ElixinolWellness

ASX: EXL

ANNUAL REPORT **2021**

Marty McConnon, one of Hemp Foods Australia's trusted Tasmanian hemp harvesters.

Elixinol Wellness (ASX: EXL) is a global leader in the hemp industry, innovating, marketing and selling hemp derived nutraceutical and food products.

www.elixinolwellness.com

Contents

Business Overview

Heritage
Champions in hemp for 25 years

Global knowledge
Our global footprint delivers highest quality products

Quality & transparency
Our products are science & evidence backed

Compliance focus
We maintain a strict compliance focus in a dynamic landscape

VISION

To create a healthier everyday life through the power of hemp and plant-based products

AMBITION

Building a global, hemp-centric wellness consumer products company

PURPOSE

Changing lives naturally!

Our Brands

A global consumer wellness business built on the goodness of hemp.

Elixinol CBD Brand (Digestible & Topical Products)

One of the most established & trusted US CBD brands. Human and pet wellness products. Capital light outsourced branded consumer goods model based in Colorado, USA.

Hemp Foods Australia (Foods, Supplements & Skincare)

Australia's #1 hemp foods company. Extensive range of foods, skincare and supplements. Bulk and finished goods provider with integrated manufacturing. Based near Byron Bay, NSW, Australia.

Letter from Chair and Global CEO

Helen Wiseman
Chair

Oliver Horn
Global CEO

Our strategy has been to transform Elixinol Wellness to a lower cost, higher margin, consumer led wellness company with improved profitability. All whilst caring for and investing in the wellbeing of our teams across the world throughout the pandemic.

Dear Fellow Shareholders,

On behalf of the Elixinol Wellness Board, we present our Annual Report for Financial Year 2021 (FY21).

FY21 was another significantly challenging period with COVID-19 having a sustained impact on the global retail environment. The CBD industry experienced far less growth in 2021 than was initially forecasted. This was due in part to the pandemic, but also a lack in regulatory clarity in many of the major CBD markets, and a saturated industry which resulted in an over-supply of product and reduced pricing.

Given the continuation of these unstable market conditions, our FY21 focus remained on further building the foundations laid in FY20 to transform Elixinol Wellness to a lower cost, higher margin, consumer-led wellness company. As a Board and management team we worked hard to reduce the cost of doing business and to enhance product margins, while at the same time making well considered and selective investment decisions to support brand building, product innovation and e-commerce initiatives.

Our strategy has been to control what was controllable and optimise the business for current conditions, while ensuring the wellbeing of our team and our partners throughout the pandemic.

Overall, we are pleased with our transformation progress in FY21. We have created a well-funded and leaner consumer products wellness company with leading brands that are strongly positioned in long-term growth categories especially once the US CBD market conditions improve and the current oversupply has cycled through. Importantly, we have more cost efficiencies identified for FY22 that will significantly support our path to profitability.

EVOLVING OUR REGIONAL STRATEGIC FOCUS

In the US we continued to transform our business model throughout FY21 by fully outsourcing our supply chain and a continued shift towards e-commerce. These activities delivered strong margin improvement and wide-ranging cost reductions, translating to $8.7m Adjusted EBITDA improvement ending the year at a $5.5m Adjusted EBITDA loss for the Americas segment (FY20 $14.2m loss).

HEALTHY CASH BALANCE

of

$12.6m

and an additional $2.1m expected to be received under US COVID relief measures

CASH USED IN OPERATIONS

reduced by

38%

in FY21 compared to FY20

ADJUSTED EBITDA IMPROVEMENTS

of

$11.7m

from -$23.2m in FY20 to -$11.5m in FY21

Our global expansion strategy evolved in FY21. The objective was to cement our already strong brand reach by partnering with the most credentialed in-market partners to establish licensing agreements. This gave us a lower cost access to the market while ensuring we benefited from established local expertise.

As a result of an uncertain regulatory environment and an economy that was heavily impacted by COVID-19 and Brexit, we made the difficult decision to close our own European operations and transition to a licensing model in the region. Subsequently, we were delighted to secure 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 last year. The deal enables BRITISH CANNABIS to manufacture, market and sell Elixinol CBD products across the UK, ensuring our brand continues to be distributed in this market while realising significant cost savings for the Group.

In addition to this new agreement with BRITISH CANNABIS in the UK, we also signed licensing and distribution agreements in Mexico, Malaysia and South Africa to create a foothold in emerging CBD markets that have a positive regulatory outlook. Elixinol has long been an established brand in South Africa where CBD has been legal for some time. Mexico only recently passed legislation to legalise CBD whereas Malaysia is expected to legalise CBD in the near term.

Our decision to withdraw from the proposed acquisition of CannaCare Health GmbH in Germany in June last year was another carefully considered decision, based on a well-founded view that moving ahead with the acquisition was not in the best interest of our shareholders. Closing due diligence revealed a changed German market outlook with rapidly intensifying competition in the region. These factors led us to conclude that the acquisition, and the investments that would have been required to generate profitable returns, exceeded our risk appetite. This has proven to be a very wise decision given how quickly the German market dynamics shifted in the second half of last year.

Letter from Chair and Global CEO
continued

Following our exclusive License Agreement with Elixinol Japan in FY20 to manufacture and sell Elixinol branded CBD nutraceuticals products across the country, very strong progress has been made this past year in relaunching the brand. We are now seeing the benefits and have just received our first licence payment. Given Japan is one of Asia's largest CBD markets and Elixinol Japan is firmly focused on market leadership, we are confident the payments will continue through FY22.

HEMP FOODS AUSTRALIA CONTINUES TO IMPROVE PROFITABILITY

Hemp Foods Australia (HFA) has further strengthened its market position through wider national distribution as hemp-based food products continued to move further into the mainstream of consumer diets.

HFA's revenue in FY21 was in line with FY20, helped by new national distribution deals with Woolworths and Costco, and strong gains in our direct-to-consumer e-commerce strategy, but off-set through deliberate efforts to exit low profitability products.

The business successfully launched the new organic Hemp Gold protein and oil range, which has gained quick traction in the market, exceeding $1m in revenue and accounting for one quarter of all HFA sales for the year.

During Q4 FY21, HFA also started supplying its new hemp-paste product to food manufacturers for use in products such as ice cream and plant-based milks. This is an exciting avenue for the Company as demand of hemp food products continues to grow at a rapid rate.

REGULATORY PROGRESS SLOW

The large-scale positive regulatory progress expected last year following the United Nations Commission on Narcotic Drugs (CND) accepting a World Health Organisation (WHO) recommendation to remove cannabis and cannabis resin from Schedule IV of the 1961 Single Convention on Narcotic Drugs, unfortunately did not materialise.

One of the largest obstacles to expanded CBD growth in the US has been the continued lack of regulatory clarity from the FDA and its failure to provide full regulatory approval to permit CBD to be used as a dietary supplement and food additive.

When hemp derived CBD became legal following the 2018 Farm Bill in the US, excitement was high as the FDA was anticipated to regulate the market in a timely fashion in order to ensure consumer safety. Continued inaction on the part of the FDA has taken some of the wind out of the sails of the industry and hindered its growth by limiting retail access for a wide array of products, as many mainstream retailers continue to wait for federal regulatory clarity in order to ensure full compliance.

However, the US regulatory environment is evolving favourably, and we have seen some positive progress at state level more recently. In October 2021 California passed Assembly Bill 45, formally permitting the sale of hemp derived CBD products. This Bill is expected to create new trade opportunities between Elixinol Americas and major retailers, as it has established a comprehensive regulatory framework for the manufacture and retail sale of products in California containing hemp derived CBD, including dietary supplements, topicals, over-the-counter, and pet products, among others. In addition to the California bill, two Congressional Bills have strong bi-partisan support (H.R. 841 and S. 1698), with one expected to pass in 2022.

In the UK, wide-reaching positive change was expected following the Food Safety Authority's adoption of the Novel Food regime, however its inability to process applications during the course of 2021 left the market uncertain as to which products were compliant. This effectively put a pause on any new product launches and made retailers reluctant to invest in the CBD category, prompting our decision to restructure our European operations and enter a licensing agreement with BRITISH CANNABIS™.

While there was limited progress in 2021, we do believe the long-term outlook for positive CBD regulatory progress remains strong and consumer demand continues to grow as more and more people adopt CBD products in their wellness routines.

E-COMMERCE INVESTMENT FUELS SALES GROWTH

Our shift to being 'digital-first' and investment in e-commerce continues to be rewarded. In the last quarter of FY21, Elixinol Americas successfully transitioned to the Shopify e-commerce platform as it offers a better user experience while yielding significant cost savings. Since launch in October, the e-commerce site has demonstrated strong performance improvements, with 72% growth in user sessions and 25% transaction growth versus the prior quarter, and is set to provide a welcome growth platform for 2022.

As previously mentioned, HFA also realised significant improvements in online sales in FY21, with both e-commerce revenue and transactions up 47%, and conversion rates up by 27% on the previous financial year.

INNOVATION IS AT THE CORE OF OUR BUSINESS

One of our most significant investments during the FY21 was the creation of a Global R&D and Innovation team. The team is focused on developing next generation nutraceuticals and health food products, and we are very pleased with the fast progress already made. In FY21 we launched a number of new products that are already driving revenue growth, including an Elixinol CBD pet range and Hemp Foods Australia's hemp paste.

A comprehensive new product pipeline will continue to roll out in H1 FY22, ensuring Elixinol Wellness leads the industry for innovation and product development in both the CBD and hemp foods space. One example is our newly launched Elixinol Sleep product range which includes gummies, liposomes and tinctures which have become best sellers within a short period of time.

FY21 FINANCIAL RESULTS

The result of our business transformation initiatives led to 50% EBITDA improvement for FY21 compared to FY20. In addition, Elixinol Wellness' average margins improved by 7% and quarterly cash outflows reduced to $3m in Q4 FY21 vs $3.8m in the same period prior year. We achieved an overall reduction in OPEX of $10.3m, driven by $7.0m savings in the US following transition to the capital light model through which we outsourced production and supply chain function, and a $2.7m OPEX reduction following closure of the European business.

While we did not achieve our revenue growth budgets for 2021, largely due to conditions described earlier, our relentless focus on improving margins and reducing cost meant we finished the year well-funded and with $14.7m of financing available.

A STRATEGIC REVIEW OF THE BUSINESS

Our priorities for FY22 reflect our focus on delivering value to our shareholders. We are taking the natural next step to improve shareholder returns by commencing a strategic review, which will include consideration of merger, sale or other options for the Company as a whole or as business units.

