

ASX Announcement
28 April 2023

**Q1 FY23 QUARTERLY ACTIVITIES REPORT
AND APPENDIX 4C**

Elixinol Wellness reports revenue up 13% on PCP led by strong 28% growth from Hemp Foods Australia; completes \$1.25m placement and launches \$1.0m fully underwritten SPP to fund TSN acquisition, fast tracking the creation of Australia's first profitable hemp foods business

Key Highlights

- Elixinol Wellness Group Q1 FY23 revenue of \$1.7m¹, up 13% versus Q1 FY22 (\$1.5m) and in line with prior quarter despite post-Christmas seasonal softness.
- Hemp Foods Australia Q1 FY23 revenue of \$1.0m, in line with prior quarter and up 28% versus Q1 FY22 (\$0.8m), led by continued strong sales of Seed Mix through Coles and new national ranging of Hemp Seed Oil through Woolworths; new potential distribution opportunities being pursued.
- Post quarter, Elixinol Wellness successfully completed its \$1.25m Placement to institutional and sophisticated investors; \$1.0m fully underwritten Share Purchase Plan (SPP) offered to shareholders on equal terms with free attaching 1:1 option with offer to close on Friday 19 May 2023.
- Updated timetable announced for 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.
- The TSN acquisition will increase the size and scale of Elixinol Wellness 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.
- Net operating cash utilised, excluding non-recurring items, during Q1 FY23 was \$1.5m, in line with the prior quarter (Q4 FY22: \$1.5m). A continued focus on cost reduction drives expected lower operating cash expenditures in the coming quarters.
- Cash held as at 31 March 2023 was \$1.8m, including \$1.0m collected from the IRS with an additional \$0.5m collected post quarter end. Cash balance also includes \$0.4m collected from the successful German arbitration award with a further \$0.4m expected to be received in Q2 FY23. Including the post quarter capital raise of \$1.25m and \$1.0m proceeds expected from an underwritten SPP, available funds now total \$5.0m.

¹ All dollar amounts are in AUD unless otherwise stated; Average AUD/USD for Q1 FY23 = 0.6837; FY23 financials are unaudited.

Elixinol Wellness Limited (**Elixinol Wellness, EXL** or the **Company**) (**ASX: EXL**) a pioneer in the global hemp industry, innovating, marketing and selling hemp-derived nutraceutical, food and topical products, releases its Quarterly Activities Report and Appendix 4C quarterly cash flow report for the quarter ended 31 March 2023 (**Q1 FY23**).

Group Chief Executive Officer and Managing Director (**Group CEO**), Ron Dufficy, commented: *“The March quarter was an important period for Elixinol Wellness which saw us lay further foundations to enable the proposed acquisition of The Sustainable Nutrition Group. This included preparations for a well-supported Placement to institutional and sophisticated investors, which was completed in April, and the launch of a Share Purchase Plan, which is being offered to shareholders on the same terms as the Placement.*

In line with our profitability focus, we took additional cost out of the business and invested in inventory which is expected to reduce the ongoing cash requirements of the combined Australian business over the next 12-18 months. Cost reductions included change at the EXL Board level, and we thank outgoing Directors, Paul Benhaim and Oliver Horn for their commitment to the Company over many years.

As we look ahead, the current quarter contains activities to complete and prepare for the TSN acquisition. Should all run in accordance with the current timetable, we expect to close this quarter poised to become a much larger, combined entity and ready to leverage the significant scale benefits available to us.”

Financial Summary

The Company reported revenue of \$1.7m for Q1 FY23, up 13% on the same period last year Q1 FY22 (\$1.5m) and in line with the prior quarter despite coming off a heavy promotional festive season in the previous quarter in the US.

On a pro forma basis including the contribution of TSN, the combined revenue for Q1 FY23 was \$2.6m.

Operating cash used, excluding non-recurring items, during Q1 FY23 was \$1.5m, in line with the prior quarter (Q4 FY22: \$1.5m). As a result of the Company’s continued focus on cost reduction, operating cash expenditures are expected to significantly reduce in the coming quarters. Additionally, the final payment for prior-existing commitments of Australian hemp grain will end in May 2023.

In conjunction with the proposed TSN acquisition, Elixinol Wellness agreed to provide a loan to TSN of up to \$2.0m to ensure outstanding liabilities to hemp growers are fully paid. This inventory of hemp grain is expected to reduce the ongoing cash requirements of the combined Australian business over the next 12-18 months. The Company will continue to work with Australian farmers to help develop a sustainable hemp growing industry, which is fundamental to its strategy. A further \$0.6m was drawn down on this loan throughout the quarter leaving \$250k remaining undrawn and expected to be drawn in during Q2 FY23.

