

ASX Announcement**29 July 2022****Q2 FY22 QUARTERLY ACTIVITIES REPORT
AND APPENDIX 4C**

Elixinol Wellness reports 13% revenue growth, up on prior quarter; significantly further reduces cost base and remains in a strong funding position; completes strategic review and confirms Global CEO appointment

Key Highlights

- Strategic review completed and Ron Dufficy confirmed as Global CEO.
- Q2 FY22 revenue of \$1.7m¹, up 13% on the prior quarter (Q1 FY22: \$1.5m), driven by growth across all key markets.
- Operating cash used during Q2 FY22 was \$2.1m, a 36% reduction on the prior quarter (Q1 FY22: \$3.3m), due to previously announced annualised cost savings of \$3.2m identified throughout the Strategic Review process and other one-off savings, following completion of US transition to a 3PL model.
- Funding position in line with expectations at end Q2 FY22, with funds of \$8.5m² and reduced capex due to simplified and capital light business model.
- Hemp Foods Australia distribution continues to build, with Coles agreeing to range its new Seed Mix across 830 stores from end of August, plus the launch of full HFA product range into the independent pharmacy channel.
- New, innovative Elixinol product line up expected to drive revenue growth in the Americas.
- Strategy confirmed to unlock opportunities in fast-growing global natural wellness space.

Elixinol Wellness Limited (**Elixinol Wellness, EXL** or the **Company**) (**ASX: EXL**) a global leader in the hemp industry, innovating, marketing and selling hemp-derived nutraceutical, food and topical products, releases its Quarterly Activities Report and Appendix 4C quarterly cash flow report for the quarter ended 30 June 2022 (**Q2 FY22**).

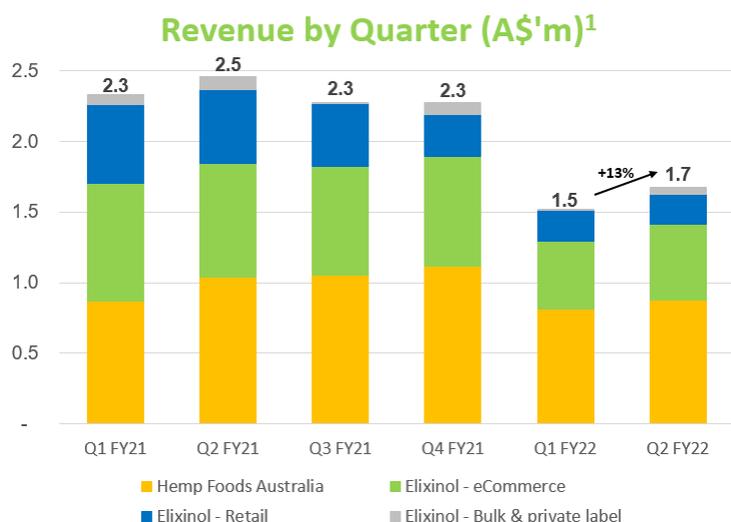
Global Chief Executive Officer (**Global CEO**), Ron Dufficy, commented: *“We are very pleased to report a quarter of growth, thanks to revenue improvements for Elixinol in the US and for Hemp Foods Australia. We achieved this with a leaner operating structure and with our costs*

¹ All dollar amounts are in AUD unless otherwise stated; Average AUD/USD for Q2 FY22 = 0.7203; FY22 financials are unaudited.

² Includes \$6.9m cash on hand plus \$1.6m expected to be received from one-off US COVID-19 relief measures (\$1.3m from ERC program plus \$0.5m refund of taxes paid in prior financial years).

down 36% compared to the prior quarter. Following the strategic review process, we are also excited to confirm our strategy to further reposition ourselves as a natural wellness business with a heritage in hemp to unlock opportunities in the fast-growing natural and plant-based wellness space. I am confident that our continued focus on driving efficiencies will contribute to further improvement in cashflow and business profitability in the coming quarters; and we expect the upcoming launches of new products will help drive further revenue growth.”

The Company reported revenue of \$1.7m for Q2 FY22, up 13% on the prior quarter (Q1 FY21: \$1.5m), driven by growth across all key markets.