We believe the Company is well positioned with strong brands in long-term consumer growth categories. The outlook for the CBD industry globally remains positive and our Elixinol range, with strong brand equity, and established relationships with distribution and/or licensing agreements in many parts of the world, is well placed to capitalise on the opportunities in the global market. Equally, Hemp Foods Australia enjoys a strong position built upon over 20 years of operations in the high growth plant based food category and operates already at near profitable levels.

While the strategic review is being undertaken, we remain focused on driving performance in the Australian and US markets where we have a strong competitive position. We will continue to accelerate our e-commerce growth and bring exciting new products to consumers and customers, while continuing to improve profitability and reducing cost.

LOOKING AHEAD...

2022 will be a defining year for all of us at Elixinol Wellness. We have laid the growth foundations across the Group, with new and innovative products hitting the market in the coming months, our business costs further reducing and the expectation that the regulatory and market environment will shift positively.

In addition to this improving outlook, we will be able to seize new opportunities that enhance shareholder value following our strategic review.

Special recognition must go to all our teams around the globe, who have been champions of change and have demonstrated incredible resilience in the face of some of the most challenging times in history. We are incredibly proud of, impressed by and grateful for their discretionary efforts and positive attitudes.

In closing, we would also like to thank our shareholders for your continued support as we navigate these challenging times and the transformation of our business.

Yours sincerely

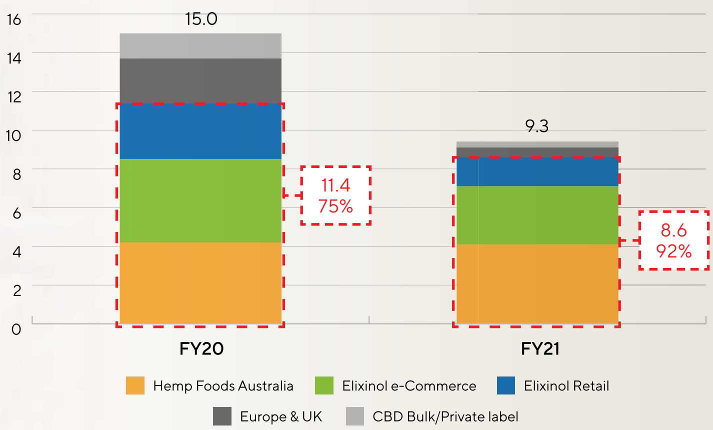
Helen Wiseman
Chair

Oliver Horn
Global CEO

Financial Highlights

With a strong cash position Elixinol Wellness is in the best EBITDA it has been over recent periods.

Revenue by Channel
A$ million, 31 December year end



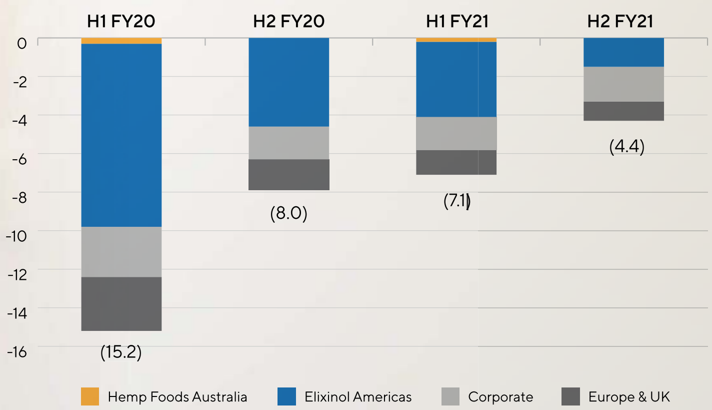
Revenue by channel

Divested low margin business to focus on higher margin branded products.

Driving margin improvement as business mix shifts towards e-commerce and branded consumer goods channels.

Key markets impacted by COVID-19 through the period.

Adjusted EBITDA by Half
A$ million, 31 December year end



Adjusted EBITDA*

Improved significantly between FY21 and FY20, despite lower revenues with a reduced cost base supporting a simplified strategy.

Cost reduction program and higher margin business driving performance improvements.

H2 FY21 includes $1.6m non-recurring income from US Employee Retention Credit program.

Cost base reduction

↓ **35%**

Operational and corporate cost reduction initiatives have significantly reduced operating expenses FY21 compared with FY20.

Well funded**

With improving cash flow, approximately five quarters of funding based on latest quarter.

5
Quarters

$14.7m

vs $27.7m in FY20

* Excluding non-cash impairments and share-based payments.

** $12.6m Cash and cash equivalents at the end of the reporting period plus $2.1m expected to be received from one-off US COVID-19 relief measures ($1.6m from ERC program plus $0.5m refund of taxes paid in prior financial years).

Key Achievements and Milestones

March 2021
Elixinol Global announces it has signed a binding agreement to acquire CannaCare Health GmbH, owner of Canobo, one of Germany's leading CBD brands

May 2021
Elixinol Wellness appoints Rob Hasselman as President Americas and Beata Silber as Global Head of R&D and Innovation

July 2021
Hemp Foods Australia's Hemp Gold Protein is being sold in all Costco stores across Australia and online

March 2021
Elixinol, under its European Industrial Hemp Association (EIHA) Novel Food consortium membership, successfully submits its Novel Food Application allowing products to remain in distribution whilst the UK Food Safety Authority (FSA) processes applications.

May 2021
Elixinol Global Limited changes its name to Elixinol Wellness Limited, representing the evolution of the Company to a natural health and wellness consumer products business

June 2021
Elixinol Wellness announces the termination of the proposed acquisition of CannaCare Health GmbH due to a changing German market outlook and increased competition

September 2021
Elixinol Americas enters pet CBD wellness category with dedicated product range

September 2021
Hemp Foods Australia launches hemp paste as a versatile food ingredient, and is initially available as part of a dairy free ice cream range

October 2021
Elixinol US launches a new Shopify e-commerce site for better user experience at a lower cost

September 2021
Hemp Food Australia's Hemp Seed Oil available in 104 Woolworths supermarket stores nation wide

October 2021
The state of California in the US passes Assembly Bill 45, formally permitting the sale of hemp derived CBD products

December 2021
Elixinol Wellness transitions European operations to licensing model and enters into a three-year exclusive Trademark and Know-How Licensing Agreement with BRITISH CANNABIS™ to manufacture, market and sell CBD products across the UK

Directors' Report

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 the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2021.

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	Non-Executive Director and Chair
Paul Benhaim	Non-Executive Director
Oliver Horn	Executive Director and Global Chief Executive Officer

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 to specialise in the manufacturing and distribution of products made from premium quality, predominantly 'whole plant' full spectrum CBD, which is extracted from organically grown industrial hemp.

Hemp Foods Australia (hemp derived foods and skincare products)

Hemp Foods Australia is 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.

Elixinol Europe (hemp derived cannabidiol ('CBD') food and cosmetics)

Elixinol Europe is based in Utrecht, The Netherlands, and London, United Kingdom, and was established in 2018 to specialise in the development, sourcing, marketing and distribution of hemp derived CBD products including skincare.

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 $17,025,000 (31 December 2020: $104,478,000 loss).

The Group's revenues from continuing operations for the year ended 31 December 2021 were $9,338,000 (31 December 2020: $15,010,000).

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 2021 was an Adjusted EBITDA loss of $11,496,000 (31 December 2020: Adjusted EBITDA loss of $23,223,000). EBITDA and Adjusted EBITDA are financial measures which are not prescribed by Australian Accounting Standards ('AAS') and represents the statutory result under AAS adjusted for certain items. The directors consider EBITDA and Adjusted EBITDA reflect the core earnings of the Group.

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

	Group	
	2021 $'000	2020 $'000
Loss for the year	**(17,025)**	(104,478)
Add back/(deduct):		
Income tax (benefit)/expense	**(65)**	4,200
Finance costs	**92**	49
Interest revenue	**(47)**	(100)
Depreciation and amortisation	**1,490**	3,213
EBITDA	**(15,555)**	(97,116)
Add back/(deduct):		
Impairment of intangibles	**186**	39,178
Impairment of other assets	**3,679**	35,008
Share-based payments	**194**	(293)
Adjusted EBITDA	**(11,496)**	(23,223)

The Group's cash flow used in operations for the year ended 31 December 2021 was $14,071,000 (31 December 2020: $22,621,000 used in operations), which included $1,596,000 non-recurring transaction and severance costs.

The Group recognised non-cash impairments of intangibles (including goodwill) of $186,000 (31 December 2020: $39,178,000) for the year ended 31 December 2021.

The Group recognised non-cash impairments of other assets of $3,679,000 (31 December 2020: $35,008,000) for the year ended 31 December 2021 relating to inventory and fixed assets.

Segment 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).

Americas reported revenue of $4,783,000 for the year ended 31 December 2021 (2020: $8,510,000) and EBITDA loss of $5,492,000 for the year (2020: $14,170,000 EBITDA loss).

Throughout 2021, Elixinol Americas implemented an aggressive transformation agenda focused on improving profitability driven by an accelerated move towards an outsourced capital light model, reduction in operating expenditures and further shift towards higher margin consumer channels such as e-commerce.

In the US, the regulatory environment remains dynamic and varies from state to state but with a heightened expectation that the Food and Drug Administration ('FDA') will progress its rulemaking process regarding marketing of CBD products as dietary supplements. The current CBD market continues to be oversupplied, posing a challenging environment for the industry. Additionally, COVID-19 factors continued to negatively impact sales, in particular in traditional retail / bricks and mortar channels.

A new leadership team was put in place in May 2021 led by a new Americas President. Throughout the year, the full-time equivalent ('FTE') head count was reduced from 39 to 29, thus contributing materially to the Company's overall reduction in quarterly cash outflows of $0.8 million comparing Q4 FY2021 to Q4 FY2020.

As a result of the Group's strategy to focus on higher margin e-commerce channels and the increased demand for online shopping in the COVID-19 environment, online sales now represent approximately 63% (2020: 50%) of US revenues.

In October 2021, Elixinol Americas successfully transitioned to Shopify, a more consumer friendly, lower cost and better performing e-commerce platform. The new e-commerce site showed strong performance improvements, with 72% growth in user sessions and transaction growth of 25% versus the prior quarter. Q4 FY2021 also saw the launch of a subscription model, which accounted for 12% of quarterly revenues and the launch of a loyalty points scheme to strengthen recurring revenues.

