



Elixinol Global Limited

ABN 34 621 479 794

Interim Report - 30 June 2020

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The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Elixinol Global Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 30 June 2020.

Directors

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

Helen Wiseman	Non-Executive Chair (appointed Chair 10 September 2020) Non-Executive Director (appointed 21 April 2020)
Paul Benhaim	Non-Executive Director (appointed 10 September 2020) Former Non-Executive Chair (appointed Chair 6 April 2020, ceased 10 September 2020)
Oliver Horn	Group Chief Executive Officer (appointed 21 April 2020) Executive Director (appointed 21 April 2020) Former Non-Executive Director (appointed 6 April 2020)
Stratos Karousos	Former Group Chief Executive Officer (ceased 21 April 2020) Former Executive Director (ceased 21 April 2020)
Andrew Duff	Former Non-Executive Chair (ceased 6 April 2020)
Greg Ellery	Former Non-Executive Director (ceased 6 April 2020)

Principal activities

The principal activities of the Company during the half-year relate to its operation as a holding company for each of Elixinol LLC ('Elixinol Americas'), Elixinol BV and Elixinol Ltd (together 'Elixinol Europe & UK') and Hemp Foods Australia Pty Ltd ('Hemp Foods Australia').

The principal activities of the Group are:

Elixinol Americas (hemp derived cannabidiol ('CBD') dietary supplements)

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' CBD hemp oil which is extracted from organically grown industrial hemp.

Elixinol Europe & UK (hemp derived cannabidiol ('CBD') dietary supplements)

Elixinol Europe and UK is based in Utrecht, The Netherlands, and was established in 2018 to specialise in distribution of hemp-derived cannabidiol 'CBD' products including skincare.

Hemp Foods Australia (hemp derived foods and skincare products)

Hemp Foods Australia is based in New South Wales Australia, was founded in 1999 and manufactures industrial hemp-derived food and skincare products in Australia. Hemp Foods Australia distributes mainly within Australia and will look to expand further into export markets.

Review of operations

Operating and Financial Review

The loss for the Group after providing for income tax and non-controlling interest amounted to \$90,302,000 (30 June 2019: \$9,859,000).

The Group's revenues from continuing operations for the period ended 30 June 2020 were \$7,850,000 (2019: \$17,126,000).

Key highlights:

- H1 FY2020 revenue from continuing operations of \$7.9 million down 54% (\$17.1 million in H1 FY2019) as COVID-19 impacts and mixed regulatory environments led to challenging US traditional retail market conditions.
- In line with the strategic decision to reduce bulk and lower margin business, the Group's revenue mix continued to shift towards higher margin Elixinol branded products representing 64% of revenue in H1 FY2020, versus 50% in H1 FY2019.
- Operating expenses, excluding impairment charges, for H1 FY2020 were \$17.2 million, down 12% from \$19.6 million in H1 FY2019. With cost reduction initiatives undertaken throughout H1 including further headcount reductions completed in June, the Company moves into H2 FY2020 with an annualised cost base approximately 45% lower than FY2019.
- Adjusted EBITDA from continuing operations was \$14.8 million loss in H1 FY2020, compared to \$11.0 million loss in H1 FY2019. Net loss after tax was \$90.3 million in H1 FY2020, compared to \$9.8 million loss in H1 FY2019. In accordance with Accounting Standards, the Company has recorded non-cash impairment charges of \$69.0 million primarily due to COVID-19 related impacts.
- The Group has \$16.8 million of cash, virtually no debt and usable inventory to support revenue growth for more than 12 months.

The Group's earnings before interest, tax, depreciation and amortisation ('EBITDA') including share of associates' net loss and excluding impairment from continuing operations for the period ended 30 June 2020 was an Adjusted EBITDA loss of \$14,774,000 (2019: Adjusted EBITDA loss of \$11,044,000). A reconciliation of Adjusted EBITDA from continuing operations to statutory loss is detailed below:

	30 Jun 2020 \$'000	Group 30 Jun 2019 \$'000
(Loss)/profit from continuing operations	(90,271)	(9,837)
Add back: Income tax expense/(benefit)	4,642	(2,174)
Add back: Finance costs	-	55
Deduct: Interest revenue	(71)	(266)
Add back: Depreciation and amortisation	1,961	967
EBITDA from continuing operations	(83,739)	(11,255)
Add back: Impairment of intangibles	39,178	-
Add back: Impairment of other assets	29,787	211
Adjusted EBITDA from continuing operations	<u>(14,774)</u>	<u>(11,044)</u>

The Group's cash flow used in operations for the period ended 30 June 2020 was \$15,212,000 (2019: \$28,907,000 used in operations).

