



29 April 2022

Zelira delivers strong Q3 with strategic acquisition set to accelerate positive outlook

QUARTERLY ACTIVITIES REPORT FOR Q3 FY2022 ASX ANNOUNCEMENT

Q3 FY2022 HIGHLIGHTS



Cash receipts up in Q3, with growth momentum set to continue

- Q3 cash receipts from customers of \$0.478 million, 40.2% increase on Q2 (Q2 FY2022: \$0.341 million)
- Cash receipts includes \$0.342 million partial receipt of the EDCDM technology licensing fee
- A further \$1.292 million received as a refund under the Australian Federal Government's Research and Development Tax Incentive Scheme



Zelira entered a binding term sheet to acquire 100% of Health House International Limited

- The strategic acquisition of Health House will bolster Zelira's medicinal cannabis product expansion and distribution capabilities
- As announced on 19 April 2022, Zelira has entered into a Scheme Implementation Deed with Health House International



Undertook share consolidation, simplifying capital structure and supporting share register efficiencies and savings going forward



Zelira Therapeutics Ltd (ASX:ZLD, OTCQB:ZLDAF), a global leader in the research, development and commercialization of clinically validated cannabinoid medicines, is pleased to provide this quarterly activities report alongside its Appendix 4C for the three months ended 31 March 2022 (Q3 FY2022).



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Commenting on the operational progress in Q3 FY2022, Global Managing Director & CEO, Dr Oludare Odumosu said:

“Zelira delivered a strong third quarter operationally with cash receipts increasing 40% quarter on quarter.

We are very excited by the proposed acquisition of Health House and see huge potential post-merger. From a clinical trial perspective, the transaction provides Zelira with control of direct access to high quality international standard clinical trial capabilities for our proprietary cannabinoid-based products. This will materially improve the speed at which these products can obtain clinical validation, while reducing the cost of such clinical trials. From a distribution perspective, the transaction provides Zelira with control of direct access to the highly regulated European markets as well as direct access to European manufacturing facilities. The ability to manufacture and sell Zelira products directly into the markets that Health House is already active will not only improve margins but accelerate Zelira’s revenue profile and cash-flow break-even position.

Simplifying our capital structure via a share consolidation during the quarter was an important capital management objective. We continually assess our capital structure to ensure that we are well set up to execute on our growth strategy. The reduction in the number of shares on issue was an important reset as the Company enters its next growth phase, and an initiative that will generate savings going forward.

The outlook for Zelira is very promising. Our focused growth strategy of having a diversified product suite and multiple distribution channels is delivering. Having gained access to Germany and New Zealand via additional distribution agreements in the first half of FY22, and with the largest medicinal cannabinoid distributors in each market, we were already confident of the continued growth trajectory.

The proposed acquisition of Health House has further strengthened our outlook view. Post-merger, we will establish a truly global medicinal cannabis business enabling licensing, distribution, manufacturing, and research and development into some of the world’s largest markets.”

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Cash receipts up in Q3, with growth momentum to continue

Zelira generated quarterly cash receipts of \$0.478 million in Q3 FY2022, primarily underpinned by \$0.342 million partial receipt of the US\$1 million EDCDM technology licensing fee. This represented 40.2% growth on Q2 FY2022's \$0.341 million although cash receipts from Zelira's other commercial products decreased by 60% due to delays in the global supply chain of key raw materials and packaging material.

The US\$750k balance of the EDCDM license fee has not yet been received, Zelira will continue to pursue settlement of the outstanding balance and will continue to update shareholders as discussions progress. In the event that DRCN still fails to fulfil its contractual obligations to Zelira, Zelira retains the non-refundable US\$250,000 it has already received from DRCN without any further obligation with respect to sharing any aspect of the EDCDM technology.

Receipt of R&D refund in Q3 FY2022

Zelira received a \$1.292 million refund under the Australian Federal Government's Research and Development Tax Incentive Scheme.

The funds will be used to support the growth in recent launched products including Zenivol® for Insomnia, HOPE® for Autism and a new CBD-Toothpaste into global markets, and also to advance Zelira's ongoing clinical and product development programs.

Zelira's proposed acquisition of Health House International Limited

In February 2022, Zelira entered into a binding term sheet with Health House Limited (ASX: HHI) (Health House) under which it proposed that Zelira will acquire 100% of the shares in Health House by way of a Scheme of Arrangement. As announced on 19 April, the two companies have now signed a Scheme Implementation Deed.

Under the Scheme, Zelira will issue shares to Health House shareholders giving Health House parties a 19.45% interest in the expanded capital of Zelira.