Directors' Report

continued

The transition to a fully outsourced supply chain neared completion in Q4 FY2021 with inhouse warehousing and fulfilment on track to move to a third-party model in Q1 FY2022. This will result in further enduring operating cost efficiencies.

During the 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 2021 totals approximately $1.6m (US$1.2m). Under additional COVID-19 relief measures, Elixinol Americas is also expecting a 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) no cash has yet been received and the total $2.1m is now expected to be received in FY2022.

Australia

The Australian segment comprises the continuing trading results from Elixinol Wellness (Corporate Services) Pty Ltd (formerly Elixinol Australia Pty Ltd) ('Elixinol Australia') and Elixinol Wellness (Byron Bay) Pty Ltd trading as Hemp Foods Australia ('Hemp Foods Australia'). Australia reported revenue of $4,086,000 for the year ended 31 December 2021 (31 December 2020: $4,156,000) and EBITDA loss of $203,000 (31 December 2020: $283,000 EBITDA loss).

Q4 FY2021 was Hemp Foods Australia's strongest quarter for the year, with gains led by recent distribution growth in Woolworths and Costco. Hemp Foods Australia also finished FY2021 with significant gross margin improvement following continued portfolio optimisation and the discontinuation of several unprofitable product lines at the end of FY2020. The focus on margin accretion through shifting to higher margin branded consumer goods and continued growth in Hemp Foods Australia's direct to consumer e-commerce business resulted in the stronger gross margins, which ended FY2021 at 34% (up from 27% in FY2020).

The business successfully launched the new organic Hemp Gold protein and oil range early in the year, which has quickly gained traction in the market, exceeding $1m in revenue and accounting for approximately one quarter of all Hemp Foods Australia sales for the year.

Throughout FY2021 Hemp Foods Australia also consolidated its distributor network to fewer partners and developed and commercialised a unique hemp paste to be used as a versatile and healthy ingredient in the food service industry.

Europe

The European segment comprising Elixinol BV and Elixinol Limited ('Elixinol Europe') reported revenue of $469,000 for the year ended 31 December 2021 (31 December 2020: $2,344,000) and Adjusted EBITDA loss of $2,321,000 (31 December 2020: $4,470,000 EBITDA loss).

As a result of an uncertain regulatory environment and an economy that was heavily impacted by COVID-19 and Brexit, revenues were challenged during the year. The difficult decision to close our own European operations and transition to a licensing model in the region was successfully 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 our brand continues to be distributed in the market while realising significant cost savings for the Group.

Share of associates' loss

Share of associates loss during the year ended 31 December 2021 was $nil (31 December 2020: $1,076,000 loss).

Review of financial position

At 31 December 2021 the net assets of the Group were $19,077,000, which included $12,649,000 of cash and cash equivalents. The key impact during the period was total comprehensive loss of $16,658,000.

Underlying drivers of performance

The Group operates across three geographical segments and different industries, each of which has their own underlying drivers of performance. These are summarised below:

- Creating **strong consumer brands** and improving marketing capability to drive brand equity;
- **Innovating and developing new products** to increase consumer adoption and drive category growth;
- A varied global **regulatory framework** of CBD and hemp products;
- Securing **high quality supply of finished goods** and manufacturing relationships at competitive prices for hemp and CBD products;
- **Consumer and customer education** on the power of hemp and CBD to increase penetration & understanding;
- Delivering **high quality, ethical and sustainable products** to consumers;

- Continued investment in **digital and e-commerce capability** to own the consumer relationship; and
- Optimising and reducing cost base to **create a fit for purpose** and more agile business.

Business strategies and future prospects

Refined strategic focus

The Company has been aggressively repositioned towards a branded consumer goods business over the last two years, leading to improved fundamentals with substantial cost reductions and improved cash-flows. Key initiatives included:

- Extensive leadership changes, bringing new strategic, commercial, digital marketing, supply and strong governance disciplines;
- An ongoing substantial operational and corporate cost reduction program, leading to an annualised cost base which is approximately 50% lower than 2020;
- Simplification of our e-commerce backbone via Shopify to drive higher margin sales and cost savings;
- Pursuing an omni-channel sales strategy to reduce dependency on bricks & mortar channels, and improve in-home shopping product availability via e-commerce;
- Embedding and optimisation of the ERP system to improve business reporting, controls and commercial decision making; and
- Cessation of low value business activities such as bulk and private label services to improve profitability.

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, plant-based and natural products.

Ambition: Building 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 repositioned 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 key pillars to support revenue growth and margin improvement:

- Delivery of the strategic review project to identify new in-organic opportunities for shareholder value creation;
- Further optimisation of corporate cost base;
- Continue Elixinol America's transition to a lean and capital light business model;
- Bringing to market an extensive new product development pipeline;
- **Expand hemp foods product offering** to participate in more healthy plant based food consumer occasions;
- Relentless focus on **improving capital efficiency** - long term focus on improving cash flow, driving margin accretion and tightly controlling expenditures; and
- Continued investment in **building global brands** - the new and rebranded Elixinol range is ideally positioned to participate in the global growth of nutraceutical wellness products.

Principal risks and uncertainties

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. 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. Across the globe, travel, trade, business, working arrangements and consumption have been materially impacted by the pandemic. There continues to be considerable uncertainty as to the duration of and further impact of COVID-19 including in relation to government, regulatory or health authority actions, work stoppages, lockdowns, quarantines and supply chain challenges. In particular, supply chain risks may including shipping container shortages and extended transits times due to labour shortages.

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

Directors' Report

continued

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.

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 scale of COVID-19 and actions taken to address its impact. Moreover, changes in interest rates, reduced liquidity or a continued slowdown in Australia, the United States and Europe, 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 agricultural risk as the businesses are reliant on agricultural products. As such, the businesses are subject to the risks inherent in the agriculture industry. These risks include insects, plant diseases, storm, fire, frost, flood, water availability, water salinity, pests, bird damage and force majeure events. These risks may impact the financial performance through increased costs (from low yields or increased prices from low supply) or lack of supply to address customer demands.

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 a 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' operations are highly regulated and 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 may explore 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 and the management and implementation 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 and implement 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. 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

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.

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

The Board of Elixinol Wellness has commenced a strategic review to maximise shareholder value which will include consideration of merger, sale or other options for the Company as a whole or its business units. There is no certainty that the strategic review will lead to any particular outcome or transaction.

No further matter or circumstance has arisen since 31 December 2021 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:

- 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;
- Expansion of hemp foods 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 consumer wellness brands;
- Continued shift towards a digitally led global business with revenues from e-commerce representing a growing proportion of overall sales;
- Bringing to market an extensive new product pipeline to generate growth at premium margins;
- Supply chain optimisation - seeking new opportunities to shorten supply chain and reduce cost of goods; and
- As part of a strategic review process, identifying new opportunities, including merger and divestments of the Company as a whole or its parts, to improve shareholder value.

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

Directors' Report

continued

ENVIRONMENTAL REGULATION

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

INFORMATION ON DIRECTORS

Helen Wiseman
Non-Executive Chair and Non-Executive Director

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:	62,271 performance rights

Paul Benhaim
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:	Chair of Remuneration and Nomination Committee and Member of the Audit and Risk Committee
Interests in shares:	29,209,217 ordinary shares
Interests in rights:	None

Oliver Horn
Global Chief Executive Officer and Executive Director

Qualifications:	BSc degree, GAICD
Experience and expertise:	Oliver Horn was most recently MD/CEO of Swisse Wellness for Australia and New Zealand (ANZ) and North America. Oliver has previously held senior operational leadership positions 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 and Member of Remuneration and Nomination Committee
Interests in shares:	1,203,971 ordinary shares
Interests in rights:	361,722 performance rights

'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.

GLOBAL CHIEF FINANCIAL OFFICER

Ron Dufficy
Global Chief Financial Officer

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 share services organisation. Ron joined the Company in 2017 with a focus on the administrative, financial, and risk management operations of the Group.

Directors' Report

continued

COMPANY SECRETARIES

Teresa Cleary
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.

Kim Bradley-Ware
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 2021, and the number of meetings attended by each director were:

	Full Board		Remuneration and Nomination Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
H Wiseman	13	13	2	2	3	3
P Benhaim	13	13	2	2	3	3
O Horn	13	13	2	2	3	3

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 - Non-Executive Chair and Non-Executive Director;
- Paul Benhaim – Non-Executive Director; and
- Oliver Horn - Executive Director and Global Chief Executive Officer.

And the following executive of Elixinol Wellness Limited:

- Ron Dufficy - Global Chief Financial Officer.

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.

Directors' Report

continued

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% (50% in 2021) to Group financial measures and 35% (50% in 2021) to individual measures for Executive KMPs.

STIP Opportunity (at target) is 25-40% (25%-40% for 2021) 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 grant made during 2018, the performance period of the grant is five financial years in four equal tranches from the financial year of granting. The performance period is from 20 March 2018 to 31 December 2022.

For the 2019 Share Rights grant made during 2019, the performance period of the grant is four financial years in three equal tranches from the financial year of granting. The performance period is from 1 January 2019 to 31 December 2022.

For the 2020 Share Rights grant made during 2020, the performance period of the grant is three financial years in one tranche following the performance period. The performance period is from 1 January 2020 to 31 December 2022.

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.

Directors' Report

continued

Vesting dates

Tranche	Vesting date Share Rights granted in 2018	Vesting date Share Rights granted in 2019	Vesting date Share Rights granted in 2020	Vesting date Share Rights granted in 2021
Tranche 1	28 February 2020 (lapsed)	28 February 2021 (lapsed)	28 February 2023	28 February 2024
Tranche 2	28 February 2021 (lapsed)	28 February 2022 (lapsed)		
Tranche 3	28 February 2022 (lapsed)	28 February 2023		
Tranche 4	28 February 2023			

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 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 2021, the Board did not consult or did not engage remuneration advisors for benchmarking of executive remuneration. In the prior year, the Board engaged Hewitt Associates Pty Ltd (AON) to conduct a remuneration benchmarking exercise for several Executive KMPs. AON was also engaged to provide advice on the design for the future reward framework which applies to future periods including 2021.

Voting and comments made at the Company's 17 May 2021 AGM

At the 17 May 2021 AGM, 98.27% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2020. 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 2021 performance on remuneration

A challenging COVID-19 environment and a lack of regulatory development across key markets contributed significantly towards revenue growth targets not being achieved during 2021. However, due to a focus on cost reduction and margin improvement the Group delivered on its EBITDA targets. The Group also delivered numerous strategic objectives designed to position the Company for future growth across the business. The business has been successfully repositioned with a significantly reduced cost base and moves forward with a strong balance sheet.