Following the announcement of the strategic review, the cost base has been significantly reduced with the impacts starting to be realised from Q2 FY22³.

Operating cash used during Q2 FY22 was \$2.1m, down 36% reduction from the prior quarter (Q1 FY22: \$3.3m) due to previously announced annualised cost savings of \$3.2m and savings following its US transition to a 3PL model, which was completed at the end of Q1 FY22.

The Company finished the quarter well-funded with \$8.5m, including \$6.9m in cash and an additional \$1.6m expected from US COVID-19 relief measures.

Strategic Review Completed and Global CEO Appointment Confirmed

The Company announced its strategic review to the market on 25 February 2022, with an update on 28 March 2022 at which time executive leadership changes were also announced. The strategic review was commenced with the aim to assess all options to improve shareholder value. The strategic review confirmed that the core assets of Hemp Foods Australia and Elixinol America are both well positioned with strong brands, occupying positions of strategic value as the industry continues to evolve.

The strategic review process has resulted a significantly reduced cost base and a streamlined organisational structure that now combines corporate with business unit functions and importantly, confirms the Company’s strategic direction to diversify its operations further towards natural and plant-based wellness products, thus reducing reliance on its CBD portfolio.

In addition to continuing to consider and evaluate options for shareholder value creation when opportunities arise, the Company remains focussed on driving the already identified cost efficiencies and simplifying the business to strengthen its balance sheet and further enhance strategic value.

³ Elixinol Wellness operates on a 31 December year end.

Following the completion of the strategic review and an improved quarterly result, the Board considers it important to bed down the Company's leadership and formalise Mr Ron Dufficy's Interim Global CEO appointment. Accordingly, the Board is delighted to announce Mr Dufficy's appointment as Global CEO, effective immediately. Mr Dufficy has been Interim Global CEO since 8 April 2022 and was previously Global Chief Financial Officer. Material terms of Mr Dufficy's employment contract are attached to this announcement.

As result of the strategic review Elixinol Wellness is repositioning itself towards a global natural wellness business, harnessing the power of hemp and other plant-based ingredients to tap into opportunities in the fast-growing natural wellness space.

Hemp Foods Australia update

Hemp Foods Australia reported an 8% increase in revenue vs Q1 FY22 (Q2 FY22: \$877k vs Q1 FY22: \$813k). This was driven by increased sales to Costco and strong consumer uptake of Hemp Foods Australia's new flavoured protein powder range.

During the quarter, Hemp Foods Australia also confirmed that Coles will be stocking its new Seed Mix in 830 stores nation-wide by end of September 2022. The seed mix contains hemp, mixed with other seeds, nuts and dried fruits. It is omega and antioxidant rich, is a great source of protein and targets functional health benefits such as gut health.

In addition, Hemp Foods Australia received confirmation this quarter that its full range of products will be featured in a vibrant point of sale display in the independent pharmacy channel. The initial 50 store pilot program will be launched during Q3 FY22 and if successful, has the potential to be expanded in up to 1,100 stores across Australia.

In early June, the Hemp Foods Australia team attended the Naturally Good tradeshow in Sydney. The Hemp Foods Australia stand was much larger than in previous years, with the team building on relationships with existing customers and meeting with a number of potential new customers.

Hemp Foods Australia has also secured federal government funding (reimbursements of up to \$20k) to support its Environmental, Social and Governance (**ESG**) initiatives which include transitioning all its product lines to fully compostable or recyclable packaging, and to achieving carbon neutral certification. Federal government funding (\$73,800 cash over 3 years) was also secured, via a different program, which will be used by the Company to continue to develop its export strategy to deliver growth in key markets in Asia, Europe and North America.

Elixinol Americas update

The Elixinol Americas business delivered a revenue increase through the quarter, up 12% (Q2 FY22: \$799k vs Q1 FY22: \$713k). This was largely led by growth in online sales.

The new e-commerce site continues to perform strongly. During the quarter, the Company implemented a new digital retargeting strategy which drove a 56% increase in user sessions during the month of June 2022. Additionally, the subscription program whereby customers can subscribe up front for regular orders, continues to grow and represented 39% of June e-commerce revenue.