The Group recognised non-cash impairments of intangibles (including goodwill) of \$39,178,000 for the period ended 30 June 2020 relating to the Elixinol Americas CGU. The Group performed its annual impairment test in December 2019, however as a result of trading performance from the reduction in revenues from the COVID-19 pandemic, indicators of impairment existed for Elixinol Americas as at balance sheet date. Key assumptions in preparing the cash flow projections are 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. As a result, impairment testing was performed in June 2020 and this resulted in a full impairment of intangible assets, including goodwill of the Elixinol America CGU.

The Group recognised non-cash impairments of assets of \$29,787,000 for the period ended 30 June 2020 relating to inventory, fixed assets and equity investments.

Segment results

Americas

The Americas segment comprises the trading results of Elixinol LLC and its investments including Infusion Strategies, Pet Releaf, Northern Colorado High Plains Producers and H&W Holdings. Americas reported revenue of \$4,778,000 for the period ended 30 June 2020 (2019: \$14,511,000) and EBITDA loss of \$9,540,000 (2019: \$5,756,000 EBITDA loss).

In the US, the regulatory environment remains dynamic and varied but with a heightened expectation that the FDA will progress its rulemaking process regarding marketing of CBD products as dietary supplements. The current under-regulated CBD nutraceuticals market is highly oversupplied and experiences rapid consolidation. Additionally, COVID-19 factors continued to negatively impact sales, in particular in traditional retail / bricks and mortar channels.

To lead the US business transformation, a new leadership team was put in place in March led by a new Americas CEO and including a new VP of Finance and a new VP of Operations. In addition, Elixinol has invested in new sales leadership to drive the robust wellness channel, both online and offline. Throughout H1, FTE head count was reduced from 98 to 37 and thus contributing materially to the Company's overall reduction in quarterly cash outflows of \$8.3 million comparing Q2 FY2020 to Q4 FY2019. The business has adequate inventory to support revenues for more than 12 months.

As a result of increased need for online shopping in the COVID-19 environment, online sales now represent approximately 50% of US revenues.

To maximise this channel, the Company has implemented a number of business process improvements, at the core of which is the sophisticated Magento e-commerce platform, which is continuously being refined. An inbound and outbound telemarketing function has been set up to provide a cost efficient and effective way of servicing customers.

Operations have continued to move towards a capital light model using readily available third-party manufacturing capacity thus further reducing operating cost.

On 11 May 2020, it was announced that a class action had been dismissed against Elixinol, LLC, a Colorado Limited Liability Company (EXU). The withdrawal of the class-action suit is vindication of the Company's position that its products are accurately labeled and that the plaintiffs' misleading conduct claims were without merit.

Europe & UK

The Europe & UK segment, which comprises Elixinol BV and Elixinol Limited, reported revenue of \$1,023,000 for the period ended 30 June 2020 (2019: \$995,000) and EBITDA loss of \$2,840,000 (2019: \$1,365,000 EBITDA loss).

According to Brightfields April 2020 CBD report, Europe's CBD market reached US\$405 million in 2019 and is expected to grow to nearly US\$1.6 billion by 2025, with a five-year CAGR of 46%.

The largest CBD markets in Europe today are those of the United Kingdom and Germany, each of which made up roughly a \$100 million market in 2019.

Both the European and UK Food Standards Agency announced on 13 February 2020 that those looking to market ingestible CBD products will have to submit an application for Novel Foods to keep products on shelves beyond March 2021. Recently the EU put the Novel Foods application process on hold while it evaluates its stance on CBD. This means that the status quo in the EU in which the business is currently operating remains unchanged for the time being whilst the EU confirms their CBD regulations. The UK's Food Standards Agency continues to move forwards with the Novel Foods authorisation process, and we are continuing to manage the UK application process whilst awaiting the EU's ruling to move forward in mainland Europe.