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

	2021 $'000	2020 $'000	2019 Restated $'000	2018 $'000
Revenue	**9,338**	15,010	30,714	37,131
Adjusted EBITDA from continuing operations	**(11,496)**	(23,223)	(24,632)	(114)
Net loss after tax	**(17,025)**	(104,478)	(83,071)	(860)
Basic loss per share (cents per share)	**(5.41)**	(58.25)	(62.71)	0.79
Diluted loss per share (cents per share)	**(5.41)**	(58.25)	(62.71)	0.79
Opening share price	**$0.175**	$0.570	$2.500	$1.000
Closing share price on 31 December	**$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	
2021	Cash salary and fees $	Cash bonus $	Other fees $	Super-annuation $	Termination payments $	Deferred STI $	Equity-settled Performance Rights $	Total $
Non-Executive Directors:								
H Wiseman	108,702	–	–	10,578	–	–	7,464	126,744
P Benhaim	98,734	–	–	9,599	–	–	4,487	112,820
Executive Directors:								
O Horn[(a)]	372,715	74,260	–	22,285	–	–	99,819	569,079
Other KMP:								
R Dufficy[(b)]	260,716	56,883	–	24,284	–	–	(75,678)	266,205
	840,867	**131,141**	**–**	**66,746**	**–**	**–**	**36,092**	**1,074,848**

(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).

Directors' Report

continued

2020	Short-term benefits: Cash salary and fees $	Short-term benefits: Cash bonus $	Short-term benefits: Other fees $	Post-employment benefits: Super-annuation $	Post-employment benefits: Termination payments $	Long-term benefits: Deferred STI[a] $	Share-based payments: Equity-settled Performance Rights $	Total $
Non-Executive Directors:								
H Wiseman[c]	65,684	–	–	6,240	–	–	936	72,860
P Benhaim	106,963	–	–	10,162	–	–	–	117,125
A Duff[b]	31,123	–	–	2,957	127,000	–	(231,168)	(70,088)
G Ellery[b]	20,700	–	–	1,967	85,000	–	–	107,667
Executive Directors:								
O Horn[c]	263,899	–	–	15,386	–	15,931	123,187	418,403
S Karousos[b]	112,581	–	–	10,501	251,562	–	(345,360)	29,284
Other KMP:								
R Dufficy	260,000	–	–	25,000	–	13,221	132,339	430,560
	860,950	**–**	**–**	**72,213**	**463,562**	**29,152**	**(320,066)**	**1,105,811**

(a) Deferred STI relates to STI awarded in relation to the financial year but deferred subject to continuity of employment until 28 August 2021. 60.5% of the deferred bonus was recognised in the financial year based on the vesting period.

(b) Remuneration is from 1 January 2020 to date of ceasement of directorship.

(c) Remuneration is from date of appointment as a Director to 31 December 2020.

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

Name	Fixed remuneration 2021	Fixed remuneration 2020	At risk - STI 2021	At risk - STI 2020	At risk - LTI 2021	At risk - LTI 2020
Non-Executive Directors:						
H Wiseman	94%	99%	–	–	6%	1%
P Benhaim	96%	100%	–	–	4%	–
A Duff	–	100%	–	–	–	–
G Ellery	–	100%	–	–	–	–
Executive Directors:						
O Horn	70%	67%	13%	4%	17%	29%
S Karousos	–	100%	–	–	–	–
Other KMP:						
R Dufficy	83%	67%	17%	3%	–	30%

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

	Cash bonus paid/payable		Cash bonus forfeited	
Name	2021	2020	2021	2020
Executive Directors:				
O Horn	47%	–	53%	100%
Other KMP:				
R Dufficy	57%	–	43%	100%

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 2021 are as follows:

	Fixed Remuneration $ (a)	Target STI $	Notice Period by Executive months	Notice Period by Company months	Restraint Period months
Oliver Horn(b)	395,000	158,000	6	6	12
Ron Dufficy(b)	285,000	99,750	6	6	12

(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

Details of shares issued to directors and other KMP as part of compensation during the year ended 31 December 2021 are set out below:

Name	Date	Shares
O Horn	30 January 2021	468,750
O Horn	21 October 2021	468,750
R Dufficy	28 February 2021	854,430

Directors' Report

continued

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
R Dufficy	900,000	15 May 2018	Various	15 August 2023	$0.890
O Horn	361,722	30 July 2020	28 February 2023	30 October 2025	$0.092
R Dufficy	208,791	30 July 2020	28 February 2023	30 October 2025	$0.092
H Wiseman	62,271	30 July 2020	28 February 2024	30 October 2025	$0.092
O Horn	144,689	7 July 2021*	31 August 2021	7 October 2026	$0.182
R Dufficy	156,593	7 July 2021	28 February 2022	7 October 2026	$0.182
R Dufficy	548,077	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
O Horn	868,132	7 July 2021*	28 February 2024	7 October 2026	$0.076
R Dufficy	1,366,438	21 January 2022	28 February 2025	21 April 2027	$0.115
O Horn	2,164,384	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

* Subject to shareholder approval

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 2021.

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
Ordinary shares					
H Wiseman	168,132	–	112,000	–	280,132
P Benhaim[(a)]	29,523,008	–	–	(313,791)	29,209,217
O Horn	266,471	937,500	–	–	1,203,971
R Dufficy	269,471	854,430	–	(500,000)	623,901
	30,227,082	**1,791,930**	**112,000**	**(813,791)**	**31,317,221**

(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.

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
Performance rights over ordinary shares					
H Wiseman[(a)]	62,271	–	–	–	62,271
P Benhaim[(b)]	–	–	–	–	–
O Horn[(c)]	1,299,222	–	(937,500)	–	361,722
R Dufficy	1,513,221	704,670	(854,430)	(225,000)	1,138,461
	2,874,714	**704,670**	**(1,791,930)**	**(225,000)**	**1,562,454**

(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 will be sought at the company's annual general meeting in 2022 and as such the options have not been included in the table above.

(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 will be sought at the company's annual general meeting in 2022 and as such the options have not been included in the table above.

(c) On 7 July 2021 the company granted two tranches to Oliver Horn performance rights over ordinary shares with their issue subject to shareholder approval at the next shareholder meeting. 144,689 performance rights were granted with a vesting date of 31 August 2021 and 868,132 performance rights were granted with a vesting date of 28 February 2024. Shareholder approval will be sought at the company's annual general meeting in 2022 and as such the options have not been included in the table above.

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
3 April 2018	3 July 2023	30,112
15 May 2018	15 August 2023	225,000
21 September 2019	21 December 2024	9,598
30 July 2020	30 October 2025	877,564
16 October 2020	16 January 2026	33,090
7 July 2021	7 October 2026	3,479,376
7 July 2021*	7 October 2026	1,480,513
21 January 2021	21 April 2027	11,523,034
21 January 2021*	21 April 2027	3,330,411
		20,988,698

* Performance rights to Directors subject to shareholder approval

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.

Directors' Report
continued

Shares issued on the exercise of options or performance rights
The following ordinary shares of Elixinol Wellness Limited were issued during the year ended 31 December 2021 and up to the date of this report on the exercise of performance rights granted:

Date performance rights granted	Exercise price	Number of shares issued
30 January 2021	$0.000	468,750
28 February 2021	$0.000	854,430
31 May 2021	$0.000	379,747
31 August 2021	$0.000	379,272
21 October 2021	$0.000	468,750
		2,550,949

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

Oliver Horn
Global Chief Executive Officer

25 February 2022
Sydney

Auditor's Independence Declaration

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
Australia

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 2021, 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 Company Name and the entities it controlled during the period.

Leah Russell
Director

BDO Audit Pty Ltd

Sydney

25 February 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2021

	Note	Group 2021 $'000	2020 $'000
Revenue	5	**9,338**	15,010
Share of losses of associates and joint ventures accounted for using the equity method		**–**	(1,076)
Other income	6	**2,429**	260
Interest income calculated using the effective interest method		**47**	100
Expenses			
Raw materials and consumables used and processing expenses		**(4,442)**	(8,344)
Employee benefits expenses and Directors' fees		**(9,661)**	(13,329)
Share-based payments		**(194)**	293
Depreciation and amortisation expense	7	**(1,490)**	(3,213)
Impairment of intangibles	7	**(186)**	(39,178)
Impairment of other assets	7	**(3,679)**	(35,008)
Professional services expenses		**(2,379)**	(4,068)
Sales and marketing expenses		**(3,062)**	(6,602)
Administrative expenses		**(3,099)**	(4,504)
Distribution costs		**(620)**	(570)
Finance costs	7	**(92)**	(49)
Loss before income tax benefit/(expense)		**(17,090)**	(100,278)
Income tax benefit/(expense)	8	**65**	(4,200)
Loss after income tax benefit/(expense) for the year		**(17,025)**	(104,478)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		**367**	80
Other comprehensive income for the year, net of tax		**367**	80
Total comprehensive loss for the year		**(16,658)**	(104,398)
Loss for the year is attributable to:			
Non-controlling interest		**–**	28
Owners of Elixinol Wellness Limited		**(17,025)**	(104,506)
		(17,025)	(104,478)
Total comprehensive loss for the year is attributable to:			
Non-controlling interest		**–**	31
Owners of Elixinol Wellness Limited		**(16,658)**	(104,429)
		(16,658)	(104,398)
		Cents	Cents
Basic loss per share	35	**(5.41)**	(58.25)
Diluted loss per share	35	**(5.41)**	(58.25)

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

Company Overview
FY2021 Highlights
Key Achievements and Milestones
Financial Report
Shareholder Information

