



1. Company details

Name of entity:	Elixinol Wellness Limited
ABN:	34 621 479 794
Reporting period:	For the year ended 31 December 2022
Previous period:	For the year ended 31 December 2021

2. Results for announcement to the market

The directors present this Appendix 4E on the consolidated entity (referred to as the 'Group') consisting of Elixinol Wellness Limited (referred to as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2022.

			\$'000
Revenues from ordinary activities	down	24.4% to	7,055
Loss from ordinary activities after tax attributable to the owners of Elixinol Wellness Limited	down	37.9% to	(10,571)
Loss for the year attributable to the owners of Elixinol Wellness Limited	down	37.9% to	(10,571)
			2022 Cents
Basic loss per share			(3.34)
Diluted loss per share			(3.34)
			2021 Cents
			(5.41)
			(5.41)

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the Group after providing for income tax amounted to \$10,571,000 (31 December 2021: \$17,025,000).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>3.04</u>	<u>6.17</u>
Calculated as follows:		
	2022 \$'000	Group 2021 \$'000
Net assets	9,158	19,077
Less: Right-of-use assets	(737)	(1,173)
Less: Intangibles	(152)	(463)
Add: Lease liabilities	1,334	2,037
Net tangible assets	<u>9,603</u>	<u>19,478</u>
Total shares issued (no.)	<u>316,132,461</u>	<u>315,778,066</u>



4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to (loss)/profit (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
- Altmed Pets LLC ("Pet Releaf")	25.43%	25.43%	(73)	(121)
<i>Group's aggregate share of associates and joint venture entities' (loss)/profit (where material)</i>				
(Loss)/profit from ordinary activities before income tax			(73)	(121)

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unmodified opinion has been issued.

11. Attachments

Details of attachments (if any):

The Annual Report of Elixinol Wellness Limited for the year ended 31 December 2022 is attached.



12. Signed

Authorised for release by the Board of Directors

27 February 2023



Elixinol Wellness Limited

(Formerly known as Elixinol Global Limited)

ABN 34 621 479 794

Annual Report - 31 December 2022



Directors' report	2
Auditor's independence declaration	24
Consolidated statement of profit or loss and other comprehensive income	25
Consolidated statement of financial position	26
Consolidated statement of changes in equity	27
Consolidated statement of cash flows	28
Notes to the consolidated financial statements	29
Note 1. General information	29
Note 2. Significant accounting policies	29
Note 3. Critical accounting judgements, estimates and assumptions	38
Note 4. Operating segments	39
Note 5. Revenue	41
Note 6. Other income	42
Note 7. Expenses	43
Note 8. Income tax	44
Note 9. Cash and cash equivalents	44
Note 10. Trade and other receivables	45
Note 11. Inventories	46
Note 12. Prepayments, deposits and other	46
Note 13. Investments accounted for using the equity method	46
Note 14. Property, plant and equipment	48
Note 15. Right-of-use assets	49
Note 16. Intangibles	50
Note 17. Trade and other payables	51
Note 18. Contract liabilities	51
Note 19. Borrowings	51
Note 20. Lease liabilities	52
Note 21. Issued capital	52
Note 22. Reserves	53
Note 23. Dividends	53
Note 24. Financial instruments	53
Note 25. Fair value measurement	56
Note 26. Remuneration of auditors	57
Note 27. Contingent liabilities	57
Note 28. Commitments	57
Note 29. Key management personnel disclosures	57
Note 30. Related party transactions	58
Note 31. Parent entity information	58
Note 32. Interests in subsidiaries	59
Note 33. Deed of cross guarantee	60
Note 34. Cash flow information	60
Note 35. Earnings per share	61
Note 36. Share-based payments	61
Note 37. Events after the reporting period	63
Directors' declaration	64
Independent auditor's report to the members of Elixinol Wellness Limited	65
Shareholder information	69
Corporate directory	71



The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'Elixinol Wellness') consisting of Elixinol Wellness Limited (referred to hereafter as 'Elixinol Wellness Limited', the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2022.

Directors

The following persons were directors of Elixinol Wellness Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Helen Wiseman	Independent Non-Executive Director and Chair
David Fenlon	Independent Non-Executive Director (effective 28 March 2022)
Paul Benhaim	Non-Executive Director
Oliver Horn	Non-Executive Director (effective 8 April 2022) Former Executive Director and Former Global Chief Executive Officer (ended effective 8 April 2022)

Principal activities

The principal activities of the Company during the year relate to its operation as a holding company for each of Elixinol LLC ('Elixinol Americas'), Elixinol Wellness (Byron Bay) Pty Ltd trading as Hemp Foods Australia ('Hemp Foods Australia') and Elixinol BV and Elixinol Limited (together 'Elixinol Europe').

The principal activities of the Group are:

Elixinol Americas (hemp-derived cannabidiol ('CBD') dietary supplements and topicals)

Elixinol Americas is based in Colorado USA, and was established in 2014 and specialises in innovating, marketing and distribution of products made from premium quality, predominantly 'whole plant' full spectrum CBD, which is extracted from US grown industrial hemp.

Hemp Foods Australia (hemp-derived foods and skincare products)

Hemp Foods Australia is currently based in Byron Bay Shire, New South Wales, Australia, and was founded in 1999 to manufacture, market and distribute hemp-derived food, supplements and skincare products. Hemp Foods Australia distributes mainly within Australia but also supplies to export markets.

Rest of World (hemp-derived cannabidiol ('CBD') food and cosmetics)

Rest of World includes Elixinol Europe, which is based in Utrecht, The Netherlands, and in London, United Kingdom. Elixinol Europe was established in 2018 to specialise in the development, sourcing, marketing and distribution of hemp-derived CBD products including skincare. In 2021, the operations ceased and the business model moved to a licensing model that includes Elixinol Europe, Japan, South Africa and pending approval in Malaysia.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

Operating and financial review

The loss for the Group after providing for income tax and non-controlling interest amounted to \$10,571,000 (31 December 2021: \$17,025,000).

The Group's revenues from continuing operations for the year ended 31 December 2022 were \$7,055,000 (31 December 2021: \$9,338,000).

The Group's earnings before interest, tax, depreciation and amortisation ('EBITDA') from continuing operations, including share of associates' net loss and excluding impairments and share-based payments, for the year ended 31 December 2022 was an Adjusted EBITDA loss of \$8,538,000 (31 December 2021: Adjusted EBITDA loss of \$11,496,000). EBITDA and Adjusted EBITDA are financial measures which are not prescribed by Australian Accounting Standards ('AAS') and represent the statutory result under AAS, adjusted for certain items. The directors consider EBITDA and Adjusted EBITDA to reflect the core earnings of the Group.



A reconciliation of Adjusted EBITDA from continuing operations to statutory loss is detailed below:

	2022 \$'000	Group 2021 \$'000
Loss after income tax	(10,571)	(17,025)
<i>Add back/(deduct):</i>		
Income tax expense/(benefit)	2	(65)
Finance costs	71	92
Interest income	(22)	(47)
Depreciation and amortisation	721	1,490
EBITDA	<u>(9,799)</u>	<u>(15,555)</u>
<i>Add back/(deduct):</i>		
Impairment of intangibles	234	186
Impairment of other assets	786	3,679
Share-based payments	241	194
Adjusted EBITDA	<u><u>(8,538)</u></u>	<u><u>(11,496)</u></u>

The Group cash flow used in operations for the year ended 31 December 2022 was \$8,152,000 (31 December 2021: \$14,071,000), which included \$190,000 non-recurring transaction costs.

The Group recognised non-cash impairments of intangibles (including goodwill) of \$234,000 (31 December 2021: \$186,000) for the year ended 31 December 2022, relating to the Elixinol Americas cash-generating unit ('CGU').

The Group recognised non-cash impairments of other assets of \$786,000 (31 December 2021: \$3,679,000) for the year ended 31 December 2022 relating to inventory and fixed assets.

Americas

The Americas segment comprises the trading results of Elixinol LLC ('Elixinol Americas') and its investment in Altmed Pets LLC (trading as Pet Releaf).

The Americas reported revenue of \$3,318,000 for the year ended 31 December 2022 (2021: \$4,783,000) and Adjusted EBITDA loss of \$3,568,000 for the year (2021: \$5,492,000 Adjusted EBITDA loss).

Throughout 2022, Elixinol Americas continued to implement an aggressive transformation agenda. The business was focused on improving profitability, achieved by the accelerated move towards an outsourced capital light model, a reduction in operating expenditures and a further shift toward higher margin consumer channels, such as e-commerce.

The transition to a fully outsourced supply chain was completed at the end of FY2021, with inhouse warehousing and fulfilment moving to the third-party model during the first quarter of FY2022. This resulted in further operating cost efficiencies across the year, resulting in annualised savings of \$3.3 million, from the prior year.

The Americas' full-time equivalent ('FTE') head count was reduced from 29 to 9, contributing materially to the Company's overall reduction in quarterly cash outflows by \$1.2 million comparing Q4 FY2022 to Q4 FY2021. Despite these budget and team reductions, the e-commerce business saw growth every quarter.

Elixinol Americas continued to optimise its online presence via the Shopify e-commerce platform. As a result of the Group's focused strategy on higher margin e-commerce channels and the increased demand for online shopping in the post COVID-19 environment, online sales now represent approximately 70% of US revenues (FY2021: 63%).

Elixinol's loyalty program exceeded expectations with a participation rate of 6.7%, delivering \$397,000 in revenue. The brand's subscription program doubled in size, ending the year with more than 1,000 subscriptions and accounting for 21% of the eCommerce annual revenue.



In line with its ongoing product development strategy, a number of innovative products were launched in FY2022. In Q1 FY2022, Elixinol launched two new sleep products: the Sleep Rapid Reset Liposome and Sleep THC Free1 gummies. The Sleep Rapid Reset Liposome and Sleep THC Free1 gummies are unique, melatonin-free options for consumers to support optimal sleep. Both products contain CBD and CBN, marking it a first for the brand to include a minor cannabinoid into product formulations. Through Q3 and Q4 FY2022 new Everyday Extra Strength 25mg gummies and Everyday Adaptogen Complex CBD capsules, containing reishi mushroom, ginseng and ginkgo, were launched to expand this range.

Toward the end of December 2022, Elixinol Americas launched two new hemp-derived minor cannabinoid products, THCV and CBD + Delta-9 gummies, which have both performed strongly and quickly moved into the top 5 best-selling SKUs by revenue/units sold.

During the prior year, Elixinol Americas 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 31 December 2022 totals approximately \$1.6m (US\$1.2m). Under additional COVID-19 relief measures, Elixinol Americas also lodged an application for refund of taxes paid in prior years of \$0.5m (US\$0.3m). Due to an extensive processing backlog at the Internal Revenue Service (IRS) only \$0.8m was received during 2022 and \$1.0m was received in January 2023. The remaining balance of \$0.5m is now expected to be received in Q1 FY2023.

Australia

The Australian segment comprises the continuing trading results from Elixinol Wellness (Byron Bay) Pty Ltd trading as Hemp Foods Australia ('Hemp Foods Australia').

Australia reported revenue of \$3,691,000 for the year ended 31 December 2022 (31 December 2021: \$4,086,000) and Adjusted EBITDA loss of \$704,000 (31 December 2021: \$203,000 Adjusted EBITDA loss).

In H1 FY2022, Hemp Foods Australia's operational improvement initiatives and growth trajectory halted due to normal seasonality challenges and amidst a new wave of COVID-19 infections at the beginning of the year. The Company's Byron Bay facility was also impacted by the floods in Australia's Northern NSW region, resulting in some operational delays due to workforce availability. However, from Q2 FY2022, trading conditions improved, supported by new product launches and a review of distribution arrangements.

The expansion of distribution arrangements also supported a rebound later in the reporting period, with hemp seed products confirmed for a new Costco store that opened in Auckland, New Zealand, in August 2022. Revenue grew in the second half, up 18.6% for H2 FY2022 (\$2.0m) over H1 FY2022 (\$1.7m).

During the year, a fourth product in HFA's successful range of protein powders was made available - the Mixed Berry flavoured hemp protein was launched as a smooth blend of antioxidant-rich acai and premium-grade Hemp Gold® Protein.

In addition, a seed mix range of four SKUs was also launched and ranged in 830 Coles stores nation-wide in September 2022. This range continues to perform strongly. An additional two SKUs are in the process of being developed to support and extend the range.

In December 2021, Hemp Foods Australia submitted a New Ingredient Application for its Hemp Seed Oil (HSO) with the Australian regulator, the Therapeutic Goods Administration (TGA). On 29 November 2022, Hemp Foods Australia received the TGA's approval of its application, which means Hemp Seed Oil is now accepted as safe and of appropriate quality to be a 'permissible ingredient' in Listed Medicines (being therapeutic goods listed in the Australian Register of Therapeutic Goods).

The Therapeutic Goods (Permissible Ingredients) Determination was also subsequently updated to include Hemp Seed Oil. The Therapeutic Goods (Permissible Ingredients) Determination (No. 5) 2022 has now been published on the Federal Register of Legislation, with a commencement date of 29 November 2022.

As a result, Hemp Foods Australia has been afforded a two-year period of 'market exclusivity' to use and supply the ingredient for listed complementary medicines in the Australian market. This exclusivity provides a first mover advantage and serves as a point of differentiation with competitors and will enable Hemp Foods Australia to exclusively produce, sell and/or licence products that include the Hemp Seed Oil ingredient for two years with exclusivity to make claims on those products over that period. Taking advantage of this position, the Company plans to launch an entirely new range of Hemp Seed Oil capsules in the coming months expected to be released in H1 FY2022.



Following the stocking of Hemp Food Australia's certified organic 250ml Hemp Gold Seed Oil in more than 100 Woolworths stores in FY2021, the Company has received confirmation that distribution of the oil is going national, with the product to be stocked across 948 Woolworths stores from February 2023.

Rest of World

The Rest of World segment comprising Elixinol BV, Elixinol Limited and licensing agreements from Elixinol Wellness (Corporate Services) Pty Ltd ('Rest of World') reported revenue of \$46,000 for the year ended 31 December 2022 (31 December 2021: \$469,000) and Adjusted EBITDA loss of \$135,000 (31 December 2021: \$2,321,000 Adjusted EBITDA loss).