Cash held as at 31 March 2023 was \$1.8m, including \$1.0m collected from the IRS with an additional \$0.5m collected post quarter end. Cash balance also include \$0.4m collected from the successful German arbitration award with a further \$0.4m expected to be received in Q2 FY23. Including the post quarter capital raise of \$1.25m and \$1.0m proceeds expected from an underwritten SPP, available funds now total \$5.0m.

Hemp Foods Australia Update

Hemp Foods Australia reported an 6% increase in revenue vs prior quarter and 28% vs PCP (Q1 FY23: \$1,041k vs Q4 FY22: \$978k and Q1 FY22: \$813k). The solid start to the year was led by continued strong sales of the Seed Mix range through Coles nationally, the rollout of Hemp Seed Oil across Woolworths stores nationally and promotional activity with Costco. Due to the early success of the Seed Mix range in Coles, two new products were presented to Coles as extensions to the range. During the quarter, Hemp Foods Australia's flavoured protein range was presented to a number of national retailers which also received positive feedback. The outcomes of these potential new ranging opportunities will be reported in future quarterly reporting.

The national Woolworths roll-out Hemp Foods Australia's product range coincides with the launch of a complete rebrand and fresh look for the product range.



Elixinol Americas Update

The Elixinol Americas revenue reported for Q1 FY23 was in line with PCP and 24% decrease vs prior quarter (Q1 FY23: \$686k vs Q1 FY22: \$713k and Q4 FY22: \$906k) reflecting historical seasonality following a heavy promotional festive season in the previous quarter and continued subdued sales through the retail channel.

The eCommerce channel delivered 7% growth vs PCP from a cost base 47% lower than the previous year. Subscription-based revenues contributed approximately one-third of total revenue for the quarter, a significant increase from 22% reported for FY22.

The new 'Elixinol Life' range is now scheduled to be available in May 2023 in conjunction with launching a new dedicated website which will allow greater digital marketing flexibility without the constraints imposed on CBD websites in the US.

During the quarter, the Company attended an Efficient Collaborative Retail Marketing (ECRM) conference where the new 'Elixinol Life' range was presented to numerous buyers at major chains who are in the product discovery phase. The range received positive feedback with several buyers requesting commercial samples to review and consider for future ranging. The outcomes of these potential new ranging opportunities will be reported in future quarterly reporting.



Rest of World Update

During the quarter the Company's exclusive licensee for the United Kingdom, BRITISH CANNABIS™, relaunched the Elixinol Skin range. The simple, all-natural products include a cleansing balm, a hemp lotion, day cream, miracle oil and a bath oil.



BRITISH CANNABIS™ Marketing Director, Steve Batchelor commented on the launch, “As well as being available for sale via elixinol.co.uk and soon to be available on CBD market giants such as, Amazon and eBay, we at BRITISH CANNABIS™ are in negotiation with several flagship retailers, who are set to be amongst the first to stock this range. Phase One of the range will include five variants at launch, with 2-3 more exciting editions later into 2023.”

Corporate Update

As part of the Company’s long-term strategy, which includes reducing corporate costs, Directors Mr Paul Benhaim and Mr Oliver Horn notified the Company of their intention to retire as Non-Executive Directors, effective from 6 April 2023.

The Board thanks both Mr Benhaim and Mr Horn for their significant service to the Board and shareholders and thanks them both for their valuable contribution and strong support with assisting the navigation of the Company’s revised strategy over this past year.

Chair, Ms Helen Wiseman, and Mr David Fenlon will continue on the Company’s Board of Directors, which will ensure a majority of independent directors on the Board.

Additionally, the Board expanded Group CEO Ron Dufficy’s role to also include the role of Managing Director. Mr Dufficy’s terms of employment, as announced to the market on 29 July 2022, remain unchanged as a result of this role expansion.

Effective 19 April 2023, Ms Kim Bradley-Ware of Company Matters resigned as joint Company Secretary of the Company and Ms Sarah Prince from Company Matters was appointed as joint Company Secretary.

Placement Successfully Completed and Launches Underwritten Share Purchase Plan

Post quarter, on 5 April 2023, Elixinol Wellness announced that it had secured firm commitments for a \$1.25m placement (**Placement**) from new and existing institutional and sophisticated investors and that it would undertake an underwritten Share Purchase Plan (**SPP**) to make the offer available on the same terms to existing shareholders.