Consolidated Statement of Financial Position

as at 31 December 2021

	Note	Group 2021 $'000	2020 $'000
Assets			
Current assets			
Cash and cash equivalents	9	**12,649**	27,743
Trade and other receivables	10	**2,970**	1,191
Inventories	11	**2,201**	4,735
Income tax refund due	8	**541**	509
Prepayments, deposits and other	12	**1,227**	1,176
Total current assets		**19,588**	35,354
Non-current assets			
Trade and other receivables	10	**183**	–
Investments accounted for using the equity method	13	**2,617**	2,316
Property, plant and equipment	14	**1,308**	2,471
Right-of-use assets	15	**1,173**	1,412
Intangibles	16	**463**	917
Total non-current assets		**5,744**	7,116
Total assets		**25,332**	42,470
Liabilities			
Current liabilities			
Trade and other payables	17	**2,208**	2,795
Contract liabilities	18	**94**	89
Borrowings	19	**428**	–
Lease liabilities	20	**747**	920
Income tax	8	**–**	29
Employee benefits		**229**	344
Accrued expenses		**1,009**	818
Total current liabilities		**4,715**	4,995
Non-current liabilities			
Borrowings	19	**250**	250
Lease liabilities	20	**1,290**	1,574
Total non-current liabilities		**1,540**	1,824
Total liabilities		**6,255**	6,819
Net assets		**19,077**	35,651
Equity			
Issued capital	21	**218,058**	217,730
Reserves	22	**9,094**	8,971
Accumulated losses		**(208,075)**	(191,050)
Total equity		**19,077**	35,651

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2021

Group	Issued capital $'000	Foreign currency translation reserve $'000	Share-based payments reserve $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 January 2020	188,771	8,231	955	(86,544)	(31)	111,382
(Loss)/profit after income tax expense for the year	–	–	–	(104,506)	28	(104,478)
Other comprehensive income for the year, net of tax	–	77	–	–	3	80
Total comprehensive (loss)/ income for the year	–	77	–	(104,506)	31	(104,398)
Share-based payments (Note 36)	–	–	(292)	–	–	(292)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs (Note 21)	28,959	–	–	–	–	28,959
Balance at 31 December 2020	217,730	8,308	663	(191,050)	–	35,651

Group	Issued capital $'000	Foreign currency translation reserve $'000	Share-based payments reserve $'000	Accumulated losses $'000	Non-controlling interest $'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)**
Transactions with owners in their capacity as owners:						
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**

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2021

	Note	Group 2021 $'000	Group 2020 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**9,650**	14,095
Payments to suppliers and employees (inclusive of GST)		**(24,070)**	(37,120)
Government grants		**354**	365
Interest received		**51**	100
Interest and other finance costs paid		**(92)**	(15)
Income taxes refunded		**36**	–
Income taxes paid		**–**	(46)
Net cash used in operating activities	34	**(14,071)**	(22,621)
Cash flows from investing activities			
Payments for property, plant and equipment		**(160)**	(295)
Payments for intangibles		**(132)**	(33)
Proceeds from disposal of business		**–**	230
Proceeds from disposal of property, plant and equipment		**464**	2,652
Net cash from investing activities		**172**	2,554
Cash flows from financing activities			
Proceeds from issue of shares	21	**–**	31,478
Share issue transaction costs	21	**(110)**	(2,519)
Repayment of lease liabilities		**(1,047)**	(1,414)
Net cash (used in)/from financing activities		**(1,157)**	27,545
Net (decrease)/increase in cash and cash equivalents		**(15,056)**	7,478
Cash and cash equivalents at the beginning of the financial year		**27,743**	20,373
Effects of exchange rate changes on cash and cash equivalents		**(38)**	(108)
Cash and cash equivalents at the end of the financial year	9	**12,649**	27,743

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

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 25 February 2022. 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 2021, the Group incurred a net loss before tax of $17,025,000 (31 December 2020: $104,478,000 loss). During the year, net cash outflows from operating activities were $14,071,000 (31 December 2020: $22,621,000).

The year was another significantly challenging period for the Group with COVID-19 having a sustained impact on the global retail environment. The CBD industry experienced far less growth in FY2021 than was generally expected. This was due in part to the pandemic, but also a lack in regulatory clarity in many of the major CBD markets, and a saturated industry which resulted in an over-supply of product and reduced pricing.

Not withstanding these conditions, the Directors believe that it is reasonably forseeable that the Group will continue as a going concern, and that it is appropriate to adopt the going concern basis in the preparation of the financial report, after consideration of the factors noted within this report.

As at 31 December 2021, the Group has net assets of $19,077,000 including cash of $12,649,000. The Directors regularly monitor the Company's cash position on an ongoing basis and the Group has demonstrated a track record of raising capital and funding as and when required, including completing two capital raises totalling $31,477,000 FY2020. In addition, the net loss before tax of $17,090,000 has been significantly reduced in FY2021 from that recorded in FY2020 of $100,278,000 and the net cash outflow from operating activities reduced to $2,898,000 (excluding $322,000 non-recurring transaction and severance costs) in Q4 FY2021 from $3,820,000 in Q4 FY2020 as expenditure was reduced and the scale of the business operations was reset.

In addition, ongoing cash outflow savings of $2.5m per year will be realised through the restructure of the European operations as the business transitioned to a licensing model during Q4 FY2021. 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 our brand continues to be distributed in the market while realising significant cost savings for the Group. In addition, ongoing cash outflow savings will also be realised in the Americas, through the transition to a fully outsourced supply chain that also near complete in Q4 FY2021 with inhouse warehousing and fulfilment on track to move to a third-party model in Q1 FY2022.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Also, 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 2021 totals approximately $1.6m (US$1.2m) and are expected to be received from the IRS in FY2022, to further boost the Group cash reserves.

The current cash flow forecasts support the business as a going concern and the Group has the capacity, if necessary, to defer discretionary expenditure including reducing headcount and corporate costs in the current cash flow forecast period to take steps to moderate the cash outflows of the business as needed.

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 2021 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.

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

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.

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other 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.

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.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2021. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

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.

NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

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.

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 Europe. 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').
Europe	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.

'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 2021, 17% of sales were derived from three major customers (31 December 2020: 9% of sales were derived from three major customers).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 4: OPERATING SEGMENTS (CONTINUED)

Operating segment information - Continuing operations

Group - 2021	Americas $'000	Australia $'000	Europe $'000	Unallocated $'000	Total $'000
Revenue					
Sales to external customers	4,783	4,086	469	–	9,338
Total revenue	4,783	4,086	469	–	9,338
Adjusted EBITDA	(5,492)	(203)	(2,321)	(3,480)	(11,496)
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					(17,090)
Income tax benefit					65
Loss after income tax benefit					(17,025)
Assets					
Segment assets	8,981	2,960	793	12,598	25,332
Total assets					25,332
Liabilities					
Segment liabilities	2,599	1,502	335	1,819	6,255
Total liabilities					6,255

NOTE 4: OPERATING SEGMENTS (CONTINUED)

Group – 2020	Americas $'000	Australia $'000	Europe $'000	Unallocated $'000	Total $'000
Revenue					
Sales to external customers	8,510	4,156	2,344	–	15,010
Total revenue	8,510	4,156	2,344	–	15,010
Adjusted EBITDA	(14,170)	(283)	(4,470)	(4,300)	(23,223)
Depreciation and amortisation					(3,213)
Impairment of intangibles					(39,178)
Impairment of assets					(35,008)
Interest income					100
Finance costs					(49)
Share-based payments					293
Loss before income tax expense					(100,278)
Income tax expense					(4,200)
Loss after income tax expense					(104,478)
Assets					
Segment assets	11,565	1,533	2,469	26,903	42,470
Total assets					42,470
Liabilities					
Segment liabilities	3,243	1,107	946	1,523	6,819
Total liabilities					6,819

Geographical information

	Sales to external customers		Geographical non-current assets*	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Americas	**4,783**	8,510	**4,663**	6,476
Australia	**4,086**	4,156	**758**	76
Europe	**469**	2,344	**–**	416
Unallocated	**–**	–	**323**	148
	9,338	15,010	**5,744**	7,116

* Geographical non-current assets exclude those relating to discontinued operations.

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 5: REVENUE

	Group	
	2021 $'000	2020 $'000
Sale of goods	**9,338**	15,010

Disaggregation of revenue

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

	e-Commerce $'000	Retail $'000	Other* $'000	Total $'000
Group – 2021				
Geographical regions				
Americas	**3,027**	**1,503**	**253**	**4,783**
Australia	**470**	**2,821**	**795**	**4,086**
Europe	**154**	**315**	**–**	**469**
	3,651	**4,639**	**1,048**	**9,338**

* Other includes bulk and private label.

	e-Commerce $'000	Retail $'000	Other* $'000	Total $'000
Group – 2020				
Geographical regions				
Americas	4,236	2,944	1,330	8,510
Australia	345	2,876	935	4,156
Europe	320	1,882	142	2,344
	4,901	7,702	2,407	15,010

* Other includes bulk and private label.

Timing of revenue recognition

All revenue is recognised when goods are transferred at a point in time.

NOTE 6: OTHER INCOME

	Group	
	2021 $'000	2020 $'000
Net foreign exchange gain/(loss)	**84**	(67)
Net loss on disposal of property, plant and equipment	**(76)**	(262)
Government grants (COVID-19)	**1,984**	365
Sub-lease income and other	**437**	224
Other income	**2,429**	260

NOTE 6: OTHER INCOME (CONTINUED)

Government grants (COVID-19)

During the year the Group received payments from the Australian Government amounting to $nil (31 December 2020: $188,000) as part of its 'Boosting Cash Flow for Employers' scheme in response to the Coronavirus ('COVID-19') pandemic. Eligible employers with aggregated annual turnover of less than $50,000,000 are eligible to receive payments of between $20,000 and $100,000 which are credited against amounts owed on an activity statement and based on Pay As You Go ('PAYG') withheld on employee's salary and wages for the period March to September 2020. Such amounts have been treated as government grants in the financial statements, are non-taxable, and are recognised as income once there is reasonable assurance that the Group will comply with any required conditions which is practically at the time that a liability for PAYG withholding tax is incurred and salaries are paid.

During the year, the Group has received JobKeeper support payments from the Australian Government amounting to $42,000 (31 December 2020: $177,000) which are passed on to eligible employees. These have been recognised as government grants in the financial statements and recorded as other income over the periods in which the related employee benefits are recognised as an expense. These grants are taxable.

During the year, the Group has received a Business Growth Grant from the Australian Government amounting to $64,000 (31 December 2020: $nil) 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 NSW COVID-19 Business Grant and NSW COVID-19 JobSaver Payment from the NSW Government amounting to $248,000 which was in relation to COVID-19 relief from decline in turnover from extended lockdowns impacting the business. These grants have been recognised as government grants in the financial statements and recorded as other income. These grants are taxable.

During the year, the Group has accrued US Employee Retention Credits totalling $1,630,000 (31 December 2020: $nil) 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') no cash has yet been received and the total $1.6 million is now expected to be received in FY2022.

