

ASX Announcement

22 July 2021

Q2 FY21 QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C

Growth led by strong performance by Hemp Foods Australia and supported by improved business fundamentals

Key Highlights

- Q2 FY21 revenue of \$2.5m¹, up 9% on the prior quarter (Q1 FY21: \$2.3m), led by Hemp Foods Australia.
- Operating cash used during Q2 FY21, excluding non-recurring costs, was \$3.3m, reduced by 8% on the prior quarter (Q1 FY21: \$3.6m) and compared with \$6.2m for PCP
- Well-funded with \$19.0m in cash to support acquisitive growth, further cost optimisation underway to sustain market volatility
- Hemp Foods Australia revenue up 19% over Q1 FY21, led by newly gained national distribution and new export sales
- Elixinol Americas reports improving business performance, with revenue up 4% over Q1 FY21, due to new retail distribution
- Regulatory uncertainty stifles UK CBD market
- CannaCare acquisition terminated by mutual agreement, releasing approximately \$5.5m in previously committed cash

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 June 2021 (**Q2 FY21**).

Global CEO, Oliver Horn, commented *“Having worked hard to improve our business fundamentals, we are very pleased to return the business to growth during the June quarter. Importantly, we finished the quarter strong, with June being the best revenue month since October 2020. This result was led by our Hemp Foods Australia business, which finished 19% up on the prior quarter. Our group-wide focus on servicing digital consumers via our growing e-commerce channel has progressed well and continues to contribute to our growth and profitability.*

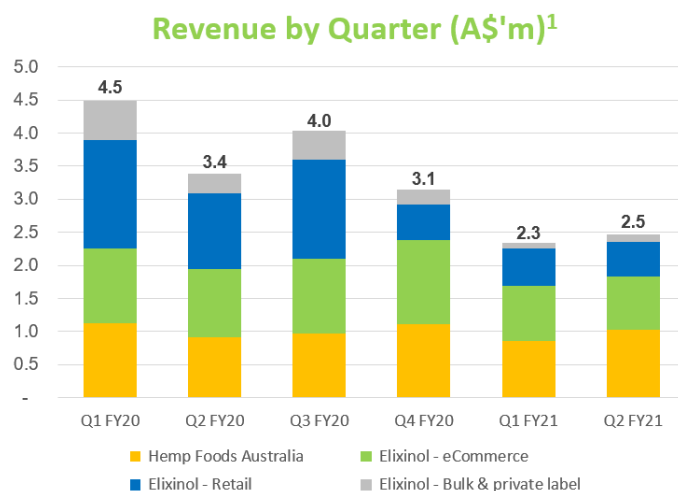
¹ All dollar amounts are in AUD unless otherwise stated; Average AUD/USD for Q2 FY21 = 0.7698; FY21 financials are unaudited.

We are also seeing the American CBD market conditions improving with retail footfall and consumer acceptance of CBD increasing. Having focused extensively on building new capabilities and right sizing our cost base, we are pleased to see the Elixinol Americas return to growth, reporting a 4% growth over the March quarter.

Although not yet material to our group revenues, Elixinol Europe disappointed and lagged due to continued impacts of COVID-19 on footfall into physical venues. CBD continues to be a high-priced novel purchase and UK consumers have curtailed discretionary spending in favour of essential staples. Furthermore, major UK retailers are reluctant to engage with the category until the Food Safety Authority publishes a list of CBD products which are supported by valid novel foods applications. As a result of these long-suppressed UK trading periods and the lack of regulatory clarity, a glut of competitor products is now available at clearance pricing. We hope to see the regulatory landscape become clearer in the near term.

Due to a changed German market outlook and rapidly intensifying competition, the mutual decision was made to terminate the acquisition of CannaCare during the quarter. With the \$5.5m cash that would otherwise have been invested into this transaction, we now have the option to invest into new growth drivers.

Going forward and based on improved fundamentals in the Americas and Australia, we will shift our focus to driving growth in these markets whilst we continue to optimise our cost base and assess the dynamic regulatory and market landscape in the UK market. We will continue to seek M&A opportunities with a view to materially improve profitability.”



Elixinol reported revenue of \$2.5m for Q2 FY21, representing 9% growth on Q1 FY21, led by Hemp Foods Australia, despite continued COVID-19 impacts in key markets.