During the prior year, the difficult decision to close the Group's own European operations and transition to a licensing model in the region was made. Subsequently Elixinol Wellness secured a three-year exclusive Trademark and Know-how Licensing Agreement with the UK's largest CBD manufacturer and distributor, BRITISH CANNABIS™, at the end of 2021. The deal enables BRITISH CANNABIS™ to manufacture, market and sell Elixinol CBD products across the UK, ensuring the Elixinol brand continues to be distributed in the market while realising significant cost savings for the Group.

During the year licensing revenues of \$46,000 from our partnership with Elixinol Japan was received.

Share of associates' loss

Share of associates loss during the year ended 31 December 2022 was \$73,000 (31 December 2021: \$121,000 loss).

Review of financial position

As at 31 December 2022 the net assets of the Group were \$9,158,000, including \$2,864,000 in cash and cash equivalents. The key impact during the period was total comprehensive loss of \$10,160,000.

Business strategies and future prospects

Refined strategic focus following strategic review completed during the year

The Company has been repositioned towards a branded consumer goods business over the last few years, leading to improved fundamentals with substantial cost reductions and improved cash-flows. The Company's strategy is to build a global, hemp-centric wellness consumer products company, with a stated vision of creating a healthier everyday life through the power of hemp and plant-based products.

As the Company completed a strategic review process during 2022, it confirmed it will focus its investments on its core assets of Hemp Foods Australia and Elixinol America who are both well positioned with strong brands, occupying positions of strategic value as the industry continues to evolve. The strategic review process also resulted in 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 focused on driving the already identified cost efficiencies and simplifying the business to strengthen its balance sheet and further enhance strategic value.

On 29 November 2022, the Company announced it will implement schemes of arrangement with The Sustainable Nutrition Group Ltd (ASX: TSN) (TSN) to acquire 100% of TSN's ordinary shares and effect an exchange of options, to further support the focus on strong brands and a position of strategic value and will result in the Group owning and operating brands across four key verticals: plant-based food and nutrition, hemp-based nutraceuticals (including cannabinoids such as CBD), pet nutritional supplements and skin health. TSN brands include Australian Primary Hemp, Mt Elephant, Field Day and The Australian Superfood Company.

The Company will maintain a watching brief in relation to potential investments in the Rest of the World, which will depend on progress there in relation to the regulatory environment relating to hemp-based products. It currently has licencing arrangements in place in the UK, Japan, Malaysia and South Africa.

Vision and mission

The Company's vision, ambition, and purpose are the cornerstone of its strategy, which is underpinned by the following:

Company Vision:	To create a healthier everyday life through the power of hemp and plant-based products.
Ambition:	Build a global, hemp-centric wellness consumer products company.
Purpose:	Changing lives naturally.



Key strategic objectives identified

The Group remains positive about the market opportunity for hemp-derived food and CBD products, and its ability to leverage its strong brands and reputation for high quality products. The Group has positioned its strategy towards a branded consumer goods nutraceutical and food business aimed at delivering profitable growth. The Group's strategic focus is predicated on the following strategic initiatives to support revenue growth and margin improvement:

- Continue to operate the Elixinol Americas business with a lean and capital light business model;
- Bring to market an extensive new product development pipeline through innovation in functional plant-based foods and CBD nutraceuticals;
- Merge the The Sustainable Nutrition Group ('TSN') business (proposed acquisition announced 29 Nov 2022) with the Australian hemp foods product offering to realise synergies and economics of scale and broaden national retail distribution through Woolworths, Coles, Costco and pharmacy chains;
- Relentless focus on improving capital efficiency - long term focus on improving cash flow, driving margin accretion and tightly controlling expenditures;
- Continued investment in building global brands in core markets of Australia and US and maintain brand presence in other select markets; and
- Develop an Environmental Social Governance ('ESG') agenda to support our purpose of 'doing good for people and the planet through the power of hemp'.

Principal risks and uncertainties

Elixinol Wellness operates in a dynamic and evolving environment of health and wellness. Our operations, domestic and international and digital continue to present both inherent and strategic opportunities and risks that could materially impact the business. The management of the business and the execution of the Group's growth strategies are subject to a number of risks which could adversely affect the Group's future development. Part of a strong governance framework is understanding the risks that have the potential to have the greatest impact on our business. The following is not an exhaustive list or explanation of all risks and uncertainties associated with the Group, but those considered by management to be the principal risks, which may impact the operations or results of the Group:

Coronavirus (COVID-19)

The ongoing COVID-19 pandemic has had a significant impact on the global economy and the ability of individuals, businesses, and governments to operate. The effects of the pandemic are widespread and continue to evolve, with ongoing health, economic and social consequences.

Across the globe, travel, trade, business, working arrangements and consumption have been materially impacted by the pandemic. The length and duration of the current pandemic and the economic impact remain uncertain. There continues to be uncertainty as to the lingering effects of the COVID-19 pandemic, including in relation to cost pressures, rising transport and energy costs, increases in raw material pricing, government, regulatory or health authority actions, tight labour markets and supply chain challenges.

The impact of some or all of these factors could cause an adverse impact to the Group's financial performance. Furthermore, as an international business supplying products to various markets globally, the pandemic and associated long term impacts could necessitate further capital requirements and/or support (either on a standalone basis or concurrently), which creates additional challenges and risks for the financial position of the Group.

In addition, the Group's financial position may be adversely impacted if suppliers (including its counterparties, suppliers of IT services, and other suppliers of products and services) are unable to successfully implement business continuity plans in the current environment or if any such suppliers are unable to continue as going concerns as a result of the economic impact of COVID-19 or further virus outbreaks.

However, the extent of the impact on our business, results of operations, financial condition, liquidity and cash flows is largely dependent on future developments, which are highly uncertain and not predictable, including the long term consequences of COVID-19 and actions taken to address its impact. Moreover, changes in interest rates, reduced liquidity or a continued slowdown in Australia and the United States, or global economic conditions may also adversely affect our business, financial condition, results of operations, liquidity or prospects. Further, extreme market volatility may result in us being unable to react to market events in a prudent manner.



Agricultural risk and climate change risk

The Group is exposed to the short, medium and long-term climate change and environment related risks, particularly given the Group's businesses are reliant on agricultural products. Specific risks include physical climate-related event risks, extreme weather events, increased volatility and change in weather patterns including drought, floods and bushfires, restricted availability and use of water in manufacturing activities, treatment and disposal of waste from manufacturing processes, increased energy costs and force majeure events. These risks could adversely affect the Group's operations, business practices, financial performance and reputation if not adequately managed.

Consumer and marketplace

Unanticipated changes in consumer preference and demand, or competitive pressures that significantly alter the landscape, such as online channel growth, acquisitions and aggressive price wars, can have adverse effects on the businesses ability to capture growth opportunities or effectively manage inventory and supply.

Supplier arrangements

The Group relies on several key supplier arrangements to supply raw materials and manufacturers of out-sourced finished goods products. The failure to maintain long term contracts with these suppliers may impact the Group's ability to maintain consistent supply levels and meet the customer demand, thereby having a financial impact.

Risk of adverse events, product liability or other safety issues

As with all food or nutraceutical products, there is a risk that the products sold by the Group could cause serious or unexpected side effects, including risk or injury to consumers. Should any of the Group's products be associated with safety risks such as misuse or abuse, inadvertent mislabelling, tampering by unauthorised third parties, or product contamination or spoilage, several materially adverse outcomes could occur, including:

- Regulatory authorities may revoke any approvals that have been granted, impose more onerous facility standards or product labelling requirements, or force the Group to conduct a product recall;
- The Group could be subject to regulatory action or be sued and held liable for any harm caused to customers; or
- The Group's brands and reputation could be damaged.

These may all impact the financial performance and position of the Group.

Systems, security and data privacy

While the Group has policies and procedures in place to address system security and data risks, there is a risk that these may not be adequate, which could adversely affect the Group's reputation and financial position. There is also a risk that systems are not scalable or have the ability to leverage the synergies of the different businesses across the Group. This may lead to an operational and financial impact and loss in revenue and profitability.

Key management personnel and employees

The Group relies upon its ability to attract and retain experienced and high performing executives and other employees. The failure to achieve this may impact upon the Group's ability to develop and meet its strategies, and may lead to a loss in revenue and profitability.

Change to laws or regulations

Elixinol Wellness operates in a highly regulated industry in all markets in which goods are manufactured and sold. Changing geopolitical landscapes and regulations in each of these jurisdictions may impact many aspects of our operations and all aspects of the supply chain. Remaining compliant with and responsive to changes requires diligent monitoring and responsiveness by the business.

The Group could be adversely affected by changes in laws, regulations or regulatory policy in the jurisdictions in which it operates. The operations and proposed operations of Elixinol Wellness are subject to a variety of laws, regulations and guidelines related to the retail sale of hemp-derived products. The hemp-derived CBD industry is evolving globally, including in the USA and in Europe and the UK. It is likely that governments worldwide will continue to explore the benefits, risks and operations of companies involved in the hemp sector.

Elixinol Wellness' business, prospects, reputation, performance and financial condition could all be affected by changes to law and regulation, changes to policies, and changes in the supervisory activities and expectations of its regulators across all of the jurisdictions in which it operates. In particular, the regulation of hemp is developing and, as a result, a change in government or increase in political lobbying may result in a change in government policy and an amendment of legislation and/or regulation. For example, there is a risk that the allowable levels of THC in hemp products sold in the US may change. This could potentially result in additional processing costs for the Group and impact the Company's overall financial performance.



There is a further risk that the US Food and Drug Administration ('FDA'), the regulator which regulates ingestible and topical products including CBD products, may seek to change the laws and regulations governing the manufacturing and marketing of CBD products in the US. This could include current good manufacturing practice ('CGMPs') regulation, nutrition and allergen labelling, and label claim regulations and safety requirements including, as applicable, new dietary ingredient ('NDI') and generally recognised as safe ('GRAS') regulations. In the US, given that many of the applicable laws and regulations are determined at the state-level, there is also a risk that the regulatory regime governing the Group's US operations and distribution network becomes further fragmented and difficult to comply with. The introduction of new legislation or amendments to existing legislation by governments, or the respective interpretation of the legal requirements in any of the legal jurisdictions which governs the operations or contractual obligations of Elixinol Wellness, could impact adversely on the assets, operations, and the financial performance of the Group and the industry in general.

The Group is well positioned to capitalise on favourable long-term trends in the hemp-based wellness products segment and as the regulatory environment in which the Group operates continues to evolve, the Group is exploring strategic opportunities including product expansion beyond the Group's traditional hemp-based, CBD wellness products.

Regulatory compliance and the management of regulatory change are an important part of Elixinol Wellness' planning processes. Elixinol Wellness will continue to invest in compliance with and the management of regulatory change and, at the same time, significant management attention and resources will be required to update existing or implement new processes to comply with new regulations (such as obligations to provide certain data and information to regulators) or new interpretations of existing laws or regulations. The failure of Elixinol Wellness to appropriately manage regulatory change, including failing to implement effective processes to comply with new regulations, could in the future result in Elixinol Wellness failing to meet a compliance obligation.

To the extent possible, these risks are managed on an ongoing basis. The Group's overall management of risk is governed by the Group's Risk Management Framework. The Audit & Risk Committee has oversight of the operation of the Risk Management Framework and the management of risk across the Group. Mitigation measures and strategies to address the risks are maintained and regularly reviewed, including via regular reporting to the Board.

Significant changes in the state of affairs

Following the resignation of Mr Oliver Horn as Global Chief Executive Officer which became effective on 8 April 2022, Mr Ron Dufficy, the Company's Global Chief Financial Officer, was appointed as Interim Global Chief Executive Officer effective the same date. In addition, Ms Josephine Lorenz was appointed as Global Chief Financial Officer effective the same date.

On 29 July 2022, Mr Ron Dufficy was appointed Global Chief Executive Officer following the completion of the strategic review.

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

Matters subsequent to the end of the financial year

On 29 November 2022, The Company announced that it entered into a binding scheme implementation deed with The Sustainable Nutrition Group Ltd (ACN 071 666 334) (ASX: TSN) ('TSN'), under which it is proposed that Elixinol Wellness will acquire 100% of the shares in TSN and exchange 100% of TSN Scheme Options by way of Schemes of Arrangement, in exchange for 1.1225 EXL shares and 1.1225 EXL options per TSN share and TSN Scheme Option respectively. Current Elixinol Wellness shareholders will hold 70% of the issued capital of EXL following the implementation of the schemes. The schemes require regulatory and shareholder approvals.

On 30 November 2022, the Company announced the proposed issue of 9,036,068 performance rights to Canaccord for consideration of services provided to TSN as TSN's exclusive financial adviser in connection with the scheme implementation deed announced on 29 November 2022 with the Company. The performance rights have not yet been issued but are expected to be issued following the completion of the schemes.

On 14 February 2023, the Company announced that the dispute between CannaCare Health GmbH ('CannaCare') and the Company's wholly owned subsidiary, Elixinol BV, has now been successfully concluded, with the Arbitration Award made in the Company's favour and the Arbitrator ordering a final Award of approximately 543,000 EUR (\$835,000). The Arbitration Award is vindication of the Company's position that it was owed the payments the subject of the arbitration and that the claims made by CannaCare's shareholders were without merit.

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.



Likely developments and expected results of operations

Elixinol Wellness remains positive on the long term market opportunity for hemp-derived CBD and food products and its ability to leverage its strong reputation for high quality products. Throughout a prolonged period of regulatory change and uncertainty, Elixinol Wellness has refined its strategy to ensure it operates efficiently and effectively in the current market and regulatory environment as well as anticipating and pursuing longer term opportunities. Elixinol Wellness' strategic focus is now predicated on the following key pillars to support revenue growth and margin improvement:

- Bringing to market an extensive new product pipeline to generate growth at premium margins;
- Significant reduction of corporate and head office expenses;
- Further optimisation of Elixinol Americas operations to reduce cost;
- Seeking new opportunities to increase scale of the US business whilst continuing to lower its cost base;
- Consolidation of the TSN and hemp foods operation and product offering to participate in healthy plant-based food occasions;
- Relentless focus on improving capital efficiency with a long term focus on improving cash flow, driving margin accretion and tightly controlling expenditures;
- Continued investment in building global brands in core markets of Australia and US and maintain brand presence in other select markets;
- Continued shift towards a digitally led global business with revenues from e-commerce representing a growing proportion of overall sales in the Americas business; and
- Supply chain optimisation - seeking new opportunities to shorten supply chain and reduce cost of goods.