Elixinol's efforts in the European market have predominantly been focused on the UK and German markets, with channel priorities being national pharmacy, in-home TV shopping and e-commerce. For the remainder of CY 2020, these new relationships are expected to drive significant growth. Progress in European TV shopping channels has been strong, and in June the Company has shipped its first order to Alliance Healthcare in the UK kickstarting the planned pharmacy distribution build. A range of 5 new Elixinol products has been launched in August in the UK's 3rd biggest pharmacy chain, Well Pharmacy and distribution for our new elixinolSkin CBD skincare range has been secured for September with Boots (Ireland). All EU e-commerce sites have been transitioned to our new e-commerce platform Magento and Elixinol is fully focused on building out its European digital sales channels with highly targeted sales and marketing. An accomplished global Head of Digital Consumer Experience and E-Commerce has been recruited in the UK to accelerate our digital consumer transformation. A supply chain optimisation project has commenced with the aim to create a high quality, cost-effective and responsive value chain to bring our products to market.

Australia

The Australia segment comprises the continuing trading results from Elixinol Australia Pty Ltd (formerly Nunyara Pharma Pty Ltd) ('Nunyara') and Hemp Foods Australia Pty Ltd ('Hemp Foods Australia'). Australia reported revenue of \$2,049,000 for the period ended 30 June 2020 (2019: \$1,620,000) and EBITDA loss of \$405,000 (2019: \$1,016,000 EBITDA loss).

On 25 May 2020, Elixinol Global announced that the share purchase agreement (SPA) for the sale of Hemp Foods Australia was terminated by the buyer due to non-satisfaction of a condition precedent in the SPA, citing COVID-19 impacts. At the time the SPA termination was announced, the Company said it would continue to operate Hemp Foods Australia pending an evaluation of all opportunities to capitalise on Hemp Foods Australia's established position as one of Australia's leading hemp foods brands.

Given the improving financial performance of Hemp Foods Australia and market dynamics, the Group announced on 20 July 2020 that it had decided to continue the Hemp Foods Australia operations, whilst exploring potential to leverage the cost base and skillset in Hemp Foods Australia to support opportunities emerging in the Australian cannabidiol landscape.

On 7 May 2020, Group announced that it had sold the land owned by Nunyara \$2.6 million. The cash proceeds from the sale are being redeployed to support Elixinol's branded CBD nutraceuticals strategy.

On 27 July 2020, the Group announced a major step forward in bringing Elixinol branded CBD products to market through an exclusive distribution agreement with PharmaCann. PharmaCann has reach into all major Australian pharmacy chains and has immediate access to a network of over 1600 medical practitioners. This agreement will enable Elixinol branded products to be brought to market under the TGA's existing Special Access Scheme. This agreement together with a strengthening Hemp Foods Australia business, from which the Group can leverage existing sales and marketing capability, will open up new opportunities for future growth.

Share of associates' loss

Share of associates' loss during the period ended 30 June 2020 was \$599,000 (2019: \$465,000 profit).

Review of financial position

At 30 June 2020 the net assets of the Group were \$32,185,000 which included \$16,769,000 of cash and cash equivalents. The key impact during the period was total comprehensive loss of \$88,513,000 offset by the additional capital raised of \$9,795,000, net of issue costs (refer note 14).

Significant changes in the state of affairs

Hemp Foods Australia Pty Ltd

On 31 January 2020, the Group entered into a sale agreement to dispose of Hemp Foods Australia Pty Ltd, subject to, amongst other standard conditions, obtaining third party consents and entry into a licence agreement between the Group and the acquirer. On 25 May 2020, the Company announced that the share purchase agreement ('SPA') for the sale was terminated by the buyer due to non-satisfaction of a condition precedent in the SPA, citing COVID-19 impacts. Subsequently, the Company evaluated the opportunities of Hemp Foods Australia and decided to continue the operations as part of the Group. As a result, the subsidiary has been reclassified from a discontinued operation and held-for-sale at 31 December 2019, and included in the continuing operations in the half year results.

Elixinol Australia Pty Ltd (formerly Nunyara Pharma Pty Ltd)

On 3 February 2020, the Group announced its intention not to pursue its application for a medical cannabis cultivation licence in Australia and dispose of the land held by Elixinol Australia Pty Ltd (formerly Nunyara Pharma Pty Ltd). The land held by the subsidiary was sold for \$2.6 million and settled in June 2020.