NOTE 7: EXPENSES

	Group	
	2021 $'000	**2020 $'000**
Loss before income tax includes the following specific expenses:		
Cost of sales		
Cost of sales	**4,442**	8,344
Depreciation and amortisation		
Property, plant and equipment (Note 14)	**346**	1,495
Right-of-use assets (Note 15)	**713**	1,181
Intangibles (Note 16)	**431**	537
Total depreciation and amortisation	**1,490**	3,213
Impairment of intangibles		
Goodwill	**–**	28,712
Website and software	**204**	–
Patents and trademarks	**(18)**	–
Customer relationships	**–**	1,187
Brand names	**–**	9,279
Total impairment of intangibles	**186**	39,178

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 7: EXPENSES (CONTINUED)

	Group	
	2021 $'000	2020 $'000
Impairment of other assets		
Inventory	**2,778**	18,853
Leasehold improvements	**(42)**	2,937
Motor vehicles	**3**	–
Computer equipment	**11**	–
Machinery	**596**	3,079
Land and buildings - right-of-use	**–**	704
Prepayments, deposits and other	**333**	4,701
Investments accounted for using the equity method	**–**	4,734
Total impairment of other assets	**3,679**	35,008
Finance costs		
Interest and finance charges paid/payable on lease liabilities	**92**	49
Superannuation expense		
Defined contribution superannuation expense	**195**	184

NOTE 8: INCOME TAX

	Group	
	2021 $'000	2020 $'000
Income tax expense/(benefit)		
Current tax	**4**	(435)
Deferred tax - origination and reversal of temporary differences	**–**	4,626
Adjustment recognised for prior periods	**(69)**	9
Aggregate income tax expense/(benefit)	**(65)**	4,200
Deferred tax included in income tax expense/(benefit) comprises:		
Decrease in deferred tax assets	**–**	4,626
Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate		
Loss before income tax benefit/(expense)	**(17,090)**	(100,278)
Tax at the statutory tax rate of 25% (2020: 26%)	**(4,273)**	(26,072)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	**–**	10,186
Impairment of assets	**(227)**	(312)
Other non-deductible permanent differences	**17**	35
Transfer pricing adjustment	**–**	54
	(4,483)	(16,109)
Adjustment recognised for prior periods	**(69)**	9
Current year tax losses not recognised	**6,157**	8,489
Current year temporary differences not recognised	**(2,137)**	5,250
Prior year tax losses recognised now written off	**–**	4,402
Prior year temporary differences recognised now written off	**–**	(95)
Difference in overseas tax rates	**467**	2,254
Income tax expense/(benefit)	**(65)**	4,200

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 $18,140,000 (31 December 2020: $14,664,000) of of tax effected revenue losses which have not been brought to account at 31 December 2021.

Prior year deferred tax assets ('DTA') and deferred tax liabilities ('DTL') are disclosed as net DTA as they arise within the same tax jurisdiction and follow the rules for netting off.

	Group	
	2021 $'000	2020 $'000
Income tax refund due		
Income tax refund due	**541**	509

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 8: INCOME TAX (CONTINUED)

	Group	
	2021 $'000	2020 $'000
Provision for income tax		
Provision for income tax	–	29

NOTE 9: CASH AND CASH EQUIVALENTS

	Group	
	2021 $'000	2020 $'000
Current assets		
Cash at bank	**12,649**	27,743

NOTE 10: TRADE AND OTHER RECEIVABLES

	Group	
	2021 $'000	2020 $'000
Current assets		
Trade receivables	**1,001**	2,245
Less: Allowance for expected credit losses	**(468)**	(1,249)
	533	996
Government grant receivable	**1,647**	–
Other receivables	**562**	65
GST recoverable	**133**	126
Receivable from sub-lease	**95**	–
Interest receivable	**–**	4
	2,970	1,191
Non-current assets		
Receivable from sub-lease	**183**	–

Allowance for expected credit losses

The Group has recognised a loss of $62,000 (31 December 2020: $855,000) in profit or loss in respect of the expected credit losses for the year ended 31 December 2021.

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

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
Group	2021 %	2020 %	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Not overdue	**1%**	1%	**278**	378	**3**	4
1 to 30 days overdue	**1%**	1%	**232**	339	**2**	5
31 to 60 days overdue	**6%**	6%	**11**	185	**1**	11
61 to 90 days overdue	**8%**	8%	**14**	50	**1**	4
Over 90 days overdue	**99%**	95%	**466**	1,293	**461**	1,225
			1,001	2,245	**468**	1,249

NOTE 10: TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	Group	
	2021 $'000	2020 $'000
Opening balance	**1,249**	1,103
Additional provisions recognised	**62**	855
Receivables written off during the year as uncollectable	**(843)**	(709)
Closing balance	**468**	1,249

NOTE 11. INVENTORIES

	Group	
	2021 $'000	2020 $'000
Current assets		
Raw materials - at cost	**7,514**	18,216
Less: Provision for impairment	**(7,331)**	(16,269)
	183	1,947
Work in progress - at cost	**302**	1,977
Less: Provision for impairment	**(266)**	(1,338)
	36	639
Finished goods - at cost	**2,176**	5,025
Less: Provision for impairment	**(380)**	(3,226)
	1,796	1,799
Stock in transit - at cost	**186**	350
	2,201	4,735

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 will be scrapped or disposed off in Q1 FY2022.

Since the COVID-19 was declared a pandemic by the World Health Organisation in March 2020, the Company has observed a significant reduction in consumer demand particularly in bricks and mortar retail distribution channels and the demand has been slower to recover than expected. This reduction in demand has resulted in the Company reassessing how much on hand inventory is estimated to be consumed in the production and sale of Elixinol branded products prior to inventory approaching its shelf life. To the extent that inventory is considered excess to its core strategy, the Company has then considered the net realisable value of excess inventory with reference to the current commodities market for hemp biomass, extracts and distillates. The Company has also sought to sell the excess raw materials and bulk materials in the market. Lower overall consumer demand for hemp commodities in conjunction with oversupply in the market has led to a significant decrease in net realisable values and an impairment and write-off of inventories has been recognised in the financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 12: PREPAYMENTS, DEPOSITS AND OTHER

	Group	
	2021 $'000	2020 $'000
Current assets		
Prepayments	**1,057**	893
Security deposits	**170**	198
Other deposits	**–**	85
	1,227	1,176

NOTE 13: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Group	
	2021 $'000	2020 $'000
Non-current assets		
Investment in associate - Altmed Pets LLC	**2,617**	2,316

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:

		Ownership interest	
Name	Principal place of business / Country of incorporation	2021 %	2020 %
H&W Holdings LLC*	United States of America	**–**	19.88%
Altmed Pets LLC*	United States of America	**25.43%**	25.43%

* Holding through Elixinol LLC

Summarised financial information

	Altmed Pets LLC	
	2021 $'000	2020 $'000
Summarised statement of financial position		
Current assets	**2,207**	3,890
Non-current assets	**383**	130
Total assets	**2,590**	4,020
Current liabilities	**1,552**	1,788
Non-current liabilities	**–**	704
Total liabilities	**1,552**	2,492
Net assets	**1,038**	1,528
Summarised statement of profit or loss and other comprehensive income		
Revenue	**13,035**	12,180
Expenses	**(13,510)**	(15,495)
Loss before income tax	**(475)**	(3,315)
Other comprehensive income	**–**	–
Total comprehensive loss	**(475)**	(3,315)

NOTE 13: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

	Altmed Pets LLC	
	2021 $'000	**2020 $'000**
Reconciliation of the Group's carrying amount		
Opening carrying amount	**2,316**	8,095
Share of loss after income tax	**(121)**	(795)
Impairment of investment	**–**	(4,734)
Reversal of impairment of investment	**121**	–
Related party eliminations	**96**	–
Foreign exchange	**205**	(250)
Closing carrying amount	**2,617**	2,316

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

	Group	
	2021 $'000	**2020 $'000**
Non-current assets		
Land - at cost	**–**	376
Leasehold improvements - at cost	**364**	360
Less: Accumulated depreciation	**(183)**	(116)
Less: Impairment	**(124)**	(165)
	57	79
Furniture, fittings and equipment - at cost	**162**	174
Less: Accumulated depreciation	**(126)**	(102)
	36	72
Motor vehicles - at cost	**59**	63
Less: Accumulated depreciation	**(44)**	(34)
	15	29
Computer equipment - at cost	**693**	737
Less: Accumulated depreciation	**(639)**	(523)
	54	214
Machinery - at cost	**5,776**	5,711
Less: Accumulated depreciation	**(1,063)**	(1,039)
Less: Impairment	**(3,567)**	(2,971)
	1,146	1,701
	1,308	2,471

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 $'000	Leasehold improve-ments $'000	Furniture, fittings and equipment $'000	Motor vehicles $'000	Computer equipment $'000	Machinery $'000	Total $'000
Balance at 1 January 2020	3,025	3,262	110	46	484	5,758	12,685
Additions	–	–	1	–	56	204	261
Disposals	(2,611)	–	(8)	–	–	(284)	(2,903)
De-classified as held-for-sale	–	13	25	–	–	88	126
Exchange differences	(38)	49	(4)	(3)	(4)	(187)	(187)
Impairment of assets	–	(2,937)	–	–	–	(3,079)	(6,016)
Depreciation expense	–	(308)	(52)	(14)	(322)	(799)	(1,495)
Balance at 31 December 2020	376	79	72	29	214	1,701	2,471
Additions	–	–	5	–	8	171	184
Disposals	(401)	–	(3)	–	(11)	(156)	(571)
De-classified as held-for-sale	–	–	–	–	–	–	–
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

NOTE 15: RIGHT-OF-USE ASSETS

	Group	
	2021 $'000	2020 $'000
Non-current assets		
Land and buildings - right-of-use	**4,039**	4,540
Less: Accumulated depreciation	**(2,162)**	(2,424)
Less: Impairment	**(704)**	(704)
	1,173	1,412

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.