Also refer to 'Business strategies and future prospects' included under 'Review of operations' section above.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State/Territory laws.

Information on directors

Name:	Helen Wiseman
Title:	Independent Non-Executive Director and Chair
Qualifications:	Chartered Accountants Australia and New Zealand – Fellow, Graduate of the Australian Institute of Company Directors, Certified Director, INSEAD International Directors Programme
Experience and expertise:	Helen Wiseman is a Non-Executive Director and audit committee specialist with extensive international experience in food, pharmaceutical, natural healthcare, professional services, energy and natural resources and manufacturing industries. Helen is a former KPMG partner and brings extensive financial and commercial acumen, strategic risk oversight and seasoned global governance skills to the board. Helen was previously named as one of the 2014 Australian Financial Review and Westpac 100 Women of Influence.
Other current directorships:	Bid Corporation (JSE: BID)
Former directorships (last 3 years):	None
Special responsibilities:	Chair of Audit and Risk Committee and Member of Remuneration and Nomination Committee
Interests in shares:	280,132 ordinary shares
Interests in rights:	1,043,424 performance rights



Name: **David Fenlon**
Title: Independent Non-Executive Director (effective 28 March 2022)
Qualifications: B.Bus
Experience and expertise: David Fenlon has over 30 years of world-wide experience in the FMCG and consumer sectors. He is currently CEO of The Platform Alliance Group, Non-Executive Chair for Nutritional Growth Solutions (ASX: NGS) and Non-Executive Director of Quest for Life Foundation. He was previously Group CEO and Managing Director of BWX Limited (ASX: BWX), and prior to that, was Managing Director for Australia and New Zealand at Blackmores Limited (ASX: BKL). David has worked with leading retail brands both in Australia and offshore, with a strong focus on strategic planning and business transformation. David's experience also includes holding key positions in Tesco throughout Europe and Safeway in the UK and he was a member of the Board of Directors for the Special Olympics from May 2017 until June 2019.

Other current directorships: Nutritional Growth Solutions (ASX: NGS)
Former directorships (last 3 years): BWX Ltd (ASX: BWX)
Special responsibilities: Chair of Remuneration and Nomination Committee and Member or Audit and Risk Committee

Interests in shares: None
Interests in rights: 465,753 performance rights

Name: **Paul Benhaim**
Title: Non-Executive Director
Experience and expertise: Paul has over 26 years' experience in the hemp industry and is the co-founder of Elixinol, Elixinol Australia and Hemp Foods Australia. Paul is considered an expert in the industrial hemp industry and frequently presents at industry conferences globally. He has also played a role in shaping regulation around cannabis laws.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of Remuneration and Nomination Committee
Interests in shares: 29,209,217 ordinary shares
Interests in rights: 652,566 performance rights

Name: **Oliver Horn**
Title: Non-Executive Director (effective 8 April 2022)
Former Executive Director and Former Global Chief Executive Officer (ended effective 8 April 2022)

Qualifications: BSc degree, GAICD
Experience and expertise: Oliver Horn currently holds the role of MD & CEO of Nutra Organics Pty Ltd. Oliver Horn previously held the role of the Company's Global CEO and Executive Director and prior to that, Oliver was the CEO of Swisse Wellness for Australia and New Zealand (ANZ) and North America. Oliver has extensive senior operational leadership experience including holding roles at Treasury Wine Estates across ANZ, Europe, Middle East and Africa. With an established track record for exponential growth in established and emerging markets, Oliver has extensive experience in building premium global consumer brands, a deep knowledge of the vitamins, minerals and supplements (VMS) category, a track record of premium brand building and a passion for creating businesses with a positive and thriving workplace culture.

Other current directorships: None
Former directorships (last 3 years): Non-Executive Director of Aumake Ltd (ASX: AUK) (Nov 2019 - Oct 2020)
Special responsibilities: Member of Audit and Risk Committee
Interests in shares: 1,203,971 ordinary shares
Interests in rights: None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.



Executives

Global Chief Executive Officer

Name: **Ron Dufficy**
Title: Global Chief Executive Officer (effective 29 July 2022)
Interim Global Chief Executive Officer (effective 8 April 2022)
Former Global Chief Financial Officer (ended effective 8 April 2022)
Qualifications: BEc, MCom, FCPA
Experience and expertise: Ron is a senior finance executive having held various financial leadership roles with ASX-listed companies such as CSR Ltd (ASX: CSR) and Aristocrat Leisure Ltd (ASX: ALL). Ron has significant experience in regulated markets including being based in the USA for 9 years, most recently as Chief Financial Officer for Aristocrat's largest and most profitable division, responsible for developing and implementing strategies to improve profit margins, grow market share and creating a global shared services organisation. Ron joined the Company in 2017 with a focus on the administrative, financial, and risk management operations of the Group.

Global Chief Financial Officer

Name: **Josephine Lorenz**
Title: Global Chief Financial Officer (effective 8 April 2022)
Qualifications: BCom, Chartered Accountants Australia and New Zealand – Fellow
Experience and expertise: Josephine has over 20 years' global finance experience, having held senior finance positions in various sectors including the role of Group Financial Controller for Network Ten and Nine Entertainment Co. (ASX: NEC). She was also formerly the Head of Finance at Independent Television News Limited in London and has held various roles at Deloitte in both London and Melbourne, Australia. Josephine joined Elixinol Wellness in November 2017.

Company secretaries

Name: **Teresa Cleary**
Title: Group General Counsel and Joint Company Secretary
Qualifications: LLB BA GAICD FGIA
Experience and expertise: Teresa joined the Company on 4 November 2019 and is an experienced corporate lawyer and governance professional with significant private practice and in-house experience which has included the role of Supervising Counsel at Telstra Corporation Limited and General Counsel & Company Secretary at the Australian Institute of Company Directors ('AICD'). Teresa's expertise includes managing legal and regulatory risk, corporate advisory, commercial negotiations, dispute resolution and commercial strategy. Teresa is a Fellow of the Governance Institute of Australia, a graduate of the AICD and she is an active member of the International Bar Association. Teresa is also a non-executive director of the Association of Corporate Counsel, Australia.

Name: **Kim Bradley-Ware**
Title: Joint Company Secretary
Qualifications: BCom, CPA, LLB
Experience and expertise: Kim has over 20 years' finance and governance experience in various listed and private companies, as well as in private practice. Prior to joining Company Matters, Kim worked with Pan Pacific Petroleum (an ASX and NZX listed entity) since 2001, most recently as CFO and Company Secretary. Prior to that Kim held various roles in accounting across a variety of different industries including credit reporting, telecommunications and media.



Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 31 December 2022, and the number of meetings attended by each director were:

	Attended	Full Board Held	Remuneration and Nomination Committee		Audit and Risk Committee	
			Attended	Held	Attended	Held
H Wiseman	30	30	2	2	4	4
D Fenlon	23	24	1	1	3	3
P Benhaim	29	30	2	2	4	4
O Horn	29	30	2	2	4	4

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



Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its regulations.

The remuneration report is set out under the following main headings:

- Key management personnel;
- Principles used to determine the nature and amount of remuneration;
- Linking remuneration and company performance;
- Details of remuneration;
- Service agreements;
- Share-based compensation; and
- Additional disclosures relating to key management personnel.

Key management personnel

Key management personnel ('KMP') are those persons having authority and responsibility for planning, directing and controlling the major activities of the entity, directly or indirectly, including all directors.

The KMP of the Group consisted of the following directors of Elixinol Wellness Limited:

- Helen Wiseman - Independent Non-Executive Director and Chair
- David Fenlon - Independent Non-Executive Director (effective 28 March 2022)
- Paul Benhaim - Non-Executive Director; and
- Oliver Horn - Non-Executive Director (effective 8 April 2022) and former Executive Director and former Global Chief Executive Officer (ended effective 8 April 2022)

And the following executives of Elixinol Wellness Limited:

- Ron Dufficy - Global Chief Executive Officer (effective 8 April 2022) and former Global Chief Financial Officer (ended effective 8 April 2022); and
- Josephine Lorenz - Global Chief Financial Officer (effective 8 April 2022).

Except if noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

Principles used to determine the nature and amount of remuneration

An executive reward framework has been developed to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders and conforms to the market best practice and advice from independent external advisors for the delivery of reward. The Board of Directors ('the Board') has ensured that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

The Remuneration and Nomination Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high-quality personnel.

The Remuneration and Nomination Committee ensures the structure of the executive remuneration framework is market competitive and complementary to the reward strategy of the Group.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it enhances shareholders' interests by:

- having economic profit and revenue growth as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.



Additionally, the reward framework enhances executives' interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

Non-Executive Directors' remuneration

Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their role. Non-Executive Directors' fees and payments are to be reviewed annually by the Remuneration and Nomination Committee. The Remuneration and Nomination Committee may, from time to time, receive advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market. The chair's fees will be determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The chair will not be present at any discussions relating to the determination of their own remuneration.

The Constitution provides that the Non-Executive Directors are entitled to total fixed remuneration not exceeding an aggregate maximum sum determined by the Company in general meeting. The current amount has been fixed at \$500,000 and was approved by shareholders at the Annual General Meeting ('AGM') held on 17 May 2021. Remuneration of directors may be provided as a contribution to a superannuation fund. Additionally, it is anticipated that Non-Executive Directors will participate in the Company's long-term incentive plan.

Executive remuneration

The Group rewards Executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The Executive remuneration and reward framework has three components:

- fixed remuneration - to provide a fair and equitable fixed salary, which accurately reflects the skills and responsibilities of the role and the experience of the individual fulfilling the position;
- short-term performance incentives - to encourage and reward for individual outperformance against annual key performance indicators during the financial year; and
- long-term incentive share-based payments - to drive long-term sustainable growth and facilitate alignment between the senior executive team and the long-term interests of shareholders.

The combination of these comprises the Executive's total remuneration.

Fixed remuneration

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually by the Remuneration and Nomination Committee for market competitiveness to attract and retain talent, to consider individual and business unit performance as well as the overall performance of the Group.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the Executive.

Short-Term Incentive Plan ('STIP')

The Company has adopted a STIP which will enable it to assist in the attraction, motivation and retention of the Directors, executive team and other selected employees of the Group and provide a direct link between remuneration and performance.

Its aim is to reward the Executive and management of the Group for achieving a combination of clearly defined Group, regional and individual targets.

The STIP is subject to annual review by the Remuneration and Nomination Committee. The structure, performance measures and weightings may therefore vary from year to year.

The STIP is weighted 65% (65% in 2022) to Group financial measures and 35% (35% in 2022) to individual measures for Executive KMPs.

STIP Opportunity (at target) is 25-40% (25%-40% for 2022) of Total Fixed remuneration for Executive KMPs.



Group financial measures are set out below:

- Group net profit after tax ('NPAT') (25% of the STIP) and Group revenue ('Revenue') (40% of the STIP);
- Group NPAT and Revenue was chosen to align executive performance with the key drivers of shareholder value and reflect the short-term performance of the business. Group financial performance measures for future years will be determined annually; and
- minimum threshold performance will be 80% of the on-target performance level of Group NPAT metrics.

Individual measures are set out below:

- Executive KMPs are set individual objectives based on their specific area of responsibility. These objectives are directly aligned to the Board approved financial, operational and strategic objectives and include quantitative measures where appropriate; and
- payouts are based on a minimum of 80% achievement (50% for 2021).

Actual performance against Group financial and individual measures is assessed at the end of the financial year.

The Board determines the amount, if any, of the STIP to be paid to each Executive KMP, seeking recommendations from the Remuneration and Nomination Committee.

Where performance is below threshold, payment of any STIP amount will be at the sole discretion of the Board. Where performance is above the threshold, up to 150% of the target STIP amounts are payable.

The STIP amount on-target will be paid in cash or equity and will be subject to relevant local statutory and tax obligations. The Board at its discretion, may elect to grant equity in lieu of payments in cash.

If a takeover or change of control event occurs or in the case of death, disability, bona fide redundancy or genuine retirement or another reason (with the exception of resignation or dismissal), the Board at its discretion, may elect to pay pro rata STIP amounts.

STIP payments granted as equity include the following conditions:

- Any STIP outcome deferred into equity cannot be traded until after they have vested;
- Any unvested share rights may be forfeited if the Executive ceases to be an employee before the vesting date; and
- Share rights which have vested can only be traded in accordance with the Company's Securities Trading Policy.

Long-Term Incentive Plan ('LTIP')

The LTIP is an equity incentive plan used to align the Directors and Executive KMP's remuneration to the returns generated for the Group's shareholders. The key features of the LTIP are outlined below.

Performance rights over ordinary shares in the Company were issued to KMPs for nil consideration. The nature, timing and structure of the grant is detailed below.

Performance rights

Performance rights are awarded based on the fixed amount to which the individual is entitled. Upon satisfaction of vesting and employment conditions, each performance right will, at the Company's election, convert to a share on a one-for-one basis or entitle the participant to receive in cash to the value of a share at the Board's discretion in lieu of an allocation of shares. Where the Board makes such an election, the amount payable will be as determined below:

Cash payable = (No. of Share Rights x VWAP) - Applicable Withholding Tax (if any) - Amounts paid as superannuation

Where VWAP means the volume weighted average share price of the shares traded on the ASX in the 5 trading days immediately prior to the relevant vesting date.

LTIP opportunity (at target)

LTIP opportunity has been determined by informed benchmarking.

Performance period

For the 2021 Share Rights grant made during 2021, the performance period of the grant is three financial years in one tranche following the performance period. The performance period is from 1 January 2021 to 31 December 2023.

For the 2022 Share Rights grant made during 2022, the performance period of the grant is three financial years in one tranche following the performance period. The performance period is from 1 January 2022 to 31 December 2024.