Placement shares were offered to sophisticated and institutional investors at the offer price of \$0.018 per share, representing a 25% discount to the last price close on 31 March 2023 (\$0.024 per share). A total of 69,444,445 New Shares were issued within the Company’s available placement capacity under ASX Listing Rules 7.1 and 7.1A.

Participants in the Placement and SPP will be entitled to subscribe for one Attaching Option for every New Share issued. Each Attaching Option will be exercisable for one share at an exercise price of \$0.02 and will expire two years after the date of issue.

The SPP for eligible existing shareholders is being launched on the same terms as the Placement. It is open to eligible shareholders which are shareholders on the Company’s register as at 7.00pm (AEST) on 4 April 2023 (**Record Date**), with a registered address in Australia or New Zealand (**Eligible Shareholders**).

Under the SPP, Eligible Shareholders will be invited to subscribe for up to \$30,000 of new, fully paid ordinary shares (**SPP Shares**) without the cost of brokerage fees or commissions.

Elixinol Wellness intends to raise \$1.0m via the SPP and the Company reserves the right to accept over-subscriptions.

Further information in relation to the SPP, including the SPP terms and conditions and scale back policy, will be outlined in the SPP offer booklet which is expected to be dispatched to Eligible Shareholders on or around Monday, 1 May 2023.

Proposed Acquisition of The Sustainable Nutrition Group (TSN)

On 29 November 2022, Elixinol Wellness announced plans to implement schemes of arrangement (**Schemes**) with TSN to acquire 100% of TSN's ordinary shares and effect an exchange of options.

The acquisition increases size and scale for both Elixinol Wellness and TSN and will see the Group expand to own and operate 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 proposed acquisition of TSN aligns with Elixinol Wellness' strategic objectives of being a premium hemp and plant-based health and wellness company, and will provide the following benefits to the group:

- Creates a global plant-based food, health and wellness company: Optimises access to supply chains in Australia and enables the group to leverage access to one of the largest contract growers networks in Australia.
- Highly complementary product set with improved product innovation: Number of brands increase from four to eight across the human nutrition, food, CBD, pet, and wellness verticals. Additionally, the combined group's new product development and IP sharing will assist in driving cost effective growth, whilst also accelerating e-commerce growth with the increased product range aimed to increase growth in website traffic and online sales through seven e-commerce sites, including in the US.
- Expands distribution network: Immediately broadens distribution capabilities across Australia from 2,300 locations to 4,100 locations, providing substantial cross-sell opportunities for EXL and TSN brands, and the ability for EXL and TSN to expand existing relationships with partners and distributors.
- Increases size and scale: Leveraging the strategic reviews conducted by both TSN and EXL, the combined group aims to realise economies of scale through the rationalisation of operations and distribution channels. The combined group targets cost and revenue synergies to be realised over time, as well as margin expansion through the consolidation of operations.

- Leveraged to strong sector tailwinds: The combined group is positioned to leverage the mainstream shift towards plant-based, sustainable nutrition products. The global plant-based protein market is expected to significantly grow from US\$10.3bn in 2020 to US\$17.5bn in 2027².

Indicative timetable and next steps

On 5 April 2023, an updated timetable for the Schemes was released to ASX, as set out below. This timetable is indicative only and is subject to change due to factors including the timing of any necessary regulatory approvals.

First Court Hearing	Early May 2023
Scheme Meetings	Early June 2023
Second Court Hearing	Early June 2023
Effective Date	Late June 2023
Record Date	Late June 2023
Implementation Date	Late June 2023

A Scheme booklet containing information relating to the Schemes, the reasons for the TSN directors' recommendation, the Independent Expert's report and details of the Scheme Meetings will be dispatched to TSN shareholders and Option holders in advance of the Scheme Meeting.

More information on the proposed acquisition, benefits and next steps can be seen at the Elixinol Wellness website at www.elixinolwellness.com.