NOTE 15: RIGHT-OF-USE ASSETS (CONTINUED)

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 2020	4,323
Disposals	(1,007)
De-classified as held for sale	187
Exchange differences	(206)
Impairment of assets	(704)
Depreciation expense	(1,181)
Balance at 31 December 2020	1,412
Lease liability remeasured	450
Disposals	(36)
Exchange differences	60
Depreciation expense	(713)
Balance at 31 December 2021	**1,173**

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 2021;
- Refer to Note 24 for maturity analysis of lease liabilities; and
- Refer to the consolidated statement of cash flows for repayment of lease liabilities.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 16: INTANGIBLES

	Group	
	2021 $'000	**2020 $'000**
Non-current assets		
Goodwill - at cost	**76,191**	76,191
Less: Impairment	**(76,191)**	(76,191)
	–	–
Website and software - at cost	**1,195**	1,068
Less: Accumulated amortisation	**(634)**	(370)
Less: Impairment	**(245)**	(41)
	316	657
Patents and trademarks - at cost	**149**	125
Less: Impairment	**(2)**	(2)
	147	123
Customer relationships - at cost	**2,475**	2,470
Less: Accumulated amortisation	**(1,256)**	(1,114)
Less: Impairment	**(1,219)**	(1,219)
	–	137
Brand names - at cost	**10,668**	10,668
Less: Impairment	**(10,668)**	(10,668)
	–	–
	463	917

Reconciliations

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

Group	Goodwill $'000	Website and software $'000	Patents and trademarks $'000	Customer relation-ships $'000	Brand names $'000	Total $'000
Balance at 1 January 2020	28,226	993	90	1,563	9,122	39,994
Additions	–	–	33	–	–	33
Exchange differences	486	(50)	–	12	157	605
Impairment of assets*	(28,712)	–	–	(1,187)	(9,279)	(39,178)
Amortisation expense	–	(286)	–	(251)	–	(537)
Balance at 31 December 2020	–	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)
Balance at 31 December 2021	**–**	**316**	**147**	**–**	**–**	**463**

* All impairment in 2020 relates to the Americas CGU segment.

NOTE 16: INTANGIBLES (CONTINUED)

Impairment testing of goodwill

Goodwill was fully impaired in FY2020 and this impairment cannot be reversed. Refer below for the key assumptions and determination of recoverable amount in FY2020.

Determination of recoverable amount

The recoverable amount of the CGUs are determined based on value in use model using discounted cash flow projections based on financial forecasts covering a five-year period with a terminal growth rate applied thereafter. The Group performed its annual impairment test in December 2019, however as a result of trading performance during H1 FY2020 from the COVID-19 pandemic, indicators of impairment existed for Elixinol LLC as at half-year balance sheet date. Therefore, impairment testing was performed in June 2020.

The cash flow projections which are used in determining any impairment require management to make significant estimates and judgements. Key assumptions in preparing the cash flow projections are set out below. Each of the assumptions is subject to significant judgement about future economic conditions and the development of the rapid regulatory changes to the industries in which the CGU's operate in and uncertainty of the future impact of COVID-19. Management has applied their best estimates to each of these variables but cannot warrant their outcome. Management has determined that there had been an impairment for Elixinol LLC as at 30 June 2020. In determining the impairment required at 30 June 2020, Management also took into consideration that the market capitalisation of the Group was below the book value of its equity, however this was not the determining factor and at any particular point in time, the market capitalisation does not necessary determine the value of the CGU's.

Key assumptions

Elixinol LLC

The key assumptions on which management based its cash flow projections when determining the value in calculations for Elixinol LLC are set out below. These assumptions were considered to be consistent with industry market participant expectations.

- the revenue growth reflected management's expectation of growth in the short to medium term based on market growth expectations;
- expenditure assumed to decrease in sales and marketing and employee benefits expense, decrease in working capital as inventory levels are reduced and by operational efficiencies reducing cash burn;
- limited planned and committed capital expenditure to support production capabilities;
- terminal growth rate of 2.0% after 5 years; and
- the pre-tax discount rate applied to cash flow projections was 19.6% which represents management's best estimate of the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt; and equity capital provided.

The estimated recoverable amounts of Elixinol LLC were below the carrying amounts of intangible and tangible assets of the CGU, therefore an impairment charge of $39,178,000 was recognised in FY2020.

NOTE 17: TRADE AND OTHER PAYABLES

	Group	
	2021 $'000	2020 $'000
Current liabilities		
Trade payables	**1,362**	1,818
GST and sales tax payable	**43**	128
Credit cards	**179**	144
Other payables	**624**	705
	2,208	2,795

Refer to Note 24 for further information on financial instruments.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 18: CONTRACT LIABILITIES

	Group	
	2021 $'000	2020 $'000
Current liabilities		
Contract liabilities	**94**	89
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	**89**	157
Payments received in advance	**94**	89
Transfer to revenue - performance obligations satisfied in previous periods	**(89)**	(157)
Closing balance	**94**	89

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 $94,000 as at 31 December 2021 ($89,000 as at 31 December 2020) and is expected to be recognised as revenue in future periods as follows:

	Group	
	2021 $'000	2020 $'000
Within 6 months	**94**	89

NOTE 19: BORROWINGS

	Group	
	2021 $'000	2020 $'000
Current liabilities		
Insurance premium funding	**428**	–
Non-current liabilities		
Related party loan from Raw With Life	**250**	250

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

	Group	
	2021 $'000	2020 $'000
Current liabilities		
Lease liability	**747**	920
Non-current liabilities		
Lease liability	**1,223**	1,482
Lease make good provision	**67**	92
	1,290	1,574

Refer to Note 24 for further information on financial instruments.

NOTE 21: ISSUED CAPITAL

	Group			
	2021 Shares	2020 Shares	2021 $'000	2020 $'000
Ordinary shares - fully paid	**315,778,066**	313,227,117	**218,058**	217,730

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 January 2020	137,761,002		188,771
Institutional Entitlement Offer	14 May 2020	26,712,850	$0.200	5,343
Retail Entitlement Offer	2 June 2020	28,230,102	$0.200	5,646
Issue of Shares	20 November 2020	48,209,265	$0.170	8,196
Share Purchase Plan Offer	18 December 2020	72,313,898	$0.170	12,293
Share issue transaction costs				(2,519)
Balance	31 December 2020	313,227,117		217,730
Share issue transaction costs				(110)
Performance rights exercised	31 January 2021	468,750	$0.000	87
Performance rights exercised	28 February 2021	854,430	$0.000	135
Performance rights exercised	31 May 2021	379,747	$0.000	60
Performance rights exercised	31 August 2021	379,272	$0.000	69
Performance rights exercised	21 October 2021	468,750	$0.000	87
Balance	**31 December 2021**	**315,778,066**		**218,058**

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 21: ISSUED CAPITAL (CONTINUED)

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 2020 Annual Report.

NOTE 22: RESERVES

	Group	
	2021 $'000	2020 $'000
Foreign currency translation reserve	**8,675**	8,308
Share-based payments reserve	**419**	663
	9,094	8,971

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.

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.

NOTE 24: FINANCIAL INSTRUMENTS (CONTINUED)

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

	Assets		Liabilities	
Group	2021 $'000	2020 $'000	2021 $'000	2020 $'000
US dollars	–	43	**184**	405
Euros	**12**	30	–	43
Pound Sterling	–	53	–	20
	12	126	**184**	468

The Group had net liabilities denominated in foreign currencies of $172,000 (assets of $12,000 less liabilities of $184,000) as at 31 December 2021 (31 December 2020: net liabilities of $342,000 (assets of $126,000 less liabilities of $468,000)). 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).

	AUD strengthened			AUD weakened		
Group - 2021	% change	Effect on profit before tax $'000	Effect on equity $'000	% change	Effect on profit before tax $'000	Effect on equity $'000
US dollars	**5%**	**9**	**9**	**5%**	**(9)**	**(9)**
Euros	**5%**	**(1)**	**(1)**	**5%**	**1**	**1**
Pounds Sterling	**5%**	**–**	**–**	**5%**	**–**	**–**
		8	**8**		**(8)**	**(8)**

	AUD strengthened			AUD weakened		
Group - 2020	% change	Effect on profit before tax $'000	Effect on equity $'000	% change	Effect on profit before tax $'000	Effect on equity $'000
US dollars	5%	17	17	5%	(17)	(17)
Euros	5%	1	1	5%	(1)	(1)
Pounds Sterling	5%	(2)	(2)	5%	2	2
		16	16		(16)	(16)

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 2021 was $35,000 (31 December 2020: loss of $32,000).

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 24: FINANCIAL INSTRUMENTS (CONTINUED)

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.

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 - 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						
Non-interest bearing						
Trade payables	–	1,362	–	–	–	1,362
Other payables	–	803	–	–	–	803
Interest-bearing - variable						
Lease liability	3.29%	747	1,016	207	–	1,970
Interest-bearing - fixed rate						
Insurance premium funding	3.03%	428	–	–	–	428
Total non-derivatives		3,340	1,016	207	–	4,563

NOTE 24: FINANCIAL INSTRUMENTS (CONTINUED)

Group - 2020	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						
Non-interest bearing						
Trade payables	–	1,818	–	–	–	1,818
Other payables	–	849	–	–	–	849
Interest-bearing - variable						
Lease liability	3.18%	920	615	867	–	2,402
Total non-derivatives		3,587	615	867	–	5,069

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:

	Group	
	2021 $	2020 $
Audit services - BDO Audit Pty Ltd		
Audit or review of the financial statements	**234,351**	252,119
Other services - BDO Services Pty Ltd		
Taxation compliance services	**9,472**	18,733
Other advisory services	**63,525**	–
	72,997	18,733
Other services - network firms		
Taxation services	**76,389**	19,813

NOTE 27: CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2021 and 31 December 2020.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 28: COMMITMENTS

	Group	
	2021 $'000	2020 $'000
Capital commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Inventory purchases under contract	**71**	243

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:

	Group	
	2021 $	2020 $
Short-term employee benefits	**972,010**	860,950
Post-employment benefits	**66,746**	72,213
Long-term benefits	–	29,152
Termination benefits	–	463,562
Share-based payments	**36,092**	(320,066)
	1,074,848	1,105,811

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.

NOTE 30: RELATED PARTY TRANSACTIONS (CONTINUED)

Cash flow transactions with related parties

The following transactions occurred with related parties:

	Group	
	2021 $	2020 $
Sale of goods and services:		
Sale of goods to associates	–	20,128
Payment for goods and services:		
Purchase of goods from associates	–	4,316

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:

	Group	
	2021 $	2020 $
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

	Parent	
	2021 $'000	2020 $'000
Loss after income tax	**(16,658)**	(91,098)
Total comprehensive loss	**(16,658)**	(91,098)

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 31: PARENT ENTITY INFORMATION (CONTINUED)

Statement of financial position

	Parent	
	2021 $'000	2020 $'000
Total current assets	**12,265**	26,744
Total assets	**20,895**	37,172
Total current liabilities	**1,365**	863
Total liabilities	**1,818**	1,520
Equity		
Issued capital	**218,735**	218,408
Share-based payments reserve	**419**	663
Accumulated losses	**(200,077)**	(183,419)
Total equity	**19,077**	35,652

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 2021 and 31 December 2020.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2021 and 31 December 2020.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2021 and 31 December 2020.