Vesting dates

Share Rights granted in 2021	Share Rights granted in 2022
Vesting date	Vesting date
28 February 2024	28 February 2025

Vesting conditions

Share rights which have not lapsed will vest and become exercisable on the date on which any vesting conditions (and any employment conditions) applicable to the share rights have been satisfied (or waived by the Board) or the date on which the share rights otherwise vest in accordance with the Plan rules.

The share rights are subject to the following vesting conditions:

- satisfaction of absolute Total Shareholder Return ('TSR') performance hurdles for the relevant vesting period; and
- participant must be employed (or continue to be a Director) of the Company or one of its wholly owned subsidiaries at the time that audited financial statements are released to the ASX following the performance period.

The proportion of TSR share rights that will vest will be determined by reference to the absolute TSR of the Company during the relevant performance period, in accordance with the following vesting schedule:

Company's TSR over the relevant performance period	Percentage of TSR share rights vesting
Below 10%	0% of the TSR share rights will vest
Greater than 10% but less than 20%	40% of the TSR share rights will vest
Equal to or greater than 20%	100% of the TSR share rights will vest

Cessation of employment (Employment Conditions)

Subject to the Board determining otherwise (in its absolute discretion), should a participant cease to be an employee or Director of the Elixinol Group because of:

- resignation or dismissal: all unvested rights or options lapse;
- death, disability, bona fide redundancy, genuine retirement or another reason (with the exception of resignation or dismissal): a pro rata number of unvested rights or options will not lapse, and any vested right or option will not lapse. All other rights or options will lapse.

Disposal restrictions

When vesting occurs, restriction on disposal of shares will be subject to the Company's Securities Trading Policy.

A participant may not enter into any arrangement for the purpose of hedging, or otherwise affecting their economic exposure to their performance rights.

Change of control

The Board in its absolute discretion may determine that all or some of a participants unvested options or rights vest where a Takeover Event or Control Event occurs.

Use of remuneration consultants

During the financial period ended 31 December 2022, the Board did not consult or did not engage remuneration advisors for benchmarking of executive remuneration.

Voting and comments made at the Company's 26 May 2022 AGM

At the 26 May 2022 AGM, 78.45% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2021. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.



Linking remuneration and company performance

Impact of the Group's 2022 performance on remuneration

A challenging environment and a lack of regulatory development across key markets contributed significantly towards revenue growth targets not being achieved during 2022. However, following the Strategic Review announced in February 2022 and due to a focus on cost reduction and margin improvement the Group delivered on its EBITDA targets on the re-based cost structure. The Group also delivered numerous strategic objectives designed to position the Company for future growth across the business including announcing the proposed acquisition of The Sustainable Nutrition Group via a scheme of arrangement. The business has been successfully repositioned with a significantly reduced cost base.

The link between Executive KMP remuneration and Group financial performance is detailed below:

	2022 \$'000	2021 \$'000	2020 \$'000	2019 Restated \$'000	2018 \$'000
Revenue	7,055	9,338	15,010	30,714	37,131
Adjusted EBITDA	(8,538)	(11,496)	(22,930)	(24,632)	(114)
Net loss after tax	(10,571)	(17,025)	(104,478)	(83,071)	(860)
Basic loss per share (cents per share)	(3.34)	(5.41)	(58.25)	(62.71)	0.79
Diluted loss per share (cents per share)	(3.34)	(5.41)	(58.25)	(62.71)	0.79
Opening share price	\$0.072	\$0.175	\$0.570	\$2.500	1.000
Closing share price on 31 December	\$0.021	\$0.072	\$0.175	\$0.570	2.500

There were no dividends declared or paid during the financial year.

Details of remuneration

Amounts of remuneration

Details of the remuneration of Directors and other KMP of the Group are set out in the following tables.

	Short-term benefits			Post-employment benefits		Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Other fees	Super-annuation	Termination payments	Deferred STI ^(c)	Equity-settled Performance Rights	
2022	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
H Wiseman	122,046	-	-	3,873	-	-	17,513	143,432
D Fenlon ^(b)	59,380	-	-	6,133	-	-	6,684	72,197
P Benhaim	76,138	-	-	7,801	-	-	11,171	95,110
O Horn ^(a)	54,980	-	-	5,686	-	-	-	60,666
<i>Executive Directors:</i>								
O Horn ^(a)	112,134	-	-	7,856	65,833	-	(65,500)	120,323
<i>Other KMP:</i>								
R Dufficy	283,586	37,015	-	24,430	-	73,054	(121,598)	296,487
J Lorenz ^(b)	155,505	23,419	-	16,082	-	46,221	6,172	247,399
	863,769	60,434	-	71,861	65,833	119,275	(145,558)	1,035,614

Elixinol Wellness Limited
Directors' report
31 December 2022



- (a) O Horn changed from Executive Director to Non-Executive Director on 8 April 2022. Remuneration reflects periods as to which O Horn was in those positions.
(b) Remuneration is from date of appointment to 31 December 2022.
(c) 66.4% of the current year STI to be settled as Equity-settled Performance Rights with a vesting date of 31 March 2023.

2021	Cash salary and fees \$	Short-term benefits			Post-employment benefits		Long-term benefits	Share-based payments	Total \$
		Cash bonus \$	Other fees \$	Super-annuation \$	Termination payments \$	Deferred STI \$	Equity-settled Performance Rights \$		
<i>Non-Executive Directors:</i>									
H Wiseman	108,702	-	-	10,578	-	-	7,464	126,744	
P Benhaim	98,734	-	-	9,599	-	-	4,487	112,820	
<i>Executive Directors:</i>									
O Horn ^(a)	372,715	74,260	-	22,285	-	-	99,819	569,079	
<i>Other KMP:</i>									
R Dufficy ^(b)	260,716	56,883	-	24,284	-	-	(75,678)	266,205	
	<u>840,867</u>	<u>131,143</u>	<u>-</u>	<u>66,746</u>	<u>-</u>	<u>-</u>	<u>36,092</u>	<u>1,074,848</u>	

- (a) On 7 July 2021, the Company granted Oliver Horn 868,132 performance rights over ordinary shares with an exercise price of \$0.00 and a vesting date of 28 February 2024 with their issue subject to shareholder approval at the next shareholder meeting. Shareholder approval will be sought at the Company's annual general meeting in May 2022. The amount recognised in this financial year (\$99,819) is a representation of the performance period.
(b) LTIP value of equity includes negative amounts for options forfeited during the year (not included in % remuneration in the table below).

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2022	2021	2022	2021	2022	2021
<i>Non-Executive Directors:</i>						
H Wiseman	88%	94%	-	-	12%	6%
D Fenlon	91%	-	-	-	9%	-
P Benhaim	88%	96%	-	-	12%	4%
O Horn	100%	-	-	-	-	-
<i>Executive Directors:</i>						
O Horn	100%	70%	-	13%	-	17%
<i>Other KMP:</i>						
R Dufficy	63%	83%	12%	17%	25%	-
J Lorenz	70%	-	9%	-	21%	-



The proportion of the cash bonus paid/payable or forfeited is as follows:

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2022	2021	2022	2021
<i>Executive Directors:</i>				
O Horn	-	47%	-	53%
<i>Other KMP:</i>				
R Dufficy	28%	57%	72%	43%
J Lorenz	28%	-	72%	-

Service agreements

Remuneration and other terms of employment for KMP are formalised in service agreements.

The total fixed remuneration ('TFR') is subject to annual review.

Details of these agreements effective from 1 January 2023 are as follows:

	Fixed Remuneration \$ ^(a)	Target STI \$	Notice Period by Executive months	Notice Period by Company months	Restraint Period months
Ron Dufficy ^(b)	325,000	130,000	6	6	12
Josephine Lorenz ^(b)	235,000	82,250	3	3	3

(a) Fixed remuneration comprises base cash remuneration, superannuation (superannuation equal to the minimum amount required to be paid to comply with the superannuation guarantee legislation) and other benefits which can be sacrificed for cash at the employee's elections.

(b) KMPs are entitled to participate in a long-term incentive plan, as discussed in this report.

KMP have no entitlement to termination payments in the event of removal for misconduct.

Any payments on termination will be subject to the termination benefits cap under the Corporations Act.

Share-based compensation

Issue of shares

There were no shares issued to Directors and other KMP as part of compensation during the year ended 31 December 2022.

Performance rights

The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of Directors and other KMP in this financial year or future reporting years are as follows:

Name	Number of rights granted	Grant date	Vesting date and exercisable date	Expiry date	Fair value per right at grant date
H Wiseman	62,271	30 July 2020	28 February 2024	30 October 2025	\$0.092
R Dufficy	548,077	7 July 2021	28 February 2024	7 October 2026	\$0.076
J Lorenz	280,218	7 July 2021	28 February 2024	7 October 2026	\$0.076
P Benhaim	186,813	7 July 2021	28 February 2025	7 October 2026	\$0.083
H Wiseman	280,879	7 July 2021	28 February 2025	7 October 2026	\$0.083
R Dufficy	1,366,438	21 January 2022	28 February 2025	21 April 2027	\$0.115
J Lorenz	698,625	21 January 2022	28 February 2025	21 April 2027	\$0.115
H Wiseman	700,274	21 January 2022	28 February 2026	21 April 2027	\$0.141
P Benhaim	465,753	21 January 2022	28 February 2026	21 April 2027	\$0.141
D Fenlon	465,753	26 May 2022	28 February 2026	21 April 2027	\$0.057

Performance rights granted carry no dividend or voting rights.



Other than outlined above, there were no other performance rights or options over ordinary shares granted to or vested in Directors and other KMP as part of compensation during the year ended 31 December 2022.

Shares issued in the past financial year were approved under section 10.14 of the ASX Listing Rules.

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each Director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
H Wiseman	280,132	-	-	-	280,132
D Fenlon	-	-	-	-	-
P Benhaim ^(a)	29,209,217	-	-	-	29,209,217
O Horn	1,203,971	-	-	-	1,203,971
R Dufficy	623,901	156,593	-	-	780,494
J Lorenz ^(b)	-	-	99,670	-	99,670
	<u>31,317,221</u>	<u>156,593</u>	<u>99,670</u>	<u>-</u>	<u>31,573,484</u>

(a) Held indirectly due to Paul Benhaim's interest with the holder of the shares, Raw With Life Pty Ltd. Included as disposals are 313,791 shares which were transferred to Equities First Holdings LLC (Equities First) under a margin loan facility (Loan Facility) are included as disposals. The term of the Loan Facility is three years. Under the terms of the Loan Facility, Mr Benhaim transferred the Secured Shares to Equities First and procures registration of the Secured Shares in the name of Equities First by way of transfer to an account nominated by Equities First. Equities First may, during the term of the loan, deal with the Secured Shares. Shares provided as security must be returned to Mr Benhaim on repayment of the loan, in accordance with the terms of the Loan Facility.

(b) Addition of ordinary shares includes ordinary shares held on becoming KMP on 8 April 2022.

Performance rights holding

The number of performance rights over ordinary shares in the Company held during the financial year by each Director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
<i>Performance rights over ordinary shares</i>					
H Wiseman ^(a)	62,271	981,153	-	-	1,043,424
D Fenlon	-	465,753	-	-	465,753
P Benhaim ^(b)	-	652,566	-	-	652,566
O Horn	361,722	-	-	(361,722)	-
R Dufficy	1,138,461	1,366,438	(156,593)	(433,791)	1,914,515
J Lorenz ^(c)	-	1,067,803	-	(88,960)	978,843
	<u>1,562,454</u>	<u>4,533,713</u>	<u>(156,593)</u>	<u>(884,473)</u>	<u>5,055,101</u>

(a) On 7 July 2021 the company granted two tranches to Helen Wiseman performance rights over ordinary shares with their issue subject to shareholder approval at the next shareholder meeting. 280,879 performance rights were granted with a vesting date of 28 February 2025. Shareholder approval was obtained at the company's annual general meeting in May 2022 and as such the options have not included in the table above as granted in the current year.

(b) On 7 July 2021 the company granted two tranches to Paul Benhaim performance rights over ordinary shares with their issue subject to shareholder approval at the next shareholder meeting. 186,813 performance rights were granted with a vesting date of 28 February 2025. Shareholder approval was obtained at the company's annual general meeting on XX May 2022 and as such the options have been included in the table above as granted in the current year.

(c) Performance rights granted includes performance rights held on becoming KMP on 8 April 2022.



Loans to key management personnel and their related parties

Prior to its acquisition by Elixinol Wellness Limited, Hemp Foods Australia entered into a Shareholder Loan Deed with Raw With Life, an entity controlled by Mr Paul Benhaim, whereby Raw With Life agreed to lend \$250,000 to Hemp Foods Australia. The loan is made on an unsecured basis, with no interest payable. Hemp Foods Australia undertakes to repay the loan subject to achievement of predefined performance milestones. This is a related party agreement, as Raw With Life holds (as at the date of this report) approximately 9.25% of the shares in Elixinol Wellness Limited. The Group assessed the fair value of the loan at the reporting date and the amount is not materially different from its carrying value.

This concludes the remuneration report, which has been audited.



Shares under option or performance rights

Unissued ordinary shares of Elixinol Wellness Limited under option or performance rights which have not yet vested at the date of this report are as follows:

Grant date	Expiry date	Number under rights
30 July 2020	30 October 2025	62,271
7 July 2021	7 October 2026	2,210,204
7 July 2021*	7 October 2026	467,692
21 January 2022	21 April 2027	7,756,755
21 January 2022*	21 April 2027	1,631,780
		12,128,702

* Performance rights to Directors approved at AGM on 27 May 2022.

No person entitled to exercise the option or performance rights had or has any right by virtue of the option or performance right to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options or performance rights

There were no ordinary shares of Elixinol Wellness Limited issued on the exercise of performance rights during the year ended 31 December 2022 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

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

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 26 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.



The directors are of the opinion that the services as disclosed in note 26 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants (including Independence Standards) issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of BDO Audit Pty Ltd

There are no officers of the Company who are former partners of BDO Audit Pty Ltd.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Helen Wiseman
Independent Non-Executive Director and Chair

27 February 2023

DECLARATION OF INDEPENDENCE BY LEAH RUSSELL TO THE DIRECTORS OF ELIXINOL WELLNESS LIMITED

As lead auditor of Elixinol Wellness Limited for the year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Elixinol Wellness Limited and the entities it controlled during the period.