Appendix 4C Commentary

During the quarter the Company reported net operating cash expenditures of \$0.3m, down 83% compared with the previous quarter (Q4 FY22: \$1.7m). Net operating cash expenditure includes receipt of \$1.0m from the IRS, \$0.4m received following the successful German arbitration award and \$0.2m of transaction costs. Excluding non-recurring items, net operating cash expenditure was \$1.5m, consistent with the previous quarter (Q4 FY22: \$1.5m) and a 54% reduction versus PCP (Q1 FY22: \$3.3m). These expenditures supported revenue shifted toward direct-to-consumer channels and consolidating e-commerce capabilities, as well as investment in inventory for new product development and securing Australian hemp seed raw material, brand building, and the expansion of traditional retail distribution (in particular, in Australia via Hemp Foods Australia). Expenditures across business segments were as follows: Americas \$1.3m, Australia \$1.5m and Corporate \$0.4m. In addition, there was \$0.2m

² UnivDatos Market Insights: Plant-Based Protein Market. Current Analysis and Forecast 2021-2027, July 2021.

of non-recurring operating cash expenditures in relation to the proposed acquisition of TSN.

The Company reported payments to related parties totalling \$88,000. These payments comprise non-executive director fees, which will reduce further from this quarter onwards with a streamlined Elixinol Board. To support cost reduction efforts, the Directors have also elected to reduce their director fees from 1 July 2023 by 50% in exchange for equity, subject to shareholder approval at the Company's 31 May 2023 Annual General Meeting (**AGM**).

Note to Market

None of the information included in this announcement should be considered individually material, unless specifically stated. All figures in this announcement are provided on an unaudited basis. This Company presentation may include certain statements, estimates or projections with respect to the anticipated future performance of the Company, and any ongoing or future projects or both. Those statements, estimates or projections are based on assumptions about future events and management actions that may not necessarily take place and are subject to significant uncertainties, many of which are outside the control of the Company. Those assumptions may, or may not, prove correct. No representation is made as to the accuracy of those statements, estimates or projections.

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

Investor relations please contact:

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About Elixinol Wellness

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

- In the Americas, innovating, marketing and selling high quality Elixinol branded hemp and other plant derived nutraceutical and skincare products based in Colorado, USA
- In Australia, Hemp Foods Australia is a leading hemp food wholesaler, retailer, manufacturer and exporter of bulk and branded raw materials, and finished products
- In the United Kingdom, South Africa, Japan, Brazil, Mexico and Malaysia (pending approvals), branded hemp and other plant derived products are available to consumers via exclusive Distribution and/or Trademark and Know-How Licensing Agreements
- Across the Rest of World, expanding distribution of branded hemp and other plant derived products through reputable distributors as key markets open.

See more at www.elixinolwellness.com



About The Sustainable Nutrition Group Ltd (TSN)

TSN is a vertically integrated business which produces, manufactures, and distributes a range of sustainable and plant-based nutrition brands, including hemp products under the Mt Elephant, Australian Primary Hemp, Field Day and The Australian Superfood Company brands to retail, wholesale, e-commerce and white label customers in Australia. TSN engages across the value chain encompassing seed selection, farming, processing, packaging, distribution and sales of bulk, food service and retail products.

Appendix 4C

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

Name of entity

Elixinol Wellness Limited

ABN

34 621 479 794

Quarter ended ("current quarter")

31 March 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,738	1,738
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,386)	(1,386)
(c) advertising and marketing	(284)	(284)
(d) leased assets	46	46
(e) staff costs	(1,103)	(1,103)
(f) administration and corporate costs	(540)	(540)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	15	15
1.5 Interest and other costs of finance paid	(15)	(15)
1.6 Income taxes paid/(received)	(1)	(1)
1.7 Government grants and tax incentives	996	996
1.8 Other – non recurring	249	249
1.9 Net cash from / (used in) operating activities	(285)	(285)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(g) entities	-	-
(h) businesses	-	-
(i) property, plant and equipment	-	-
(j) investments	-	-
(k) intellectual property	-	-
(l) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	(600)	(600)
2.4	Dividends received (see note 3)	-	-
2.5	Other	-	-
2.6	Net cash from / (used in) investing activities	(600)	(600)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(169)	(169)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other	-	-
3.10	Net cash from / (used in) financing activities	(169)	(169)
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,864	2,864
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(285)	(285)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(600)	(600)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(169)	(169)
4.5	Effect of movement in exchange rates on cash held	43	43
4.6	Cash and cash equivalents at end of period	1,853	1,853

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,853	2,864
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,853	2,864

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	88
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

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

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

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(285)
8.2 Cash and cash equivalents at quarter end (item 4.6)	1,853
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	1,853
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	6.5
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
N/A	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
N/A	
8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
N/A	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

Compliance statement

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

28 April 2023

Date:

The Board

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

Notes

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