Corporate structure changes

On 6 April 2020, Founder and Non-Executive Director Mr Paul Benhaim became Chair of the Board and Mr Oliver Horn, former CEO Swisse Wellness ANZ and North America was appointed Non-Executive Director. Chair and Non-Executive Director Mr Andrew Duff and Non-Executive Director Mr Greg Ellery resigned from the Board.

On 21 April 2020, Elixinol appointed Mr Oliver Horn as Group CEO. Mr Horn has extensive global industry experience, leadership credentials and passion for wellbeing. Mr Horn replaced former Group CEO Mr Stratos Karousos. In addition, the Group announced on 21 April 2020 the appointment of Mrs Helen Wiseman to the Elixinol Global Board as Non-Executive Director. Mrs Wiseman has extensive international experience in food, pharmaceutical, natural healthcare, professional services, energy, natural resources and manufacturing industries. Mrs Wiseman is an audit committee specialist for listed companies. As former partner of KPMG, and previously named as one of the 2014 Australian Financial Review and Westpac 100 women of influence, she brings diversity and seasoned governance skills to the board.

Class Action Dismissed

On 11 May 2020, the Company announced that the plaintiffs in the class-action suit filed against Elixinol LLC in the United States District Court for the Northern District of California, filed a Notice of Voluntary Dismissal (Notice). The withdrawal of the class-action suit is vindication of the Company's position that its products are accurately labelled and that the plaintiffs' misleading conduct claims were without merit.

Capital Raise

During May 2020, the Company completed an accelerated non-renounceable pro-rata entitlement offer raising \$11 million before transactions costs. The entitlement offer was completed in two stages with the Institutional entitlement offer completing on 5 May 2020 raising \$5.3 million before transaction costs issuing 26,712,850 ordinary shares at \$0.20 per share. On 26 May 2020, the Retail Entitlement Offer completed, and the Company issued 28,230,102 ordinary shares at \$0.20 per share, raising \$5.6 million before transaction costs. The placements together represents 39.88% of the Company's shares on issue prior to the placements.

Novel Coronavirus (COVID-19)

The Novel Coronavirus ('COVID-19') was declared a pandemic in March 2020 by the World Health Organisation ('WHO'). During H1 2020 there have been considerable economic impacts in Australia and globally arising from the outbreak of COVID-19 and Government action to reduce the spread of the virus. The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments as well as the travel and trade restrictions imposed by Australia and other countries in 2020 have caused disruption to businesses and economic activity.

While COVID-19 related lockdowns have clearly impacted the ability to get the Group's CBD products to customers in some physical retail environments, positive trends are emerging in the pharmacy channel as consumers seek ways of better protecting their health. In parallel, healthy on-going baseline performance continues via TV shopping channels in Germany and UK.

The Group's nutraceutical CBD product portfolio is well positioned to aid and support wellbeing during COVID times. Products such as Good Night, Stress Less and Immune Booster are becoming increasingly relevant in this time and the Group's primary sales channels remain open.

The operations of substantially all of the Group's customers, suppliers and associates are located primarily in USA, Europe and Australia. The outbreak of COVID-19 is expected to continue to have an impact on these entities. This in turn has negatively affected the recoverability of the Group's investments, as well as financial assets and other assets due from third parties such as debtors, prepayments and advances to suppliers which have been subject to impairment or expected credit loss assessments as appropriate.

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

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 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Oliver Horn
Group Chief Executive Officer

14 September 2020
Sydney

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

As lead auditor for the review of Elixinol Global Limited for the half-year ended 30 June 2020, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Leah Russell
Director