Leah Russell
Director

BDO Audit Pty Ltd

Sydney, 27 February 2023

Elixinol Wellness Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2022



	Note	2022 \$'000	Group 2021 \$'000
Revenue	5	7,055	9,338
Other income	6	502	2,429
Interest income calculated using the effective interest method		22	47
Expenses			
Raw materials and consumables used and processing expenses		(3,817)	(4,442)
Employee benefits expenses and Directors' fees		(5,542)	(9,661)
Share-based payments		(241)	(194)
Depreciation and amortisation expense	7	(721)	(1,490)
Impairment of intangibles	7	(234)	(186)
Impairment of other assets	7	(786)	(3,679)
Professional services expenses		(2,150)	(2,379)
Sales and marketing expenses		(1,478)	(3,062)
Administrative expenses		(2,294)	(3,099)
Distribution costs		(814)	(620)
Finance costs	7	(71)	(92)
Loss before income tax benefit/(expense)		(10,569)	(17,090)
Income tax benefit/(expense)	8	(2)	65
Loss after income tax benefit/(expense) for the year attributable to the owners of Elixinol Wellness Limited		(10,571)	(17,025)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		411	367
Other comprehensive income for the year, net of tax		411	367
Total comprehensive loss for the year attributable to the owners of Elixinol Wellness Limited		(10,160)	(16,658)
		Cents	Cents
Basic loss per share	35	(3.34)	(5.41)
Diluted loss per share	35	(3.34)	(5.41)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Elixinol Wellness Limited
Consolidated statement of financial position
As at 31 December 2022



	Note	2022 \$'000	Group 2021 \$'000
Assets			
Current assets			
Cash and cash equivalents	9	2,864	12,649
Trade and other receivables	10	3,974	2,970
Inventories	11	1,740	2,201
Income tax refund due	8	59	541
Prepayments, deposits and other	12	675	1,227
Total current assets		<u>9,312</u>	<u>19,588</u>
Non-current assets			
Trade and other receivables	10	83	183
Investments accounted for using the equity method	13	2,826	2,617
Property, plant and equipment	14	375	1,308
Right-of-use assets	15	737	1,173
Intangibles	16	152	463
Total non-current assets		<u>4,173</u>	<u>5,744</u>
Total assets		<u>13,485</u>	<u>25,332</u>
Liabilities			
Current liabilities			
Trade and other payables	17	1,377	2,208
Contract liabilities	18	22	94
Borrowings	19	320	428
Lease liabilities	20	697	747
Employee benefits		216	229
Accrued expenses		808	1,009
Total current liabilities		<u>3,440</u>	<u>4,715</u>
Non-current liabilities			
Borrowings	19	250	250
Lease liabilities	20	637	1,290
Total non-current liabilities		<u>887</u>	<u>1,540</u>
Total liabilities		<u>4,327</u>	<u>6,255</u>
Net assets		<u>9,158</u>	<u>19,077</u>
Equity			
Issued capital	21	218,122	218,058
Reserves	22	9,682	9,094
Accumulated losses		<u>(218,646)</u>	<u>(208,075)</u>
Total equity		<u>9,158</u>	<u>19,077</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Elixinol Wellness Limited
Consolidated statement of changes in equity
For the year ended 31 December 2022



Group	Issued capital \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2021	217,730	8,308	663	(191,050)	35,651
Loss after income tax benefit for the year	-	-	-	(17,025)	(17,025)
Other comprehensive income for the year, net of tax	-	367	-	-	367
Total comprehensive (loss)/income for the year	-	367	-	(17,025)	(16,658)
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments (note 36)	438	-	(244)	-	194
Share issue transaction costs (note 21)	(110)	-	-	-	(110)
Balance at 31 December 2021	218,058	8,675	419	(208,075)	19,077
Group	Issued capital \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2022	218,058	8,675	419	(208,075)	19,077
Loss after income tax expense for the year	-	-	-	(10,571)	(10,571)
Other comprehensive income for the year, net of tax	-	411	-	-	411
Total comprehensive (loss)/income for the year	-	411	-	(10,571)	(10,160)
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments (note 36)	64	-	177	-	241
Balance at 31 December 2022	218,122	9,086	596	(218,646)	9,158

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Elixinol Wellness Limited
Consolidated statement of cash flows
For the year ended 31 December 2022



	Note	2022 \$'000	Group 2021 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		6,999	9,650
Payments to suppliers and employees (inclusive of GST)		(15,989)	(24,070)
Government grants	6	364	354
Interest received		22	51
Interest and other finance costs paid		(71)	(92)
Income taxes refunded		523	36
		<hr/>	<hr/>
Net cash used in operating activities	34	(8,152)	(14,071)
Cash flows from investing activities			
Payments for property, plant and equipment		(5)	(160)
Payments for intangibles		(7)	(132)
Loans to other entities	10	(1,148)	-
Proceeds from disposal of property, plant and equipment		291	464
		<hr/>	<hr/>
Net cash from/(used in) investing activities		(869)	172
Cash flows from financing activities			
Share issue transaction costs	21	-	(110)
Repayment of lease liabilities		(757)	(1,047)
		<hr/>	<hr/>
Net cash used in financing activities		(757)	(1,157)
Net decrease in cash and cash equivalents		(9,778)	(15,056)
Cash and cash equivalents at the beginning of the financial year		12,649	27,743
Effects of exchange rate changes on cash and cash equivalents		(7)	(38)
		<hr/>	<hr/>
Cash and cash equivalents at the end of the financial year	9	<u>2,864</u>	<u>12,649</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes



Note 1. General information

The financial statements cover Elixinol Wellness Limited as a Group consisting of Elixinol Wellness Limited ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the period ('Group'). The financial statements are presented in Australian dollars, which is Elixinol Wellness Limited's functional and presentation currency.

On 17 May 2021, with approval of the shareholders at the Annual General Meeting, the company changed its name from Elixinol Global Limited to Elixinol Wellness Limited.

Elixinol Wellness Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 12
680 George Street
Sydney NSW 2000

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2023. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern

The annual financial statements have been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business.

During the year ended 31 December 2022, the Group incurred a net loss before tax of \$10,571,000 (31 December 2021: \$17,025,000). During the year, net cash outflows from operating activities were \$8,152,000 (31 December 2021: \$14,071,000).

The year was another significantly challenging period for the Group. The CBD industry experienced far less growth in FY2022 than was generally expected. This was due in part to the slow opening of the retail sector from the pandemic, but also a lack of regulatory clarity in many of the major CBD markets, and a saturated industry which resulted in an over-supply of product and reduced pricing.

On 29 November 2022, the Group announced a proposed acquisition of The Sustainable Nutrition Group ('TSN') that will increase the size and scale of the Australia operations and enable economies of scale to be realised through the combined group. The proposed acquisition also included a commitment of up to \$2,000,000 with \$1,148,000 of this drawdown occurring prior to 31 December 2022.

As at 31 December 2022, the Group had net assets of \$9,158,000 including cash of \$2,864,000. Also, Elixinol Americas lodged an application for refundable tax credits in FY2021 which were made available under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The value of the credits calculated through to 31 December 2022, yet to be received totals approximately \$1.5m (US\$1.0m). Subsequent to year end, \$1.0m was received from the Internal Revenue Service in January 2023 with the remaining \$0.5m expected to be received in early FY2023, to further boost the Group cash reserves.

The Directors regularly monitor the Group's cash position on an ongoing basis and continues to explore debt funding and capital markets to support the going concern and working capital requirements associated with its revenue base.



Note 2. Significant accounting policies (continued)

In addition, the net loss before tax has been significantly reduced in FY2022 from that recorded in FY2021 and the net cash outflow from operating activities reduced to \$1,527,000 (excluding non-recurring transaction and severance costs) in Q4 FY2022 as expenditure was reduced and the scale of the business operations was reset.

The current cash flow forecasts support the business as a going concern and the Group has plans in place to defer discretionary expenditure including reducing headcount if necessary and corporate costs in the current cash flow forecast period to take steps to moderate the cash outflows of the business as needed. In addition, the Group has a history of raising capital as required and is exploring options to raise additional capital and or debt funding.

However, there is a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 31.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Elixinol Wellness Limited as at 31 December 2022 and the results of all subsidiaries for the period then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.



Note 2. Significant accounting policies (continued)

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance. Refer to note 4.

Foreign currency translation

Foreign currency transactions

Foreign currency transactions are translated into the individual entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Sale of goods - hemp products

Sale of goods revenue is recognised when its performance obligation to transfer control of the goods to the customer is satisfied which occurs either at the point of sale or when delivery is completed by way of shipping the product to the location specified by the customer and the ownership risks have therefore passed to the customer pursuant to the contract.

The Group sells a variety of hemp-based products in the wholesale and eCommerce market. These sales relate to both the manufacture and distribution of hemp-derived finished products and hemp food based products manufactured by the Group. The Group does not act in the capacity as agent in any customer contracts. General invoices are issued to customers on delivery with 30 day payment terms.

Government grants

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and the consolidated entity will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss as other income over the periods necessary to match them with the costs that they are intended to compensate.



Note 2. Significant accounting policies (continued)

Interest

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

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

Research activities

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

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

An income tax benefit will arise for the financial year where an income tax loss is incurred and, where permitted to do so, is carried-back against a qualifying prior period's tax payable to generate a refundable tax offset.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Elixinol Wellness Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. In addition, Elixinol Wellness Limited (the 'head entity') and its wholly-owned US subsidiaries have also formed an income tax consolidation group within the US jurisdiction. Therefore, the head entity and each subsidiary (in both Australian and the US) in each tax consolidated group continue to account for their own current and deferred tax amounts.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated groups.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated groups. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.



Note 2. Significant accounting policies (continued)

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 - 45 days.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customers with similar loss patterns (i.e. by product type, country). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than 90 days and are not subject to enforcement activity.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Associates

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.



Note 2. Significant accounting policies (continued)

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using diminishing value bases, so as to write off the net cost over its expected useful life. The following bases are used in the calculation of depreciation:

Leasehold improvements	over the unexpired period of the lease
Furniture, fittings and equipment	12 to 30%
Computer equipment	30 to 50%
Machinery	20%

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Website and software

Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of 3 years.

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 4 years.



Note 2. Significant accounting policies (continued)

Patents and trademarks

Significant costs associated with patents and trademarks are capitalised as an asset. These costs are not subsequently amortised as they are considered to be indefinite life assets because there is no foreseeable limit to the cash flows generated by them and they have no legal, contractual, regulatory, economic, or competitive limiting factors. Patents and trademarks are tested annually for impairment.

Customer relationships

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of 5 years.

Brand names

Brand names acquired in a business combination are not amortised as they are considered to be indefinite life assets because there is no foreseeable limit to the cash flows generated by them and they have no legal, contractual, regulatory, economic, or competitive limiting factors. Brand names are tested annually for impairment.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.



Note 2. Significant accounting policies (continued)

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Monte Carlo option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital

Ordinary shares are classified as equity.



Note 2. Significant accounting policies (continued)

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Elixinol Wellness Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2022. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current and AASB 2022-6 Amendments to Australian Accounting Standards - Non-current Liabilities with Covenants

AASB 2020-1 was issued in March 2020 and is applicable to annual periods beginning on or after 1 January 2023, as extended by AASB 2020-6. Early adoption is permitted. AASB 2022-6 was issued in December 2022 and is applicable to annual periods beginning on or after 1 January 2023. Early adoption is permitted where AASB 2020-1 is also early adopted.



Note 2. Significant accounting policies (continued)

These standards amend AASB 101 'Presentation of Financial Statements' to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. The amendments clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. If the deferral right is subject to the entity complying with covenants in the loan arrangement based on information up to and including reporting date, the deferral right will exist where the entity is able to comply with the covenant on or before the end of the reporting date even if compliance is assessed after the reporting date. The deferral right will be deemed to exist at reporting date if the entity is required to comply with the covenant only after the reporting date based on post-reporting date information. Additional disclosure is required about loan arrangements classified as non-current liabilities in such circumstances which enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period. Classification of a liability as non-current is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least 12 months after the reporting date or even if the entity settles the liability prior to issue of the financial statements. The meaning of settlement of a liability is also clarified.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering all the possible financial effects and impacts that the COVID-19 pandemic has had, or may have, on the Group based on known information and how this impacts the measurement, presentation and disclosure in the Group year report. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates, the impact of the COVID-19 pandemic and forward-looking information that is available. The allowance for expected credit losses is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves assessing the value of the asset at fair value less costs of disposal and using value-in-use models which incorporate a number of key estimates and assumptions. Refer to note 16.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made. Refer to note 8.



Note 3. Critical accounting judgements, estimates and assumptions (continued)

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Refer to note 8.

Note 4. Operating segments

Identification of reportable operating segments

The Group is organised into three operating segments: Americas, Australia and Rest of World. There is one single business segment, being the sale of nutraceutical and related hemp products. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation), adjusted for impairment and share-based payments. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information provided to the CODM is on a monthly basis.

Types of products and services

The principal products and services of each of these operating segments are as follows:

Americas	This includes the trading results of Elixinol LLC ('Elixinol Americas') and its investments and joint ventures in the US through the manufacture and distribution of hemp-derived cannabidiol ('CBD') products.
Australia	This includes the results from the operations of Elixinol Wellness (Byron Bay) Pty Ltd (formerly known as Hemp Foods Australia Pty Ltd) ('Hemp Foods Australia').
Rest of World	This includes the results from trading operations of Elixinol BV and Elixinol Ltd (together 'Elixinol Europe') and through the manufacture and distribution of hemp-derived CBD products, and licencing agreements in place across the rest of the World.

'Unallocated' represents corporate, being Elixinol Wellness Limited (corporate).

Intersegment transactions

Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Major customers

During the year ended 31 December 2022, 22% of sales were derived from three major customers (31 December 2021: 17% of sales were derived from three major customers).



