovation is a key pillar of Elixinol Wellness' strategy and this quarter Elixinol launched its first products in the CBD Pet Collection. The new range is

specifically designed for dogs and includes a bacon-flavored tincture and two functionally focused CBD dog chews targeting specific benefits such as promoting calm and relaxation and supporting mobility and joint health for adult dogs. The new pet range allows Elixinol to access new growth in the US\$432m pet CBD market (Source Brightfield, September 2021).

During the quarter, Elixinol lodged an application for refundable tax credits which were made available under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The value of the credits calculated through to 30 June 2021 totals approximately \$1.4m (US\$1.0m) and further applications for Q3 and Q4 FY21 will be filed in due course with an expected additional value of \$0.5m (US\$0.4m). Due to an extensive processing backlog at the Internal Revenue Service (**IRS**) only \$0.3m is expected to be received in Q4 FY21 with the remaining \$1.6m expected to be received in H1 FY22.

## Elixinol in licensing partner discussions for the UK / EU

There has been no further development with regards to the regulatory environment in the UK this quarter and given the strategic focus for Elixinol on driving profitability and with no certainty of regulatory clarity in the near term, on 16 September 2021 Elixinol made the considered decision to move to an indirect route to market model and is seeking a licensing partner in the UK / EU.

The UK Food Safety Authority (FSA) has still not been able to process Novel Food Application submissions, leaving brands unable to launch new products and retailers reluctant to engage, given the uncertainty as to which products will be allowed to remain in distribution. As a result, the major UK retailers are not investing in the category or considering new listings until the FSA publishes a list of authorised CBD products. In addition, slow retail sales due to COVID-19 closures throughout H1 2021 resulted in an oversupply situation with competitor products being available at clearance pricing, leading to a further depressed sales environment. During Q3 FY21, Europe and UK contributed \$56k to group revenue (Q2 FY21: 117k).

There has been strong interest in the Elixinol brand and the Company is currently in discussions with three potential licensing partners.

The cessation of trading of Elixinol's European and UK operations is expected to be fully complete by 31 December 2021 and is expected to yield cost savings of approximately \$0.8m per quarter. Given the loss-making nature of the business and the current European macro and regulatory environment and outlook, the Board determined retaining brand presence via

a licensing partner is currently the best and most prudent operating model for the Company and its shareholders.

#### **Appendix 4C commentary**

During the quarter the Company reported operating cash expenditures excluding non-recurring items of \$5.2m, representing a 10% reduction, compared with the previous quarter (Q2 FY21: \$5.8m) and a 29% reduction vs PCP (Q3 FY20: \$7.3m). These expenditures were directed towards building new sales and distribution channels and to further Elixinol's strategy to build a global consumer brand. The expenditures were incurred across the Company's business segments as follows: Americas \$2.6m, Europe \$0.8m, Australia \$0.9m and Corporate \$0.9m.

The Company also incurred non-recurring costs through the quarter of \$0.2m which included \$0.1m transaction costs and \$0.1m severance costs due to the restructuring of the Americas organisation. During the quarter the shareholders of CannaCare failed to reimburse the Company for an agreed amount of €360,000 (approximately \$0.5m) in accordance with the Termination and Withdrawal Agreement dated 29 June 2021. The Company is taking action to recover the monies owed.

The Company reported payments to related parties totalling \$156,000. These payments comprise non-executive director fees and executive director remuneration. In the interests of supporting Elixinol Wellness, the Elixinol Wellness Board resolved to reduce non-executive director fees as follows:

- Ms Helen Wiseman: director fee of \$127,800 (inclusive of superannuation) was reduced by 20% to \$102,240 effective 1 September 2021 until 31 December 2021, at which time the reduction will be reviewed by the Board depending on the performance of the Company; and,
- Mr Paul Benhaim: director fee of \$120,000 (inclusive of superannuation) to be permanently reduced to the Company's standard non-executive director fee of \$85,000 effective 1 September 2021.

This document was authorised to be given to the ASX by the Board of the Company.

#### **Investor relations please contact:**

Ron Dufficy, Global CFO

[ron.dufficy@elixinolwellness.com](mailto:ron.dufficy@elixinolwellness.com)

### **About Elixinol Wellness**

Elixinol Wellness Limited (ASX:EXL; OTCQB:ELLXF) is a global leader in the hemp industry, innovating, marketing and selling hemp derived nutraceutical, cosmetic and food products. The Company's simplified business model is focusing on:

- In the Americas, innovating, marketing and selling high quality Elixinol branded hemp derived nutraceutical and skincare products based in Colorado, USA
- In Europe and the UK, educating and selling high quality Elixinol branded and co-branded hemp derived nutraceutical and skincare products based in Utrecht, The Netherlands and London, UK
- In Australia, Hemp Foods Australia is a leading hemp food wholesaler, retailer, manufacturer and exporter of bulk and branded raw materials, and finished products
- Across the Rest of World, expanding distribution of Elixinol branded hemp derived products through reputable distributors as key markets open.

See more at [www.elixinolwellness.com](http://www.elixinolwellness.com)

## Appendix 4C

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

**Name of entity**

Elixinol Wellness Limited

**ABN**

34 621 479 794

**Quarter ended ("current quarter")**

30 September 2021

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	2,303	7,360
1.2 Payments for		
(a) research and development	-	
(b) product manufacturing and operating costs	(976)	(3,709)
(c) advertising and marketing	(715)	(2,179)
(d) leased assets	(22)	(209)
(e) staff costs	(2,149)	(6,904)
(f) administration and corporate costs	(1,263)	(4,221)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	12	41
1.5 Interest and other costs of finance paid	(32)	(62)
1.6 Income taxes paid/(received)	(26)	29
1.7 Government grants and tax incentives	225	277
1.8 Other – non-recurring transaction and severance costs	(243)	(1,274)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(2,886)</b>	<b>(10,851)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(10)	(152)
(d) investments	-	-
(e) intellectual property	(65)	(130)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	375	400
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>300</b>	<b>118</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	(110)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(241)	(741)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>(241)</b>	<b>(851)</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	18,965	27,743
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,886)	(10,851)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	300	118



<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(241)	(851)
4.5	Effect of movement in exchange rates on cash held	(3)	(24)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>16,135</b>	<b>16,135</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	16,135	18,965
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>16,135</b>	<b>18,965</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to related parties and their associates included in item 1	156
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

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

<b>7. Financing facilities</b>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	--
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
<b>7.4 Total financing facilities</b>		-
<b>7.5 Unused financing facilities available at quarter end</b>		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
N/A		

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (item 1.9)	(2,886)
8.2 Cash and cash equivalents at quarter end (item 4.6)	16,135
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	16,135
<b>8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	5.60
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/A	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/A	
8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: N/A	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

## Compliance statement

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

Date: 15 October 2021

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

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.