BDO Audit Pty Ltd

Location, 14 September 2020

Elixinol Global Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2020



	Note	30 Jun 2020 \$'000	Group 30 Jun 2019 \$'000
Revenue from continuing operations	5	7,850	17,126
Share of profits/(losses) of associates and joint ventures accounted for using the equity method		(599)	465
Other income	6	97	7
Interest income calculated using the effective interest method		71	266
Expenses			
Raw materials and consumables used and processing expenses		(4,907)	(9,093)
Employee benefits expenses and Directors' fees		(7,748)	(6,679)
Depreciation and amortisation expense		(1,961)	(967)
Impairment of intangibles	12	(39,178)	-
Impairment of other assets		(29,787)	(211)
Professional services expenses		(2,188)	(1,815)
Sales and marketing expenses		(4,076)	(6,822)
Administrative expenses		(2,849)	(3,422)
Distribution costs		(305)	(769)
Other expenses		(49)	(86)
Finance costs		-	(55)
Loss before income tax (expense)/benefit from continuing operations		(85,629)	(12,055)
Income tax (expense)/benefit		(4,642)	2,174
Loss after income tax (expense)/benefit from continuing operations		(90,271)	(9,881)
Profit after income tax expense from discontinued operations	7	-	44
Loss after income tax (expense)/benefit for the half-year		(90,271)	(9,837)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		1,758	495
Other comprehensive income for the half-year, net of tax		1,758	495
Total comprehensive loss for the half-year		<u>(88,513)</u>	<u>(9,342)</u>
Loss for the half-year is attributable to:			
Non-controlling interest		31	22
Owners of Elixinol Global Limited		(90,302)	(9,859)
		<u>(90,271)</u>	<u>(9,837)</u>

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

Elixinol Global Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2020



		30 Jun 2020	Group
	Note	\$'000	30 Jun 2019
			\$'000
Total comprehensive loss for the half-year is attributable to:			
Continuing operations		31	22
Discontinued operations		-	-
Non-controlling interest		31	22
Continuing operations		(88,544)	(9,408)
Discontinued operations		-	44
Owners of Elixinol Global Limited		(88,544)	(9,364)
		(88,513)	(9,342)
		Cents	Cents
Earnings per share for loss from continuing operations attributable to the owners of Elixinol Global Limited			
Basic loss per share	17	(60.51)	(7.78)
Diluted loss per share	17	(60.51)	(7.78)
Earnings per share for profit from discontinued operations attributable to the owners of Elixinol Global Limited			
Basic earnings per share	17	-	0.03
Diluted earnings per share	17	-	0.03
Earnings per share for loss attributable to the owners of Elixinol Global Limited			
Basic loss per share	17	(60.51)	(7.74)
Diluted loss per share	17	(60.51)	(7.74)

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

	Note	30 Jun 2020 \$'000	Group 31 Dec 2019 \$'000
Assets			
Current assets			
Cash and cash equivalents		16,769	20,244
Trade and other receivables		1,254	1,536
Inventories	8	8,891	21,314
Income tax refund due		-	88
Other		2,064	6,731
		<u>28,978</u>	<u>49,913</u>
Assets of disposal groups classified as held for sale		-	1,444
Total current assets		<u>28,978</u>	<u>51,357</u>
Non-current assets			
Investments accounted for using the equity method	9	3,294	8,403
Property, plant and equipment	10	4,667	12,685
Right-of-use assets	11	2,903	4,323
Intangibles	12	1,137	39,994
Deferred tax		-	4,307
Total non-current assets		<u>12,001</u>	<u>69,712</u>
Total assets		<u>40,979</u>	<u>121,069</u>
Liabilities			
Current liabilities			
Trade and other payables		3,377	2,992
Contract liabilities		171	157
Lease liabilities		1,165	989
Employee benefits		265	86
Other		1,434	843
		<u>6,412</u>	<u>5,067</u>
Liabilities directly associated with assets classified as held for sale		-	944
Total current liabilities		<u>6,412</u>	<u>6,011</u>
Non-current liabilities			
Borrowings	13	250	-
Lease liabilities		2,132	3,676
Total non-current liabilities		<u>2,382</u>	<u>3,676</u>
Total liabilities		<u>8,794</u>	<u>9,687</u>
Net assets		<u>32,185</u>	<u>111,382</u>
Equity			
Issued capital	14	198,566	188,771
Reserves		10,465	9,186
Accumulated losses		(176,846)	(86,544)
Equity attributable to the owners of Elixinol Global Limited		<u>32,185</u>	<u>111,413</u>
Non-controlling interest		-	(31)
Total equity		<u>32,185</u>	<u>111,382</u>

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

Elixinol Global Limited
Consolidated statement of changes in equity
For the half-year ended 30 June 2020