Note 4. Operating segments (continued)

Operating segment information - Continuing operations

Group - 2022	Americas \$'000	Australia \$'000	Rest of World \$'000	Unallocated \$'000	Total \$'000
Revenue					
Sales to external customers	3,318	3,691	-	-	7,009
Licence revenue	-	-	46	-	46
Total revenue	<u>3,318</u>	<u>3,691</u>	<u>46</u>	<u>-</u>	<u>7,055</u>
Adjusted EBITDA	<u>(3,568)</u>	<u>(704)</u>	<u>(135)</u>	<u>(4,131)</u>	<u>(8,538)</u>
Depreciation and amortisation					(721)
Impairment of intangibles					(234)
Impairment of assets					(786)
Interest income					22
Finance costs					(71)
Share-based payments					(241)
Loss before income tax expense					<u>(10,569)</u>
Income tax expense					(2)
Loss after income tax expense					<u>(10,571)</u>
Assets					
Segment assets	6,578	2,832	618	3,457	13,485
Total assets					<u>13,485</u>
Liabilities					
Segment liabilities	1,343	1,388	101	1,495	4,327
Total liabilities					<u>4,327</u>
Group - 2021	Americas \$'000	Australia \$'000	Rest of World \$'000	Unallocated \$'000	Total \$'000
Revenue					
Sales to external customers	4,783	4,086	469	-	9,338
Total revenue	<u>4,783</u>	<u>4,086</u>	<u>469</u>	<u>-</u>	<u>9,338</u>
Adjusted EBITDA	<u>(5,492)</u>	<u>(203)</u>	<u>(2,321)</u>	<u>(3,480)</u>	<u>(11,496)</u>
Depreciation and amortisation					(1,490)
Impairment of intangibles					(186)
Impairment of assets					(3,679)
Interest income					47
Finance costs					(92)
Share-based payments					(194)
Loss before income tax benefit					<u>(17,090)</u>
Income tax benefit					65
Loss after income tax benefit					<u>(17,025)</u>
Assets					
Segment assets	8,981	2,960	793	12,598	25,332
Total assets					<u>25,332</u>
Liabilities					
Segment liabilities	2,599	1,502	335	1,819	6,255
Total liabilities					<u>6,255</u>



Note 4. Operating segments (continued)

Geographical information

	Sales to external customers		Geographical non-current assets	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Americas	3,318	4,783	3,404	4,663
Australia	3,691	4,086	544	758
Rest of World	46	469	-	-
Unallocated	-	-	224	323
	<u>7,055</u>	<u>9,338</u>	<u>4,172</u>	<u>5,744</u>

The geographical non-current assets above are exclusive of, where applicable, financial instruments, deferred tax assets, post-employment benefits assets and rights under insurance contracts.

Note 5. Revenue

	2022 \$'000	Group 2021 \$'000
Sale of goods	7,009	9,338
Licence revenue	46	-
Revenue	<u>7,055</u>	<u>9,338</u>

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

Group - 2022	eCommerce \$'000	Retail \$'000	Other * \$'000	Total \$'000
<i>Geographical regions</i>				
Americas	2,314	852	152	3,318
Australia	427	2,726	538	3,691
Rest of World	-	-	46	46
	<u>2,741</u>	<u>3,578</u>	<u>736</u>	<u>7,055</u>
<i>Timing of revenue recognition</i>				
Goods transferred at a point in time	2,741	3,578	690	7,009
Services transferred over time	-	-	46	46
	<u>2,741</u>	<u>3,578</u>	<u>736</u>	<u>7,055</u>

* Other includes bulk and private label



Note 5. Revenue (continued)

Group - 2021	eCommerce \$'000	Retail \$'000	Other * \$'000	Total \$'000
<i>Geographical regions</i>				
Americas	3,027	1,503	253	4,783
Australia	470	2,821	795	4,086
Rest of World	154	315	-	469
	<u>3,651</u>	<u>4,639</u>	<u>1,048</u>	<u>9,338</u>
<i>Timing of revenue recognition</i>				
Goods transferred at a point in time	<u>3,651</u>	<u>4,639</u>	<u>1,048</u>	<u>9,338</u>

* Other includes bulk and private label.

Note 6. Other income

	2022 \$'000	Group 2021 \$'000
Net foreign exchange (loss)/gain	(41)	84
Net gain/(loss) on disposal of property, plant and equipment	30	(76)
Government grants (COVID-19)	-	1,920
Government grants	55	64
Sub-lease income and other	458	437
	<u>502</u>	<u>2,429</u>

Government grants (COVID-19)

During the year, the Group received JobKeeper support payments from the Australian Government amounting to \$nil (31 December 2021: \$42,000) which were passed on to eligible employees. These were been recognised as government grants in the financial statements and recorded as other income over the period in which the related employee benefits were recognised as an expense. These grants were taxable.

During the year, the Group received NSW COVID-19 Business Grant and NSW COVID-19 JobSaver Payment from the NSW Government amounting to \$nil (31 December 2021: \$248,000) which were in relation to COVID-19 relief from decline in turnover from extended lockdowns impacting the business. These grants were recognised as government grants in the financial statements and recorded as other income. These grants were taxable.

During the year, the Group received US Employee retention credits totaling \$309,000 which were released from the 2021 accrued balance. (31 December 2021: \$1,630,000 accrued US Employee Retention Credits) which is in relation to the application for refundable tax credits which were made available under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Due to an extensive processing backlog at the Internal Revenue Service ('IRS') the cash was received in the current financial year.

Government grants

During the year, the Group received a Business Growth Grant from the Australian Government amounting to \$15,000 (31 December 2021: \$64,000) which was in relation to marketing and export of goods. This grant has been recognised as government grants in the financial statements and recorded as other income. The grant is taxable.

During the year, the Group received Service NSW flood recovery grant of \$8,000 (31 December 2021: \$nil) which was in relation to damages to flood affected areas of Northern NSW. This grant has been recognised as government grants in the financial statements and recorded as other income. The grant is taxable.



Note 6. Other income (continued)

During the year, the Group received the Export Market Development Grant ('EMDG') \$25,000 (31 December 2021: \$nil). Grant total over 3 years is \$73,800 which was in relation to promotional activities for eligible products in foreign countries. This grant has been recognised as government grants in the financial statements and recorded as other income. The grant is taxable.

During the year, the Group received Wage Subsidies \$7,000 (31 December 2021: \$nil) which was in relation to hiring eligible job-seekers. This grant has been recognised as government grants in the financial statements and recorded as other income. The grant is taxable.

Note 7. Expenses

	2022	Group
	\$'000	2021
		\$'000
Loss before income tax includes the following specific expenses:		
<i>Cost of sales</i>		
Cost of sales	3,817	4,442
<i>Depreciation and amortisation</i>		
Property, plant and equipment (note 14)	177	346
Right-of-use assets (note 15)	453	713
Intangibles (note 16)	91	431
Total depreciation and amortisation	721	1,490
<i>Impairment of intangibles</i>		
Website and software	234	204
Patents and trademarks	-	(18)
Total impairment of intangibles	234	186
<i>Impairment of other assets</i>		
Inventory	253	2,778
Leasehold improvements	-	(42)
Motor vehicles	-	3
Computer equipment	-	11
Machinery	530	596
Land and buildings - right-of-use	3	-
Prepayments, deposits and other	-	333
Total impairment of other assets	786	3,679
<i>Finance costs</i>		
Interest and finance charges paid/payable on lease liabilities	52	79
Interest and finance charges paid/payable on Premium Funding	19	13
Finance costs expensed	71	92
<i>Superannuation expense</i>		
Defined contribution superannuation expense	219	195



Note 8. Income tax

	2022	Group
	\$'000	2021
		\$'000
<i>Income tax expense/(benefit)</i>		
Current tax	2	4
Adjustment recognised for prior periods	-	(69)
	<u>2</u>	<u>(65)</u>
Aggregate income tax expense/(benefit)	<u>2</u>	<u>(65)</u>
<i>Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i>		
Loss before income tax benefit/(expense)	(10,569)	(17,090)
Tax at the statutory tax rate of 25%	(2,642)	(4,273)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of assets	-	(227)
Other non-deductible permanent differences	11	17
	<u>(2,631)</u>	<u>(4,483)</u>
Adjustment recognised for prior periods	-	(69)
Current year tax losses not recognised	4,558	6,157
Current year temporary differences not recognised	(2,028)	(2,137)
Difference in overseas tax rates	103	467
	<u>2</u>	<u>(65)</u>

As a consequence of the application of anti-inversion rules in the USA applying to the Group, the Group is treated as a resident of the USA for US tax purposes and a resident of Australia for Australian income tax purposes.

Tax losses not recognised

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised.

The Group has a \$24,077,000 (31 December 2021: \$18,140,000) of tax effected revenue losses which have not been brought to account at 31 December 2022.

	2022	Group
	\$'000	2021
		\$'000
<i>Income tax refund due</i>		
Income tax refund due	59	541
	<u>59</u>	<u>541</u>

Note 9. Cash and cash equivalents

	2022	Group
	\$'000	2021
		\$'000
<i>Current assets</i>		
Cash at bank	2,746	12,649
Cash on deposit	118	-
	<u>2,864</u>	<u>12,649</u>



Note 10. Trade and other receivables

	2022	Group
	\$'000	2021
		\$'000
<i>Current assets</i>		
Trade receivables	759	1,001
Less: Allowance for expected credit losses	(140)	(468)
	<u>619</u>	<u>533</u>
Other receivables	564	562
Loan to The Sustainable Nutrition Group	1,148	-
GST recoverable	128	133
Employee tax credits receivable	1,416	1,647
Receivable from sub-lease	99	95
	<u>3,974</u>	<u>2,970</u>
<i>Non-current assets</i>		
Receivable from sub-lease	83	183
	<u>83</u>	<u>183</u>

Allowance for expected credit losses

The Group has recognised a net profit of \$261,000 (31 December 2021: net loss of \$62,000) in profit or loss in respect of the expected credit losses for the year ended 31 December 2022.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

Group	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2022	2021	2022	2021	2022	2021
	%	%	\$'000	\$'000	\$'000	\$'000
Not overdue	1%	1%	417	278	2	3
1 to 30 days overdue	1%	1%	173	232	1	2
31 to 60 days overdue	6%	6%	14	11	1	1
61 to 90 days overdue	8%	8%	5	14	-	1
Over 90 days overdue	91%	99%	150	466	136	461
			<u>759</u>	<u>1,001</u>	<u>140</u>	<u>468</u>

Movements in the allowance for expected credit losses are as follows:

	2022	Group
	\$'000	2021
		\$'000
Opening balance	468	1,249
Additional provisions recognised	64	62
Receivables written off during the year as uncollectable	(67)	(843)
Unused amounts reversed	(325)	-
	<u>140</u>	<u>468</u>
Closing balance	<u>140</u>	<u>468</u>



Note 11. Inventories

	2022	Group
	\$'000	2021
		\$'000
<i>Current assets</i>		
Raw materials - at cost	87	7,514
Less: Provision for impairment	-	(7,331)
	<u>87</u>	<u>183</u>
Work in progress - at cost	621	302
Less: Provision for impairment	(172)	(266)
	<u>449</u>	<u>36</u>
Finished goods - at cost	1,016	2,176
Less: Provision for impairment	(30)	(380)
	<u>986</u>	<u>1,796</u>
Stock in transit - at cost	<u>218</u>	<u>186</u>
	<u><u>1,740</u></u>	<u><u>2,201</u></u>

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Net realisable values have been reviewed taking into account estimated future demand of finished goods, expiration dates on inventory and current market prices. With the transition to a fully outsourced, remaining raw materials on hand at 31 December 2021 fully impaired were scrapped or disposed of in Q1 FY2022.

Note 12. Prepayments, deposits and other

	2022	Group
	\$'000	2021
		\$'000
<i>Current assets</i>		
Prepayments	509	1,057
Security deposits	166	170
	<u>675</u>	<u>1,227</u>

Note 13. Investments accounted for using the equity method

	2022	Group
	\$'000	2021
		\$'000
<i>Non-current assets</i>		
Investment in associate - Altmed Pets LLC	<u>2,826</u>	<u>2,617</u>



Note 13. Investments accounted for using the equity method (continued)

Interests in associates

Interests in associates are accounted for using the equity method of accounting. Information relating to associates of the Group are set out below:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2022 %	2021 %
Altmed Pets LLC*	United States of America	25.43%	25.43%

* Holding through Elixinol LLC

Summarised financial information

	Altmed Pets LLC	
	2022 \$'000	2021 \$'000
<i>Summarised statement of financial position</i>		
Current assets	2,388	2,207
Non-current assets	767	383
Total assets	3,155	2,590
Current liabilities	2,133	1,552
Non-current liabilities	290	-
Total liabilities	2,423	1,552
Net assets	732	1,038
<i>Summarised statement of profit or loss and other comprehensive income</i>		
Revenue	14,896	13,035
Expenses	(15,182)	(13,510)
Loss before income tax	(286)	(475)
Other comprehensive income	-	-
Total comprehensive loss	(286)	(475)
<i>Reconciliation of the Group's carrying amount</i>		
Opening carrying amount	2,617	2,316
Share of loss after income tax	(73)	(121)
Reversal of impairment of investment	73	121
Related party eliminations	-	96
Foreign exchange	209	205
Closing carrying amount	2,826	2,617



Note 14. Property, plant and equipment

	2022	Group
	\$'000	2021
		\$'000
<i>Non-current assets</i>		
Leasehold improvements - at cost	279	364
Less: Accumulated depreciation	(127)	(183)
Less: Impairment	(124)	(124)
	<u>28</u>	<u>57</u>
Furniture, fittings and equipment - at cost	134	162
Less: Accumulated depreciation	(119)	(126)
	<u>15</u>	<u>36</u>
Motor vehicles - at cost	-	59
Less: Accumulated depreciation	-	(44)
	<u>-</u>	<u>15</u>
Computer equipment - at cost	707	693
Less: Accumulated depreciation	(693)	(639)
	<u>14</u>	<u>54</u>
Machinery - at cost	1,929	5,776
Less: Accumulated depreciation	(848)	(1,063)
Less: Impairment	(763)	(3,567)
	<u>318</u>	<u>1,146</u>
	<u>375</u>	<u>1,308</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Group	Land	Leasehold	Furniture,	Motor	Computer	Machinery	Total
	\$'000	improve-	fittings and	vehicles	equipment	\$'000	\$'000
		ments	equipment				
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2021	376	79	72	29	214	1,701	2,471
Additions	-	-	5	-	8	171	184
Disposals	(401)	-	(3)	-	(11)	(156)	(571)
Exchange differences	25	(6)	(3)	2	4	116	138
Impairment of assets	-	42	-	(3)	(11)	(596)	(568)
Depreciation expense	-	(58)	(35)	(13)	(150)	(90)	(346)
Balance at 31 December 2021	-	57	36	15	54	1,146	1,308
Additions	-	-	7	-	3	4	14
Disposals	-	(3)	(3)	(5)	-	(49)	(60)
Exchange differences	-	-	-	-	1	52	53
Impairment of assets	-	-	-	-	-	(763)	(763)
Depreciation expense	-	(26)	(25)	(10)	(44)	(72)	(177)
Balance at 31 December 2022	<u>-</u>	<u>28</u>	<u>15</u>	<u>-</u>	<u>14</u>	<u>318</u>	<u>375</u>



Note 15. Right-of-use assets

	2022	Group
	\$'000	2021
		\$'000
<i>Non-current assets</i>		
Land and buildings - right-of-use	3,351	4,039
Less: Accumulated depreciation	(1,910)	(2,162)
Less: Impairment	(704)	(704)
	<u>737</u>	<u>1,173</u>

The Group leases land and buildings for its offices, warehouses and retail outlets under agreements of between 2 to 5 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Group	Land and buildings - right- of-use \$'000
Balance at 1 January 2021	1,412
Lease liability remeasured	450
Disposals	(36)
Exchange differences	60
Depreciation expense	<u>(713)</u>
Balance at 31 December 2021	1,173
Modification of lease assumptions	(12)
Exchange differences	32
Impairment of assets	(3)
Depreciation expense	<u>(453)</u>
Balance at 31 December 2022	<u><u>737</u></u>

For other AASB 16 and lease related disclosures refer to the following:

- Refer to note 7 for interest on lease liabilities and other lease payments;
- Refer to note 20 for lease liabilities at 31 December 2022;
- Refer to note 24 for maturity analysis of lease liabilities; and
- Refer to the consolidated statement of cash flows for repayment of lease liabilities.