Operating cash used during Q2 FY21 excluding non-recurring costs was \$3.3m, down 8% from the previous quarter (Q1 FY21: \$3.6m), and significantly improved compared with PCP (Q2 FY20: \$6.2m).

Elixinol finished the quarter well-funded with \$19.0m in cash to support its growth strategy. With revenue growth returning, a steadily reducing cost base and with more optimisation initiatives on foot, it is well positioned to take advantage of an improving outlook in its key market.

Hemp Foods Australia update

Hemp Foods Australia's growth trajectory continued to improve, with revenue up 19% (Q2 FY21: \$1,037k vs Q1 FY21: \$871k), led by newly gained national distribution, growth in export sales and solid ongoing e-commerce performance.

Through the quarter, a second HFA product was listed in Costco for distribution. The 1.5kg Hemp Gold protein tubs are now being sold in all Costco stores across Australia and online, in addition to the Essential Hemp branded hemp seeds which have been ranged by all Costco stores across Australia since late last year.

Furthermore, a new Asian export customer for HFA's Hemp Gold Seed Oil has been onboarded, further contributing to the quarter's growth profile.

On the back of continued investment in our digital capability, HFA's e-commerce channel has experienced continued growth, up 8% for the quarter and up 50% in comparison with Q1 FY20. All e-commerce metrics showed significant improvement throughout the quarter vs prior quarter. Sessions were up 9%, units per order improved by 30%, conversion improved by 3%, transactions increased 12% and average order value improved by 4%.

The new premium Hemp Gold product range consisting of protein powder and oil is performing well, accounting for 16% of quarterly revenues and continues to gain new distribution.

In June, Elixinol appointed Health House International (ASX: HHI) as exclusive distributor for its medicinal cannabis products formulated for the Australian pharmacy channel. The Distribution Agreement, with a two-year term, will expand Elixinol's reach into Australian doctors and 5,700 pharmacies and is aimed at providing products under the Therapeutics Goods Administration's (TGA) Special Access Scheme.

This agreement delivers on the Company's strategy to create a global wellness business by accessing the growing Australian market and utilising the Hemp Foods Australia business and corporate head office capabilities to grow the local business.

In light of the Health House Agreement, Elixinol decided to terminate its distribution agreement with PharmaCann Pty Ltd announced to the market on 27 July 2020.

Americas business grows as reset continues

In April 2021 Rob Hasselman was appointed as President Americas bringing with him 16 years of sales and marketing experience with Johnson & Johnson and was more recently Chief Marketing Officer at Ecofibre and VP of Sales for Present Life.

The Elixinol Americas business showed modest improvement through the quarter, up 4% (Q2 FY21: \$1,302k vs Q1 FY21: \$1,248k). Factors driving growth included the opening of bricks and mortar retail distribution and e-commerce performance.

E-commerce represented 59% of Americas revenues and delivered robust performance improvements throughout the quarter. As the result of improvements in driving better quality traffic to the Elixinol website and up-selling activities, customer conversion rates improved by 57% to 6.8% and average order value increased 5% compared to the prior quarter to US\$126 per transaction. Continued optimisation of the user experience also resulted in a 32% reduction in bounce rate² and averaged 29% throughout the quarter (>26% is considered

² Bounce rate is where a website user exits after viewing only a single page.

excellent). Site visitors spent on average over three minutes on the www.elixinol.com website which was a 37% improvement vs prior quarter.

Significant progress was also made in further reducing operating costs throughout the quarter. A new organisational structure was implemented which is expected to generate a further \$1.6m of annualised savings over the recent major cost-out program.

Throughout the quarter the Americas business also progressed the transition towards a fully outsourced supply and capital light model which is expected to be completed by Q1 FY22. In line with the strategy to transition towards a capital light, higher margin branded consumer goods model, Elixinol Americas is now operating on a much lower cost base with increased margins leading to significant profitability improvements. The reset Americas business is now under new leadership, has a robust e-commerce baseline trend emerging, and further supply chain optimisation initiatives are on foot to contribute to an overall improving outlook.

Recent market data shows an improving market and category outlook. Although the CBD category has not yet returned to pre-pandemic levels, we do see an increasing consumer acceptance and use of CBD products combined with improving retail foot traffic. Additionally, multiple congressional bills are in process to accelerate positive regulatory change.