Group	Issued capital \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Other reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 January 2019	139,612	6,323	1,234	137	(3,616)	-	143,690
Profit/(loss) after income tax benefit for the half-year	-	-	-	-	(9,859)	22	(9,837)
Other comprehensive income for the half-year, net of tax	-	495	-	-	-	-	495
Total comprehensive income/(loss) for the half-year	-	495	-	-	(9,859)	22	(9,342)
Acquisition of non-controlling interest	-	-	-	-	-	2,149	2,149
Elimination of Treasury shares	-	-	-	-	-	(1,517)	(1,517)
<i>Transactions with owners in their capacity as owners:</i>							
Contributions of equity, net of transaction costs	47,628	-	-	-	-	-	47,628
Share-based payments	-	-	1,619	-	-	-	1,619
Balance at 30 June 2019	<u>187,240</u>	<u>6,818</u>	<u>2,853</u>	<u>137</u>	<u>(13,475)</u>	<u>654</u>	<u>184,227</u>
Group	Issued capital \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Other 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
Profit/(loss) after income tax expense for the half-year	-	-	-	-	(90,302)	31	(90,271)
Other comprehensive income for the half-year, net of tax	-	1,758	-	-	-	-	1,758
Total comprehensive income/(loss) for the half-year	-	1,758	-	-	(90,302)	31	(88,513)
<i>Transactions with owners in their capacity as owners:</i>							
Contributions of equity, net of transaction costs (note 14)	9,795	-	-	-	-	-	9,795
Share-based payments	-	-	(479)	-	-	-	(479)
Balance at 30 June 2020	<u>198,566</u>	<u>9,989</u>	<u>476</u>	<u>-</u>	<u>(176,846)</u>	<u>-</u>	<u>32,185</u>

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

Elixinol Global Limited
Consolidated statement of cash flows
For the half-year ended 30 June 2020



	Note	30 Jun 2020 \$'000	Group 30 Jun 2019 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		6,972	16,981
Payments to suppliers and employees (inclusive of GST)		(22,382)	(46,141)
Government grants	6	100	-
Other		88	9
Interest received		75	376
Interest and other finance costs paid		(61)	(55)
Income taxes paid		(4)	(77)
Net cash used in operating activities		(15,212)	(28,907)
Cash flows from investing activities			
Cash acquired on purchase of business		-	1,214
Payments for new equity investment		-	(7,186)
Payments for property, plant and equipment		(98)	(6,797)
Payments for intangibles		(18)	(99)
Proceeds from disposal of business		230	-
Proceeds from disposal of property, plant and equipment		2,566	60
Net cash from/(used in) investing activities		2,680	(12,808)
Cash flows from financing activities			
Proceeds from issue of shares	14	10,989	50,000
Share issue transaction costs	14	(1,224)	(2,812)
Repayment of lease liabilities		(733)	(282)
Net cash from financing activities		9,032	46,906
Net increase/(decrease) in cash and cash equivalents		(3,500)	5,191
Cash and cash equivalents at the beginning of the financial half-year		20,373	42,922
Effects of exchange rate changes on cash and cash equivalents		(104)	28
Cash and cash equivalents at the end of the financial half-year		16,769	48,141

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

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Note 1. General information

The financial statements cover Elixinol Global Limited as a Group consisting of Elixinol Global 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 Global Limited's functional and presentation currency.

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

Registered office

Level 12
680 George Street
Sydney NSW 2000

Principal place of business

Level 5
360 Kent 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 14 September 2020.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

The following Accounting Standards and Interpretations adopted during the period are most relevant to the Group:

AASB 2020-4 Amendment to Australian Accounting Standards - COVID-19-Related Rent Concessions

The Group has early adopted the amendment to AASB 16 from 1 January 2019. The amendment provides a practical expedient for lessees to account for COVID-19-related rent concessions that: result in lease payments that are substantially the same as, or less than, the consideration for the lease immediately prior to the change; where any reduction in the lease payments affects only payments originally due on or before 30 June 2021; and where there is no substantive change to other terms and conditions of the lease. The practical expedient allows an entity not to assess rent concessions meeting the criteria as a lease modification. As a result, to the extent that lease concessions represent a forgiveness or waiver of lease payments, such concessions are treated as variable lease payments recognised in profit or loss with a corresponding adjustment to the lease liability. To the extent that the lease concession in substance represents a delay in lease repayments such that lease consideration is not changed, the lease liability is not extinguished. Interest continues to accrue for that period. The Group has applied the practical expedient to all rent concessions that meet the abovementioned criteria.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

Government grants

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Note 2. Significant accounting policies (continued)

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 consolidated entity'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. Variable lease payments include rent concessions in the form of rent forgiveness or a waiver as a direct consequence of the COVID-19 pandemic and which relate to payments originally due on or before 30 June 2021.