Note 16. Intangibles

	2022	Group
	\$'000	2021
		\$'000
<i>Non-current assets</i>		
Website and software - at cost	1,049	1,029
Less: Accumulated amortisation	(808)	(672)
Less: Impairment	(241)	(41)
	<u>-</u>	<u>316</u>
Patents and trademarks - at cost	152	149
Less: Impairment	-	(2)
	<u>152</u>	<u>147</u>
Customer relationships - at cost	-	2,475
Less: Accumulated amortisation	-	(1,256)
Less: Impairment	-	(1,219)
	<u>-</u>	<u>-</u>
	<u>152</u>	<u>463</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Group	Website and software \$'000	Patents and trademarks \$'000	Customer relationships \$'000	Total \$'000
Balance at 1 January 2021	657	123	137	917
Additions	127	23	-	150
Disposals	-	(17)	-	(17)
Exchange differences	25	-	5	30
Impairment of assets	(204)	18	-	(186)
Amortisation expense	(289)	-	(142)	(431)
	<u>316</u>	<u>147</u>	<u>-</u>	<u>463</u>
Balance at 31 December 2021	316	147	-	463
Additions	-	5	-	5
Exchange differences	9	-	-	9
Impairment of assets	(234)	-	-	(234)
Amortisation expense	(91)	-	-	(91)
	<u>-</u>	<u>152</u>	<u>-</u>	<u>152</u>
Balance at 31 December 2022	<u>-</u>	<u>152</u>	<u>-</u>	<u>152</u>



Note 17. Trade and other payables

	2022	Group
	\$'000	2021
		\$'000
<i>Current liabilities</i>		
Trade payables	1,076	1,362
GST and sales tax payable	28	43
Credit cards	53	179
Other payables	220	624
	<u>1,377</u>	<u>2,208</u>

Refer to note 24 for further information on financial instruments.

Note 18. Contract liabilities

	2022	Group
	\$'000	2021
		\$'000
<i>Current liabilities</i>		
Contract liabilities	<u>22</u>	<u>94</u>

Reconciliation

Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:

Opening balance	94	89
Payments received in advance	22	94
Transfer to revenue - performance obligations satisfied in previous periods	<u>(94)</u>	<u>(89)</u>
Closing balance	<u>22</u>	<u>94</u>

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was \$22,000 as at 31 December 2022 (\$94,000 as at 31 December 2021) and is expected to be recognised as revenue in future periods as follows:

	2022	Group
	\$'000	2021
		\$'000
Within 6 months	<u>22</u>	<u>94</u>

Note 19. Borrowings

	2022	Group
	\$'000	2021
		\$'000
<i>Current liabilities</i>		
Insurance premium funding	<u>320</u>	<u>428</u>
<i>Non-current liabilities</i>		
Related party loan from Raw With Life	<u>250</u>	<u>250</u>



Note 19. Borrowings (continued)

Refer to note 24 for further information on financial instruments.

Prior to its acquisition by Elixinol Wellness Limited, Hemp Foods Australia entered into a Shareholder Loan Deed with Raw With Life, an entity controlled by Mr Paul Benhaim, whereby Raw With Life agreed to lend \$250,000 to Hemp Foods Australia. The loan is made on an unsecured basis, with no interest currently payable. Hemp Foods Australia undertakes to repay the loan subject to achievement of predefined performance milestones. This is a related party agreement, as Raw With Life holds (as at the date of this report) approximately 9.4% of the shares in Elixinol Wellness Limited. The Group assessed the fair value of the loan at the reporting date and the amount is not materially different from its carrying value.

Note 20. Lease liabilities

	2022 \$'000	Group 2021 \$'000
<i>Current liabilities</i>		
Lease liability	697	747
<i>Non-current liabilities</i>		
Lease liability	568	1,223
Lease make good provision	69	67
	<u>637</u>	<u>1,290</u>

Refer to note 24 for further information on financial instruments.

Note 21. Issued capital

	2022 Shares	2021 Shares	2022 \$'000	Group 2021 \$'000
Ordinary shares - fully paid	316,132,461	315,778,066	218,122	218,058

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 January 2021	313,227,117		217,730
Performance rights issued	31 January 2021	468,750	\$0.000	87
Performance rights issued	28 February 2021	854,430	\$0.000	135
Performance rights issued	31 May 2021	379,747	\$0.000	60
Performance rights issued	31 August 2021	379,272	\$0.000	69
Performance rights issued	21 October 2021	468,750	\$0.000	87
Share issue transaction costs				(110)
Balance	31 December 2021	315,778,066		218,058
Issue of shares on exercise of performance rights	28 February 2022	354,395	\$0.000	64
Balance	31 December 2022	<u>316,132,461</u>		<u>218,122</u>

Balance of issued capital reflects Treasury shares on acquisition of Altmed Pet LLC on 24 April 2019 of 133,110 shares. Treasury shares are ordinary shares of the parent entity held by subsidiaries and /or associates



Note 21. Issued capital (continued)

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment.

The capital risk management policy remains unchanged from the 31 December 2021 Annual Report.

Note 22. Reserves

	2022	Group
	\$'000	2021
		\$'000
Foreign currency translation reserve	9,086	8,675
Share-based payments reserve	596	419
	<u>9,682</u>	<u>9,094</u>

Foreign currency translation reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Note 23. Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 24. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group'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 Group.



Note 24. Financial instruments (continued)

Risk management is carried out by senior finance executives ('Finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies and evaluates financial risks within the Group's operating units. Finance provides reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

In addition, the Group is exposed to non-financial instrument risk on the translation of foreign subsidiaries from their functional currency to the presentation currency. This presentation risk is separate to the foreign currency risk dealt with in this note.

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Group	Assets		Liabilities	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
US dollars	-	-	217	184
Euros	-	12	1	-
	<u>-</u>	<u>12</u>	<u>218</u>	<u>184</u>

The Group had net liabilities denominated in foreign currencies of \$218,000 (assets of \$nil less liabilities of \$218,000) as at 31 December 2022 (31 December 2021: net liabilities of \$172,000 (assets of \$12,000 less liabilities of \$184,000)). Based on this exposure, had the Australian dollar weakened or strengthened against these foreign currencies with all other variables held constant, the Group's profit before tax for the period would have been as follows.

The sensitivity analysis carried out by the Group considers the effects on its trade receivables and payables of 5% increase and decrease between the relevant foreign currency and the Australian dollar (reporting currency).

Group - 2022	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax \$'000	Effect on equity \$'000		Effect on profit before tax \$'000	Effect on equity \$'000
US dollars	5%	11	11	5%	(11)	(11)
Euros	5%	-	-	5%	-	-
		<u>11</u>	<u>11</u>		<u>(11)</u>	<u>(11)</u>



Note 24. Financial instruments (continued)

Group - 2021	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax \$'000	Effect on equity \$'000		Effect on profit before tax \$'000	Effect on equity \$'000
US dollars	5%	9	9	5%	(10)	(10)
Euros	5%	-	-	5%	1	1
Pounds Sterling	5%	-	-	5%	-	-
		<u>9</u>	<u>9</u>		<u>(9)</u>	<u>(9)</u>

The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last year and the spot rate at the reporting date. A positive number indicates an increase in profit, a negative number indicates a decrease in profit. The actual foreign exchange loss for the year ended 31 December 2022 was \$41,000 (31 December 2021: gain of \$84,000).

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group is not exposed to any significant interest rate risk.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Consistent with our credit procedures we categorise our receivables based on days past due and we adjust our expected credit losses in relation to those receivables as and when there is a change in days past due in expected receivables.

Expected credit loss is initially recognised in respect to a receivable when it is 30 days past due.

Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.



Note 24. Financial instruments (continued)

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Group - 2022	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	1,076	-	-	-	1,076
Other payables	-	273	-	-	-	273
<i>Interest-bearing - variable</i>						
Lease liability	3.26%	697	568	-	-	1,265
<i>Interest-bearing - fixed rate</i>						
Insurance premium funding	8.30%	320	-	-	-	320
Total non-derivatives		2,366	568	-	-	2,934

Group - 2021	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	1,362	-	-	-	1,362
Other payables	-	803	-	-	-	803
<i>Interest-bearing - variable</i>						
Lease liability	3.29%	747	1,016	207	-	1,970
<i>Interest-bearing - fixed rate</i>						
Insurance premium funding	3.03%	428	-	-	-	428
Total non-derivatives		3,340	1,016	207	-	4,563

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 25. Fair value measurement

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.



Note 26. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by BDO Audit Pty Ltd, the auditor of the Company, and its network firms:

	2022 \$	Group 2021 \$
<i>Audit services - BDO Audit Pty Ltd</i>		
Audit or review of the financial statements	255,219	234,351
<i>Other services - BDO Audit Pty Ltd</i>		
Taxation compliance services	39,495	9,472
Other advisory services	145,578	10,779
	185,073	20,251
	<u>440,292</u>	<u>254,602</u>
<i>Other services - network firms</i>		
Taxation services	78,811	76,389
Other advisory services	-	52,746
	<u>78,811</u>	<u>129,135</u>

Note 27. Contingent liabilities

The Group had no contingent liabilities as at 31 December 2022 and 31 December 2021.

Note 28. Commitments

	2022 \$'000	Group 2021 \$'000
<i>Inventory purchase commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Inventory purchases under contract	1,081	71

In conjunction with the proposed acquisition of The Sustainable Nutrition Group ('TSN'), the Company has agreed to provide a loan to TSN of up to \$2.0m. A total of \$1,148,000 was drawn down on this loan on the loan at 31 December 2022 with a remaining commitment of \$852,000 to be funded prior to closing of the scheme.

Note 29. Key management personnel disclosures

Compensation

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

	2022 \$	Group 2021 \$
Short-term employee benefits	924,203	972,010
Post-employment benefits	137,694	66,746
Share-based payments	(26,283)	36,092
	<u>1,035,614</u>	<u>1,074,848</u>



Note 30. Related party transactions

Parent entity

Elixinol Wellness Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 32.

Associates and other investee

Interests in associates are set out in note 13.

Key management personnel

Disclosures relating to key management personnel are set out in note 29 and the remuneration report included in the directors' report.

Transactions between the parent company, its subsidiaries and joint operations are eliminated on consolidation and are not disclosed in this note.

Receivable from and payable to related parties

All transactions were made on normal commercial terms and conditions and at market rates.

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

	2022 \$	Group 2021 \$
Non-current borrowings:		
Loan from Raw With Life, an entity controlled by Paul Benhaim, to Hemp Foods Australia Pty Ltd	250,000	250,000

Prior to its acquisition by Elixinol Wellness Limited, Hemp Foods Australia entered into a Shareholder Loan Deed with Raw With Life, an entity controlled by Mr Paul Benhaim, whereby Raw With Life agreed to lend \$250,000 to Hemp Foods Australia. The loan is made on an unsecured basis, with no interest currently payable. Hemp Foods Australia undertakes to repay the loan subject to achievement of predefined performance milestones. This is a related party agreement, as Raw With Life holds (as at the date of this report) approximately 9.25% of the shares in Elixinol Wellness Limited. The Group assessed the fair value of the loan at the reporting date and the amount is not materially different from its carrying value.

Loan transactions were made on negotiated terms and conditions.

Note 31. Parent entity information

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

Statement of profit or loss and other comprehensive income

	2022 \$'000	Parent 2021 \$'000
Loss after income tax	(10,161)	(16,658)
Total comprehensive loss	(10,161)	(16,658)



Note 31. Parent entity information (continued)

Statement of financial position

	2022 \$'000	Parent 2021 \$'000
Total current assets	2,634	12,265
Total assets	10,657	20,895
Total current liabilities	1,286	1,365
Total liabilities	1,499	1,818
Equity		
Issued capital	218,800	218,735
Share-based payments reserve	596	419
Accumulated losses	(210,238)	(200,077)
Total equity	<u>9,158</u>	<u>19,077</u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Except for the deed of cross guarantee, as detailed in note 33, the parent entity had no other guarantees in relation to the debts of its subsidiaries as at 31 December 2022 and 31 December 2021.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2022 and 31 December 2021.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2022 and 31 December 2021.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment

Note 32. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2022 %	2021 %
Elixinol LLC	United States of America	100%	100%
EXL International Holdings LLC	United States of America	100%	100%
Elixinol Wellness (Corporate Services) Pty Ltd	Australia	100%	100%
Elixinol Wellness (Byron Bay) Pty Ltd (trading as Hemp Foods Australia)	Australia	100%	100%
Elixinol BV	Netherlands	100%	100%
Elixinol Ltd	United Kingdom	100%	100%



Note 33. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Elixinol Wellness Limited
Elixinol Wellness (Corporate Services) Pty Ltd
Elixinol Wellness (Byron Bay) Pty Ltd
Elixinol LLC
EXL International Holdings LLC
Elixinol BV
Elixinol Ltd

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Elixinol Wellness Limited, they also represent the 'Extended Closed Group'.