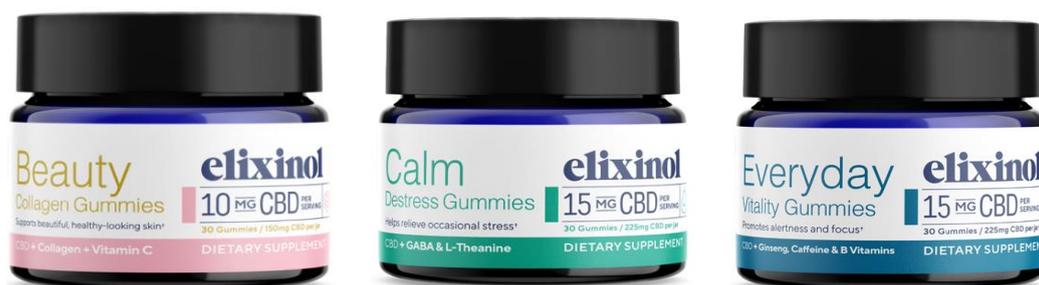
After completing a thorough assessment of the competitive landscape, in mid-June the Company implemented a price increase, averaging 15%, in counter to rising supply costs. No noticeable decrease in sales volumes has been observed as a result and there has not been any significant negative feedback from customers or consumers.

The Company's transition to an outsourced logistics model is now successfully completed. In May and June, 99.8% of consumer and retailer orders were delivered on-time and in-full, further improving operational efficiency and reducing expense.

New Elixinol product launches

Following extensive research, development and testing, post quarter end Elixinol placed production purchase orders for the following five new products to be launched in Q3 FY22:

- Everyday Adaptogen Complex Capsules: A powerful ingredient combination that fuels the mind and body. The new functional CBD capsule features four powerful adaptogens: reishi mushroom, ginseng, ginkgo and rhodiola rosea to promote the body's state of homeostasis, stimulate the body's stress-protection response, and help its systems maintain balance.
- Calm Destress CBD Gummies: The new destress gummy formulation is designed to help relieve occasional stress.
- Beauty Collagen CBD Gummies: Featuring Biotin and collagen, the beauty gummies are formulated to support beautiful, healthy-looking skin. Each serving includes 1.25g of collagen and 1.25mg of Biotin to hydrate and promote skin elasticity while also supporting healthy hair and nail strength.
- Everyday Vitality CBD Gummies: The vitality gummies are formulated with B vitamins, ginseng and caffeine, to promote natural energy production and help support alertness and focus.
- Everyday Extra Strength Gummies: Strawberry flavoured full-spectrum vegan everyday extra strength gummies.



Other Markets

On 31 March 2022 the Food Standards Agency (FSA) in the United Kingdom updated its long-awaited list of CBD products that can remain in market whilst awaiting full authorisation. Following confirmation that this list included the Elixinol product range, replenishment inventory



has now been produced by British Cannabis™, who are actively marketing the range in the United Kingdom to new and former Elixinol customers including online via <https://elixinol.co.uk/>.

Appendix 4C commentary

During the quarter the Company reported operating cash expenditures excluding non-recurring items of \$3.8m, a 27% reduction compared with the previous quarter (Q1 FY22: \$5.2m) and a 34% reduction vs PCP (Q2 FY21: \$5.8m). These expenditures were directed towards shifting revenues to direct to consumer channels and expanding its e-commerce capabilities, new product development; brand building, and expanding traditional retail distribution (in particular in Australia via Hemp Foods Australia). The expenditures were incurred across the Company's business segments as follows: Americas \$1.5m, Europe \$0.0m, Australia \$1.0m and Corporate \$1.3m.

The Company reported payments to related parties totalling \$182,000. These payments comprise non-executive director fees and executive director remuneration.