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.

Going concern

The half year consolidated 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 period ended 30 June 2020, the Group incurred a net loss before tax of \$85.6 million (2019: \$12.1 million) and net cash outflow from operating activities of \$15.2 million (2019: \$28.9 million).

The Novel Coronavirus ('COVID-19') was declared a pandemic on 11 March 2020 by the World Health Organisation ('WHO'). During the period ended 30 June 2020 there have been considerable economic impacts in Australia and globally arising from the outbreak of COVID-19 and Government action to reduce the spread of the virus. The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments as well as the travel and trade restrictions imposed by Australia and other countries in 2020 have caused disruption to businesses and economic activity.

COVID-19 has had an impact on the operations of the Group as core operations are located in USA, Australia, Europe and the United Kingdom. All businesses within the Group have continued to operate, however, due to the reduced retail demand in the markets and the Group's current significant inventory holdings, particularly in USA, the Group has decided to temporarily cease production activities and transition to an outsourced capital light operations model. At present the Group's ability to ship and receive goods has not been impacted.

The cash flow forecast prepared for the assessment of Going Concern, factors in a number of estimates and assumptions in relation to timing of restrictions easing and the impact on customer demand. The financial forecasts in response to COVID-19 have been adjusted for the current impacts and possible future impacts to revenue, particularly including an improvement in eCommerce revenue, expenses and cashflow. However the uncertainty and unpredictability of the evolving COVID-19 situation gives rise to a material uncertainty that may cast significant doubt over the ability of the Group to continue as a going concern.

As at 30 June 2020, the Group has net assets of \$32.2 million including cash of \$16.8 million. The Directors regularly monitor the Company's cash position on an ongoing basis and the Group has demonstrated a successful track record of raising capital and funding when required, included completing a capital raise recently of \$11 million during the pandemic. The current cash flow forecasts support the business as a going concern and the Group has the capacity, if necessary, to defer discretionary expenditure in the current cash flow forecast period to take steps to moderate the cash outflows of the business as needed.

Should the Group be unable to execute the forecast strategy, it may be required to realise its assets and discharge its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments to the recoverability and classification of assets carrying amounts or the amounts of liabilities that might result should the Group be unable to continue as a going concern and meets its debts as and when they fall due.

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 are consistent with those of the latest Annual Report with the addition of the ones stated below.

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 half 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.

Note 4. Operating segments

Identification of reportable operating segments

The Group is organised into three operating segments: Americas, Europe & UK and Australia. 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. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported 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') and its investments and joint ventures in the US through the manufacture and distribution of hemp-derived Cannabidiol ('CBD') products.
Europe and UK	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 Cannabidiol ('CBD') products.
Australia	This includes the results from the operations of Hemp Foods Australia Pty Ltd ('HFA') and Elixinol Australia Pty Ltd (formerly Nunyara Pharma Pty Ltd) ('Nunyara').

'Unallocated' represents corporate, being Elixinol Global Limited (head office).

Intersegment transactions

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

Note 4. Operating segments (continued)

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 half-year ended 30 June 2020, 10% of sales were derived from three major customers (30 June 2019: 26% of sales were derived from three major customers).

Operating segment information - Continuing operations

Group - 30 Jun 2020	Americas \$'000	Europe & UK \$'000	Australia \$'000	Unallocated \$'000	Total \$'000
Revenue					
Sales to external customers	4,778	1,023	2,049	-	7,850
Total revenue	4,778	1,023	2,049	-	7,850
Adjusted EBITDA	(9,540)	(2,840)	(405)	(1,989)	(14,774)
Depreciation and amortisation					(1,961)
Impairment of intangibles					(39,178)
Impairment of other assets					(29,787)
Interest revenue					71
Loss before income tax expense					(85,629)
Income tax expense					(4,642)
Loss after income tax expense					(90,271)
Assets					
Segment assets	18,493	4,006	1,454	17,026	40,979
Total assets					40,979
Liabilities					
Segment liabilities	4,169	1,522	925	2,178	8,794
Total liabilities					8,794