Regulatory uncertainty stifles UK CBD market

After a stronger end to the March quarter, dynamics in the UK shifted again during Q2 FY21, driven by a stalled UK regulatory process creating uncertainty for CBD products.

As previously announced, the Company, under its European Industrial Hemp Association (EIHA) Novel Food consortium membership, successfully submitted its Novel Food Application allowing products to remain in distribution whilst the UK Food Safety Authority (FSA) processes applications. Despite industry expectations, the FSA has not been able to process Novel Food Application submissions leaving brands and retail customers uncertain which products will be able to remain in distribution. Feedback from major UK retailers through the period has highlighted a reluctance to place replenishment orders or consider new listings until the FSA publishes a list of authorised CBD products.

As a result of long-suppressed trading periods due to COVID-19 and the lack of regulatory clarity in the UK, a glut of competitor products is now available at clearance pricing. This also led to Holland & Barrett to discontinue the product range of our largest UK based private label customer. These reasons led to the European business reporting lower revenues for the quarter (Q2 FY21: \$117k vs Q1 FY21: \$215k).

The Company will continue to engage with the FSA through this process via the EIHA consortium and hopes to see the regulatory landscape become clearer in the near term. Elixinol Europe is taking action by reducing consumer price points and lowering operating costs to navigate through this challenging period.

CannaCare acquisition mutually terminated

On 29 June 2021, it was announced that Elixinol Wellness and the shareholders of CannaCare Health GMBH had mutually agreed to terminate the acquisition originally proposed and announced via the ASX 15 March 2021.

The Termination and Withdrawal Agreement provides for the parties to be mutually released from any claims and obligations in connection with the Share Purchase Agreement and its termination.

Elixinol changes its name

On 17 May 2021, the Company announced it would change its name to Elixinol Wellness, representing its evolution to a global, natural health and wellness consumer products business. The new name will be implemented across the Company's wholly owned subsidiaries throughout the 2021 calendar year.

Appendix 4C commentary

During the quarter the Company reported operating cash expenditures excluding non-recurring costs of \$5.8m, representing an 8% reduction, compared with the previous quarter (Q1 FY21: \$6.3m) and a 38% reduction vs PCP (Q2 FY20: \$9.3m). These expenditures were directed towards increasing 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 \$3.0m, Europe \$1.0m, Australia \$1.0m, Corporate \$0.8m.

The Company also incurred non-recurring costs through the quarter of \$0.7m which included \$0.5m transaction costs and \$0.2m severance costs due to the restructuring of the Americas organisation. In conjunction with the termination of the proposed acquisition, which was announced 29 June 2021, the shareholders of CannaCare have agreed to pay a reimbursement to the Company of €360k (approximately \$0.5m) in respect of costs incurred to date. The Company expects to receive these funds during Q3 FY21.

The Company reported payments to related parties totalling \$161k. 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:

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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

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 2021

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	2,471	5,057
1.2 Payments for		
(a) research and development	-	
(b) product manufacturing and operating costs	(1,211)	(2,733)
(c) advertising and marketing	(631)	(1,464)
(d) leased assets	(94)	(187)
(e) staff costs	(2,405)	(4,755)
(f) administration and corporate costs	(1,489)	(2,958)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	14	29
1.5 Interest and other costs of finance paid	(14)	(30)
1.6 Income taxes received	55	55
1.7 Government grants and tax incentives	10	52
1.8 Other – non-recurring transaction and severance costs	(699)	(1,031)
1.9 Net cash from / (used in) operating activities	(3,993)	(7,965)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(110)	(142)
(d) investments	-	-
(e) intellectual property	(2)	(65)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	25	25
	(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	(87)	(182)
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	-	(110)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(231)	(500)
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	(231)	(610)
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	23,295	27,743
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,993)	(7,965)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(87)	(182)

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

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)	(231)	(610)
4.5	Effect of movement in exchange rates on cash held	(19)	(21)
4.6	Cash and cash equivalents at end of period	18,965	18,965

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	18,965	23,295
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)	18,965	23,295

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	161
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)	(3,993)
8.2 Cash and cash equivalents at quarter end (item 4.6)	18,965
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	18,965
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	4.75
<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: 22 July 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.