The addition of Health House to the Zelira business will create an organisation with stronger medicinal cannabis products and distribution capabilities. Combining Zelira's research team and Health Houses' European based Kalapa Clinic will enable an opportunity to materially improve the speed at which Zelira's proprietary cannabinoid-based formulations and products can obtain clinical validation and subsequently reduce the costs of clinical trials and improve margins. Margins will also benefit from local manufacturing capabilities and improved distribution capabilities of Zelira products in Europe.

Zelira provided Health House with a \$1.5 million working capital facility to assist it with its working capital needs.





Share consolidation simplifies capital structure of Company

A capital management initiative undertaken in third quarter was to simplify Zelira's capital structure via a 175:1 share consolidation. The share consolidation was undertaken to not only simplify the Company's capital structure, but also generate register saving efficiencies. Zelira remains very focused on capital management and wants to ensure that its capital structure supports the Group's growth strategy and drives value for shareholders.

Operational activities

The strong performance in Q3 FY2022 reflects Zelira's continuous focus on licensing Zelira's proprietary assets, in addition to commercialisation activities and geographic expansion.

Financial snapshot

The Company's net cashflow used in operations for Q3 FY2022 was \$1.373 million. Operational expenses mainly comprised:

- Product manufacturing and operating costs of \$532k, down from \$996k in Q2 FY2022
- Research and development of \$280k, relatively similar to \$300k in Q2 FY2022
- Staff costs of \$1.113 million, up on \$631k in Q2 FY2022
- Administrative and corporate costs of \$905k, up on \$642k in Q2 FY22, due to higher legal expenses associated with the fast growing patent portfolio prosecution in multiple geographic areas and the proposed acquisition of HHI

Cash receipts of \$0.478 million (Q2 FY2022: \$0.341 million) were mainly generated from \$0.342 million partial receipt of the EDCDM technology licensing fee. A further \$1.292 million was received as a refund under the Australian Federal Government's Research and Development Tax Incentive Scheme

Listing Rule 4.7C.3

In item 6 of the attached Appendix 4C, payments to related parties of approximately \$381k comprised Director Services of \$352k and Non-Director Services including corporate advisory services of \$4k, Accountancy Fees \$14k and Company Secretarial Services of \$11k

Health House fully drew down on the \$1.5 million working capital facility provided by Zelira.

As at 31 March 2022, the Company had a cash position of \$4.64 million.

Well positioned to continue growth trajectory

Zelira continues to deliver on its commercialisation plans, with revenues being generated from multiple products launched in Australia, US and UK, while expanding into new geographies including Germany and New Zealand. The proposed acquisition of Health House International will accelerate commercialisation plans in Europe, providing Zelira with direct access to the highly regulated European markets. Zelira is continuing to progress additional licensing discussions for HOPE® and Zenivol® in the US, while looking to conclude ongoing negotiations to expand distribution of these products into other global markets.

This announcement has been approved and authorised for release by the board of Zelira Therapeutics Limited.



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About Zelira www.zeliratx.com



Zelira Therapeutics Ltd (ASX:ZLD, OTCQB:ZLDAF) is a leading global biopharmaceutical company in the research, development and commercialization of clinically validated cannabinoid medicines. Zelira owns a portfolio of proprietary revenue generating products and a pipeline of candidates undergoing clinical development that are positioned to access the world's largest and fastest growing markets. The Company is focused on developing and clinically validating branded cannabinoid-based medicines for the treatment of a variety of medicinal conditions in its Rx business, including insomnia, autism and chronic non-cancer pain.

The Company has two proprietary formulations under the HOPE® brand that are generating revenues in Australia, Pennsylvania, Louisiana and Washington D.C. with other states in the US expected to follow. Zelira is also generating revenue in Australia from its proprietary and patented Zenivol® - a leading cannabinoid-based medicine for treatment of chronic insomnia. Zenivol® has successfully completed the first Phase 1b clinical trial for chronic insomnia where it was found to be a safe and effective treatment. This clinical trial is published in the prestigious journal 'Sleep'. In 2020, Zelira partnered with SprinJene® Natural to develop and commercialise natural and organic oral care products under the SprinjeneCBD brand, as part of Zelira's OTC business. The SprinjeneCBD toothpaste product is the first of several scientifically formulated, hemp-derived, oral care products containing cannabinoids and based on the proprietary and patented technology of Blackseed oil and Zinc.

The Company conducts its work in partnership with world-leading researchers and organizations including Curtin University in Perth, Western Australia; the Telethon Kids Institute in Perth; the University of Western Australia, in Perth; St. Vincent's Hospital in Melbourne, Australia; and the Children's Hospital of Philadelphia (CHOP) in the United States.