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

Investor relations please contact:

Ron Dufficy, Global CEO
ron.dufficy@elixinolwellness.com

About Elixinol Wellness

Elixinol Wellness Limited (ASX:EXL) 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 Australia, Hemp Foods Australia is a leading hemp food wholesaler, retailer, manufacturer and exporter of bulk and branded raw materials, and finished products
- In the United Kingdom, South Africa, Japan, Brazil, Mexico and Malaysia (pending approvals), branded hemp derived products are available to consumers via exclusive Distribution and/or Trademark and Know-How Licensing Agreements
- Across the Rest of World, expanding distribution of branded hemp derived products through reputable distributors as key markets open

See more at www.elixinolwellness.com

ATTACHMENT

Key Terms of the Global Chief Executive Officer Employment Agreement

In accordance with ASX Listing Rule 3.16.4, Elixinol Wellness makes the following disclosures in respect of the key terms of the employment agreement entered into with its Global Chief Executive Officer, Mr Ronald Dufficy (**Agreement**).

TERM	DESCRIPTION
Position	Global Chief Executive Officer
Commencement Date	29 July 2022
Term of Appointment	Mr Dufficy's employment has no fixed term. Mr Dufficy has been appointed as Global Chief Executive Officer commencing from 29 July 2022.
Total Fixed Remuneration (TFR) (Including Superannuation)	Under the terms of the employment agreement, Mr Dufficy is entitled to a TFR of A\$325,000 per annum (inclusive of superannuation). The TFR is subject to annual review (starting in December 2022).
Short-term Incentive (STI)	In addition to the annual TFR, Mr Dufficy is eligible to receive a bonus in accordance with the Company's Short Term Incentive Plan Rules, of up to 40% of his TFR. The TFR may be increased by the Company from time to time.
Other benefits (including long- term incentive)	In addition to Mr Dufficy's base salary, the Company may, in its absolute discretion, provide Mr Dufficy with other benefits, such as other incentive payments, including any further grant of performance share rights in accordance with the Company's Equity Plan Rules, subject to any shareholder approval requirements.
Termination Provisions	Mr Dufficy will be employed indefinitely, subject to the rights of the Company, below: <ul style="list-style-type: none"> • The Company may terminate the Global Chief Executive Officer's employment immediately and without notice in certain circumstances, including if he is guilty of serious misconduct, is grossly negligent or otherwise incompetent in the performance of his duties, becomes bankrupt or commits a crime or other civil wrong which, in the Company's reasonable opinion, may seriously impact on the Global Chief Executive Officer's ability to perform the duties of his position, or is likely to significantly damage the reputation or business of the Company.

	<ul style="list-style-type: none"> • The Global Chief Executive Officer’s employment may be terminated by either party giving six (6) months’ written notice. • The Company may also terminate the Global Chief Executive Officer’s employment by either making a payment equal to six (6) months’ pay in lieu of the entire notice period (or by making him work part of the notice period and making a payment in lieu of the balance of the notice period). <p>Any payments on termination are subject to the termination benefits cap under the Corporations Act.</p>
Post-employment Restraint	A six (6) month restraint provision applies.

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 June 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,751	3,338
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(787)	(2,555)
(c) advertising and marketing	(299)	(662)
(d) leased assets	(12)	(51)
(e) staff costs	(1,713)	(3,868)
(f) administration and corporate costs	(993)	(1,834)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	5	11
1.5 Interest and other costs of finance paid	(25)	(37)
1.6 Income taxes paid/(received)	-	(2)
1.7 Government grants and tax incentives	7	324
1.8 Other – non-recurring	-	-
1.9 Net cash from / (used in) operating activities	(2,066)	(5,336)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(g) entities	-	-
(h) businesses	-	-
(i) property, plant and equipment	(4)	(4)
(j) investments	-	-
(k) intellectual property	-	(2)
(l) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	22	56
	(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	-	-
2.6	Net cash from / (used in) investing activities	18	50
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(202)	(390)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other	-	-
3.10	Net cash from / (used in) financing activities	(202)	(390)
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	9,170	12,649
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,066)	(5,336)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	18	50

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(202)	(390)
4.5	Effect of movement in exchange rates on cash held	13	(40)
4.6	Cash and cash equivalents at end of period	6,933	6,933

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	6,933	9,170
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	6,933	9,170

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	182
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

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<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)	-	-
7.4 Total financing facilities		-
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.	N/A	

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(2,066)
8.2 Cash and cash equivalents at quarter end (item 4.6)	6,933
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	6,933
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.4
<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: 29 July 2022

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

Notes

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