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position are substantially the same as the Group and therefore have not been separately disclosed.

Note 34. Cash flow information

Reconciliation of loss after income tax to net cash used in operating activities

	2022	Group
	\$'000	2021
		\$'000
Loss after income tax benefit/(expense) for the year	(10,571)	(17,025)
Adjustments for:		
Depreciation and amortisation	721	1,489
Impairment of non-current assets	533	771
Impairment of intangibles	234	186
Impairment of inventory	253	2,778
Net loss on disposal of property, plant and equipment	61	76
Share-based payments	241	194
Doubtful debts	64	62
Others	132	(50)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	144	(2,014)
Decrease/(increase) in inventories	227	(244)
Decrease in income tax refund due	482	-
Decrease/(increase) in prepayments, deposits and other	552	(51)
Decrease in trade and other payables	(831)	(619)
Increase/(decrease) in contract liabilities	(72)	5
Decrease in provision for income tax	-	(29)
Decrease in other provisions	(13)	(115)
Increase/(decrease) in accrued expenses	(201)	87
Increase/(decrease) in premium funding	(108)	428
Net cash used in operating activities	<u>(8,152)</u>	<u>(14,071)</u>



Note 34. Cash flow information (continued)

Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

Group	Loan with Raw With Life \$'000	Lease liabilities \$'000	Total \$'000
Balance at 1 January 2021	250	2,494	2,744
Net cash used in financing activities	-	(1,047)	(1,047)
Lease liability remeasured	-	450	450
Exchange differences	-	140	140
Balance at 31 December 2021	250	2,037	2,287
Net cash used in financing activities	-	(757)	(757)
Exchange differences	-	(15)	(15)
Balance at 31 December 2022	<u>250</u>	<u>1,265</u>	<u>1,515</u>

Note 35. Earnings per share

	2022 \$'000	Group 2021 \$'000
Loss after income tax attributable to the owners of Elixinol Wellness Limited	<u>(10,571)</u>	<u>(17,025)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>316,076,146</u>	<u>314,819,959</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>316,076,146</u>	<u>314,819,959</u>
	Cents	Cents
Basic loss per share	(3.34)	(5.41)
Diluted loss per share	(3.34)	(5.41)

Performance rights (note 36) have not been included in the calculation diluted earnings per share as their inclusion would be anti-dilutive to the Group as at 31 December 2022 and 31 December 2021.

Note 36. Share-based payments

The Group has established a long-term incentive share-based payment ('LTIP'). Under the LTIP, the Board at its absolute discretion can include options and performance rights over ordinary shares in the Company to directors, key management personnel and employees.

During the current year 13,767,195 performance rights were issued for \$nil consideration and the share-based payment debit in profit and loss was \$128,000 that included \$212,000 credit for forfeitures and \$340,000 debit current period expense. The equity movement was a credit of \$126,000 that included \$64,000 credit for performance rights exercised as issue capital, and \$331,000 movement in the share-based payment reserve.

During the prior year 6,694,468 performance rights were issued for nil consideration and the share-based payment debited in the profit or loss was \$194,000 and the equity movement was a credit of \$194,000.



Note 36. Share-based payments (continued)

Performance rights are awarded based on the fixed amount to which the individual is entitled. Upon satisfaction of vesting and employment conditions, each performance right will, at the Company's election, convert to a share on a one-for-one basis or entitle the participant to receive in cash to the value of a share at the Board's discretion in lieu of an allocation of shares.

The performance period of share rights granted in 2020 is from 1 January 2020 to 31 December 2022. The performance period of the grant made in 2019 is three financial years in three equal tranches from the financial year of granting. For the grant made during 2018, the performance period is from 20 March 2018 to 31 December 2022.

The performance period of share rights granted in 2021 is from 1 January 2021 to 31 December 2023.

The vesting dates are as follows:

Share Rights granted in 2021

Share Rights granted in 2022

Vesting date

Vesting date

28 February 2024

28 February 2025

Grant dates and details

Set out below are summaries of performance rights granted under the plan:

2022		Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Grant date	Expiry date					
03/04/2018	03/07/2023	30,112	-	-	(30,112)	-
15/05/2018	15/08/2023	225,000	-	-	(225,000)	-
21/09/2019	21/12/2024	9,598	-	-	(9,598)	-
30/07/2020	30/10/2025	910,654	-	-	(848,383)	62,271
07/07/2021	07/10/2026	354,395	-	(354,395)	-	-
07/07/2021	07/10/2026	3,124,981	-	-	(914,777)	2,210,204
21/01/2022	21/04/2027	-	11,523,034	-	(3,766,279)	7,756,755
26/05/2022	26/08/2027	-	144,689	-	(144,689)	-
26/05/2022	26/08/2027	-	467,692	-	-	467,692
26/05/2022	26/08/2027	-	1,631,780	-	-	1,631,780
		4,654,740	13,767,195	(354,395)	(5,938,838)	12,128,702

2021		Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Grant date	Expiry date					
03/04/2018	03/07/2023	60,224	-	-	(30,112)	30,112
15/05/2018	15/08/2023	450,000	-	-	(225,000)	225,000
21/09/2019	21/12/2024	35,166	-	-	(25,568)	9,598
30/07/2020	30/10/2025	937,500	-	(937,500)	-	-
30/07/2020	30/10/2025	1,356,923	-	-	(446,269)	910,654
16/10/2020	02/01/2026	1,234,177	-	(1,234,177)	-	-
07/07/2021	07/10/2026	-	751,439	(379,272)	(17,772)	354,395
07/07/2021	07/10/2026	-	4,609,442	-	(1,484,461)	3,124,981
07/07/2021	07/10/2026	-	1,333,587	-	(1,333,587)	-
		4,073,990	6,694,468	(2,550,949)	(3,562,769)	4,654,740

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 2.39 years (31 December 2021: 3.65 years).



Note 36. Share-based payments (continued)

For the performance rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Expected volatility*	Dividend yield	Risk-free interest rate*	Fair value at grant date
21/01/2022	21/04/2027	\$0.073	91.10%	-	-	\$0.056
26/05/2022	26/08/2027	\$0.048	-	-	-	\$0.000
26/05/2022	26/08/2027	\$0.048	95.60%	-	-	\$0.083
26/05/2022	26/08/2027	\$0.048	91.10%	-	-	\$0.057

* Where no % is stated there are no market vesting conditions attached to the performance rights and vesting condition includes continuity of service.

Volatilities, betas and correlations (all using the equally weighted model) are calculated using the Stambaugh method, which handles assets with short price histories (e.g. newly listed stocks) without truncating the histories of all the assets to match the number of prices for the assets with the shortest history.

Note 37. Events after the reporting period

On 29 November 2022, The Company announced that it entered into a binding scheme implementation deed with The Sustainable Nutrition Group Ltd (ACN 071 666 334) (ASX: TSN) ('TSN'), under which it is proposed that Elixinol Wellness will acquire 100% of the shares in TSN and exchange 100% of TSN Scheme Options by way of Schemes of Arrangement, in exchange for 1.1225 EXL shares and 1.1225 EXL options per TSN share and TSN Scheme Option respectively. Current Elixinol Wellness shareholders will hold 70% of the issued capital of EXL following the implementation of the schemes. The schemes require regulatory and shareholder approvals.

On 30 November 2022, the Company announced the proposed issue of 9,036,068 performance rights to Canaccord for consideration of services provided to TSN as TSN's exclusive financial adviser in connection with the scheme implementation deed announced on 29 November 2022 with the Company. The performance rights have not yet been issued but are expected to be issued following the completion of the schemes.

On 14 February 2023, the Company announced that the dispute between CannaCare Health GmbH ('CannaCare') and the Company's wholly owned subsidiary, Elixinol BV, has now been successfully concluded, with the Arbitration Award made in the Company's favour and the Arbitrator ordering a final Award of approximately 543,000 EUR (\$835,000). The Arbitration Award is vindication of the Company's position that it was owed the payments the subject of the arbitration and that the claims made by CannaCare's shareholders were without merit.

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.



In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the financial year ended on that date;
- 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
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 33 to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Helen Wiseman
Independent Non-Executive Director and Chair

27 February 2023

INDEPENDENT AUDITOR'S REPORT

To the members of Elixinol Wellness Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Elixinol Wellness Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2022 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material uncertainty related to going concern

We draw attention to Note 2 in the financial report which describes the events and conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment / recoverability of investment in Atmed Pets LLC ('Pet Releaf')

Key audit matter	How the matter was addressed in our audit
<p>There is a risk that the carrying value of the investment in Pet Releaf might be impaired if Pet Releaf is unable to generate economic benefits in excess of the carrying value.</p> <p>Due to the significant assumptions and judgements that are involved in impairment assessments, we have determined that this is a key audit matter.</p>	<p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> • Reviewed and analysed the Group's value-in-use cash flow models to support the carrying value of non-current-assets. • Performed procedures on the forecasts and discounted cash flow models, including validation of inputs in order to test the impairment analysis. • Compared Pet Releaf's financial performance to the forecast results and discussed potential indicators of impairment including reviewing performance for the period subsequent to the financial year end.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2022, but does not include the financial report and the auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as 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 Group or to cease operations, or has no realistic alternative but to do so.



Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2022.

In our opinion, the Remuneration Report of Elixinol Wellness Limited, for the year ended 31 December 2022, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit Pty Ltd

BDO

A handwritten signature in black ink that reads 'Leah Russell'.

Leah Russell
Director

Sydney, 27 February 2023



The shareholder information set out below was applicable as at 23 February 2023.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders	Ordinary shares % of total shares issued
1 to 1,000	3,109	0.42
1,001 to 5,000	2,507	2.20
5,001 to 10,000	1,147	2.88
10,001 to 100,000	2,478	24.42
100,001 and over	521	70.08
	<u>9,762</u>	<u>100.00</u>
Holding less than a marketable parcel	<u>7,716</u>	<u>9.53</u>

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Number held	Ordinary shares % of total shares issued
RAW WITH LIFE PTY LTD (BENHAIM TRADING A/C)	29,209,217	9.24
CITICORP NOMINEES PTY LIMITED	16,300,377	5.15
D & G HEALTH LLC	5,119,229	1.62
BNP PARIBAS NOMS PTY LTD (DRP)	4,411,662	1.39
BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	4,294,462	1.36
MRS KELLY DANIELLE VAGG	3,537,770	1.12
MR ERIC CHI KEUNG WONG	2,310,226	0.73
MR MICHAEL ERNEST GRANATA (THE GRANATA FAMILY A/C)	2,200,000	0.70
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	2,017,205	0.64
MR JIA HONG ZHANG	1,858,472	0.59
PANTHER TRADING PTY LTD (PANTHER A/C)	1,576,471	0.50
MR JYOTINDRA SUBEDI	1,500,283	0.47
MR GABRIEL GEORGES ALKAN	1,467,982	0.46
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,371,933	0.43
MS XIAO LAN WANG	1,339,568	0.42
MR RAYMOND WINDWARD DYNE	1,300,000	0.41
EIGHTEEN HOLDINGS PTY LTD	1,300,000	0.41
MR KIERAN JOHN O'BRIEN	1,271,500	0.40
KANEDEN ENTERPRISES PTY LTD (ROSEBURGH FAMILY SUPER A/C)	1,200,000	0.38
MS SIU LING WU & MR CHUNG YIN LIU	1,194,135	0.38
	<u>84,780,492</u>	<u>26.80</u>

Unquoted equity securities

	Number on issue	Number of holders
Performance rights issued	12,128,702	18



There were no person that holds 20% or more of unquoted performance rights.

Substantial holders

Substantial holders in the Company are set out below:

	Number held	Ordinary shares % of total shares issued
RAW WITH LIFE PTY LTD (BENHAIM TRADING A/C)	29,209,217	9.24
CITICORP NOMINEES PTY LIMITED	16,300,377	5.15

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.



Directors	Helen Wiseman - Independent Non-Executive Director and Chair David Fenlon - Independent Non-Executive Director Paul Benhaim - Non-Executive Director Oliver Horn - Non-Executive Director
Global Chief Executive Officer	Ron Dufficy
Global Chief Financial Officer	Josephine Lorenz
Company secretaries	Teresa Cleary Kim Bradley-Ware
Registered office	Level 12 680 George Street Sydney NSW 2000 Tel: (02) 4044 4585 (within Australia) Tel: +61 (0) 2 4044 4585 (outside Australia)
Mailing address	PO Box 20547 World Square NSW 2002
Share register	Automic Pty Ltd Level 5 126 Phillip Street Sydney NSW 2000 Tel: 1300 288 664 (within Australia) Tel: +61 (0) 2 9698 5414 (outside Australia)
Auditor	BDO Audit Pty Ltd Level 11 1 Margaret Street Sydney NSW 2000
Stock exchange listing	Elixinol Wellness Limited shares are listed on the Australian Securities Exchange (ASX code: EXL) and trades on the American Over-The-Counter ('OTC') marketplace.
Website	www.elixinolwellness.com
Twitter	EXLWellness
Corporate Governance Statement	<p>The Company's directors and management are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations (4th Edition) ('Recommendations') to the extent appropriate to the size and nature of the Group's operations.</p> <p>The Company has prepared a Corporate Governance Statement which sets out the corporate governance practices that were in operation throughout the financial year, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations.</p> <p>The Company's Corporate Governance Statement and policies, which is approved at the same time as the Annual Report, can be found on its website: https://www.elixinolwellness.com/site/About-Us/corporate-governance</p>