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:

		Ownership interest	
Name	Principal place of business / Country of incorporation	2021 %	2020 %
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 Investments Pty Ltd *	Australia	**–**	100%
Elixinol BV	Netherlands	**100%**	100%
Elixinol Ltd	United Kingdom	**100%**	100%

* Elixinol Investment Pty Ltd was dissolved on 11 February 2021
** Formerly known as Hemp Foods Australia Pty Ltd
*** Formerly known as Elixinol Australia Pty Ltd

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 (formerly known as Elixinol Australia Pty Ltd)
Elixinol Investments Pty Ltd
Elixinol Wellness (Byron Bay) Pty Ltd (formerly known as Hemp Foods Australia Pty Ltd)
Elixinol LLC
EXL International Holdings LLC
Elixinol BV
Elixinol Limited

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 34: CASH FLOW INFORMATION

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

	Group	
	2021 $'000	2020 $'000
Loss after income tax benefit/(expense) for the year	(17,025)	(104,478)
Adjustments for:		
Depreciation and amortisation	1,490	3,213
Impairment of non-current assets	771	35,008
Impairment of intangibles	186	39,178
Impairment of inventory	2,778	–
Net loss on disposal of property, plant and equipment	76	262
Share of loss - associates	–	927
Share of loss - joint ventures	–	149
Share-based payments	194	(293)
Doubtful debts	62	146
Others	(51)	115
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(2,014)	709
Increase in inventories	(244)	(2,155)
Increase in income tax refund due	–	(509)
Decrease in deferred tax assets	–	4,307
Decrease/(increase) in prepayments, deposits and other	(51)	1,119
Decrease in trade and other payables	(619)	(435)
Increase/(decrease) in contract liabilities	5	(68)
Increase/(decrease) in provision for income tax	(29)	117
Increase/(decrease) in other provisions	(115)	92
Increase/(decrease) in accrued expenses	87	(25)
Increase in premium funding	428	–
Net cash used in operating activities	(14,071)	(22,621)

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 2020	–	4,665	4,665
Net cash used in financing activities	–	(1,414)	(1,414)
Disposals	–	(704)	(704)
Changes through discontinued operations	250	–	250
Exchange differences	–	(53)	(53)
Balance at 31 December 2020	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**

NOTE 35: EARNINGS PER SHARE

	Group	
	2021 $'000	2020 $'000
Loss after income tax	**(17,025)**	(104,478)
Non-controlling interest	**–**	(28)
Loss after income tax attributable to the owners of Elixinol Wellness Limited	**(17,025)**	(104,506)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	**314,819,959**	179,421,047
Weighted average number of ordinary shares used in calculating diluted earnings per share	**314,819,959**	179,421,047

	Cents	Cents
Basic loss per share	**(5.41)**	(58.25)
Diluted loss per share	**(5.41)**	(58.25)

The outstanding performance rights held by directors and employees have not been included to calculate diluted earnings per share as their inclusion would be anti-dilutive. In addition the hurdles have not been met as at the reporting date.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

NOTE 36: SHARE-BASED PAYMENTS

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

During the current year 6,694,468 performance rights were issued for nil consideration and the share-based payment debit in the profit and loss was $194,000 that included $182,000 credit for forfeitures and $376,000 debit current period expense. The equity movement was a credit of $194,000 that included $438,000 credit for performance rights exercised as issued capital and $244,000 movement in the share-based payments reserve.

During the prior year 3,699,220 performance rights were issued for nil consideration and the share-based payment credited in the profit or loss was $293,000 that included $815,000 credit for forfeitures and $522,000 debit for current period expense. The equity movement was a debit of $293,000.

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:

Tranche	Vesting date Share Rights granted in 2018	Vesting date Share Rights granted in 2019	Vesting date Share Rights granted in 2020	Vesting date Share Rights granted in 2021
Tranche 1	28 February 2020 (lapsed)	28 February 2021 (lapsed)	28 February 2023	28 February 2024
Tranche 2	28 February 2021 (lapsed)	28 February 2022 (lapsed)		
Tranche 3	28 February 2022 (lapsed)	28 February 2023		
Tranche 4	28 February 2023			

Grant dates and details

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

2021

Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
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

NOTE 36: SHARE-BASED PAYMENTS (CONTINUED)

2020

Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
03/04/2018	03/07/2023	149,181	–	–	(88,957)	60,224
15/05/2018	15/08/2023	1,650,000	–	–	(1,200,000)	450,000
01/11/2018	01/02/2024	130,194	–	–	(130,194)	–
23/05/2019	23/08/2024	450,000	–	–	(450,000)	–
21/09/2019	21/12/2024	255,810	–	–	(220,644)	35,166
30/07/2020	30/10/2025	–	937,500	–	–	937,500
30/07/2020	30/10/2025	–	1,527,543	–	(170,620)	1,356,923
16/10/2020	02/01/2026	–	1,234,177	–	–	1,234,177
		2,635,185	3,699,220	–	(2,260,415)	4,073,990

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 3.65 years (31 December 2020: 3.97 years).

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
07/07/2021	07/10/2026	$0.115	95.60%	–	–	$0.076

* 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

No matter or circumstance has arisen since 31 December 2021 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.

Directors' Declaration

31 December 2021

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 2021 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

Oliver Horn
Global Chief Executive Officer

25 February 2022
Sydney

Independent Auditor's Report

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
Australia

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 2021, 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 2021 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.

Independent Auditor's Report

continued

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.

Going concern

Key audit matter	*How the matter was addressed in our audit*
For the year ended 31 December 2021, the Group incurred a net loss of $17m and net cash outflows of $15m indicating a potential going concern issue. The financial report has been prepared on a going concern basis and as the directors' assessment of the Group's ability to continue as a going concern can be highly judgemental we identified going concern as a significant risk requiring special audit consideration. Due to these factors, we considered this area to be a key audit matter.	Our procedures included, but were not limited to: • An evaluation of the directors' assessment of the Group's ability to continue as a going concern. In particular we reviewed management prepared cashflow forecast for the period to end February 2023; • Reviewed the inputs to the cashflow forecast including comparing to prior periods, and known business plans for the future; • Assessed management's ability to accurately forecasting, by review of current performance to prior period forecast; and • Reviewed the disclosures in the financial statements to determine whether they are adequate. The directors assessment of going concern is included in note 2 to the financial report.

Impairment / Recoverability of non-current assets

Key audit matter	*How the matter was addressed in our audit*
There is a risk that carrying value of the Group's non-current assets might be impaired if they are unlikely to produce economic benefits in excess of their carrying value. The Group has seen lower than expected revenue growth and demand for its products. Based on these factors, it was identified that impairment indicators exist. Due to the significant assumptions and judgments that are involved in impairment assessments, we have determined that this is a key audit matter.	Our procedures included, but were not limited to: • 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 assessment of inputs in order to test the impairment analysis; • Enquired with management, corroborating assumptions with audit evidence and assessed the judgements made in respect of non-current asset impairment assessments prepared by the Group; • Assessed management's ability to accurately forecast, by review of current performance to prior period forecast.

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 2021, 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 (http://www.auasb.gov.au/Home.aspx) at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Independent Auditor's Report

continued

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 21 to 29 of the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of Elixinol Wellness Limited, for the year ended 31 December 2021, 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

L Russell

Leah Russell
Director

Sydney, 25 February 2022

Shareholder Information

31 December 2021

The shareholder information set out below was applicable as at 15 February 2022.

Distribution of equitable securities

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

	Ordinary shares	
	Number of holders	% of total shares issued
1 to 1,000	3,281	0.44
1,001 to 5,000	2,815	2.50
5,001 to 10,000	1,331	3.35
10,001 to 100,000	2,670	25.26
100,001 and over	433	68.45
	10,530	100.00
Holding less than a marketable parcel	6,776	4.32

Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares	
	Number held	% of total shares issued
CS THIRD NOMINEES PTY LIMITED (HSBC CUST NOM AU LTD 13 A/C)	29,873,698	9.46
RAW WITH LIFE PTY LTD (BENHAIM TRADING A/C)	29,209,217	9.25
CITICORP NOMINEES PTY LIMITED	10,470,605	3.31
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	8,827,697	2.79
D & G HEALTH LLC	6,187,688	1.96
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,371,421	1.70
BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	4,396,957	1.39
BNP PARIBAS NOMS PTY LTD (DRP)	3,269,386	1.03
CS FOURTH NOMINEES PTY LIMITED (HSBC CUST NOM AU LTD 11 A/C)	2,394,216	0.76
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD (DRP A/C)	2,261,302	0.72
MR ERIC CHI KEUNG WONG	1,775,226	0.56
PANTHER TRADING PTY LTD (PANTHER A/C)	1,576,471	0.50
MR JYOTINDRA SUBEDI	1,500,283	0.47
MR JIA HONG ZHANG	1,428,888	0.45
BNP PARIBAS NOMINEES PTY LTD (IB AU NOMS RETAILCLIENT DRP)	1,236,061	0.39
MS XIAO LAN WANG	1,195,288	0.38
SLT CAPITAL MANAGEMENT PTY LTD	1,176,471	0.37
MR MICHAEL ERNEST GRANATA (THE GRANATA FAMILY A/C)	1,100,000	0.35
MR RICHARD FREDERICK DRENNAN	1,000,000	0.32
MR RONG SEN HUANG	1,000,000	0.32
	115,250,875	36.48

Shareholder Information

continued

Unquoted equity securities

	Number on issue	Number of holders
Performance rights issued	16,177,774	28

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

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
CS THIRD NOMINEES PTY LIMITED (HSBC CUST NOM AU LTD 13 A/C)	29,873,698	9.46
RAW WITH LIFE PTY LTD (BENHAIM TRADING A/C)	29,209,217	9.25

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.

Corporate Directory

Directors
Helen Wiseman - Non-Executive Chair and Non-Executive Director
Paul Benhaim - Non-Executive Director
Oliver Horn - Executive Director and Global Chief Executive Officer

Chief Financial Officer
Ron Dufficy

Company Secretary
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
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.

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.

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

ElixinolWellness

www.elixinolwellness.com