Note 4. Operating segments (continued)

	Americas \$'000	Europe & UK \$'000	Australia \$'000	Unallocated \$'000	Total \$'000
Group - 30 Jun 2019					
Revenue					
Sales to external customers	14,511	995	1,620	-	17,126
Total revenue	14,511	995	1,620	-	17,126
Adjusted EBITDA	(5,756)	(1,365)	(1,016)	(2,907)	(11,044)
Depreciation and amortisation					(967)
Impairment of other assets					(211)
Interest revenue					266
Finance costs					(55)
Loss before income tax benefit					(12,011)
Income tax benefit					2,174
Loss after income tax benefit					(9,837)
Group - 31 Dec 2019					
Assets					
Segment assets	93,188	3,657	2,639	20,141	119,625
<i>Unallocated assets:</i>					
Held-for-sale					1,444
Total assets					121,069
Liabilities					
Segment liabilities	6,072	777	33	1,861	8,743
<i>Unallocated liabilities:</i>					
Held-for-sale					944
Total liabilities					9,687

Geographical information

	Sales to external customers		Geographical non-current assets	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	31 Dec 2019
	\$'000	\$'000	\$'000	\$'000
Americas	4,778	14,511	10,151	60,914
Europe & UK	1,023	995	601	712
Australia	2,049	1,620	176	2,618
Unallocated	-	-	1,073	1,161
	7,850	17,126	12,001	65,405

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

Note 5. Revenue

	30 Jun 2020	Group 30 Jun 2019
	\$'000	\$'000
From continuing operations		
Sale of goods	7,850	17,126

Note 5. Revenue (continued)

Disaggregation of revenue

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

	eCommerce \$'000	Retail \$'000	Bulk \$'000	Private label \$'000	Total \$'000
Group - 30 Jun 2020					
<i>Geographical regions</i>					
Americas	2,055	2,017	531	176	4,779
Europe & UK	118	764	142	-	1,024
Australia	138	1,427	482	-	2,047
	<u>2,311</u>	<u>4,208</u>	<u>1,155</u>	<u>176</u>	<u>7,850</u>
Group - 30 Jun 2019					
<i>Geographical regions</i>					
Americas	3,664	3,882	4,273	2,692	14,511
Europe & UK	31	964	-	-	995
Australia	131	1,090	399	-	1,620
	<u>3,826</u>	<u>5,936</u>	<u>4,672</u>	<u>2,692</u>	<u>17,126</u>

Timing of revenue recognition

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

Note 6. Other income

	30 Jun 2020 \$'000	Group 30 Jun 2019 \$'000
Net foreign exchange loss	(113)	(2)
Government grants (COVID-19)	100	-
Other	110	9
Other income	<u>97</u>	<u>7</u>

Government grants (COVID-19)

During the year the Group received payments from the Australian Government amounting to \$100,000 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.

Note 7. Discontinued operations

Hemp Foods Australia

At 30 December 2019, the Board had resolved to dispose of the Group's investment in Hemp Foods Australia Pty Ltd and negotiations with several interested parties had taken place. On 31 January 2020, the Group entered into a sale agreement to dispose of Hemp Foods Australia and as a result at 31 December 2019 disclosed Hemp Foods Australia as held-for-sale and presented separately in the statement of financial position. On 25 May 2020, the Company announced that the share purchase agreement ('SPA') for the sale was terminated by the buyer due to non-satisfaction of a condition precedent in the SPA, citing COVID-19 impacts.

Subsequently, the Company evaluated the opportunities of Hemp Foods Australia and decided to continue the operations as part of the Group. As a result, the subsidiary has been reclassified as held for sale and included in the continuing operations in the half year results.

Elixinol Japan

Elixinol Japan was incorporated into the Group from 29 May 2019. On 2 December 2019, the Company sold its 50.50% interest in Elixinol Japan to one of Elixinol Japan's other shareholders, Mr Takeshi Sakurada for \$13,500 (¥1,000,000) with a deferred cash payment of \$230,000, which was paid during the current financial half-year.

The results for Elixinol Japan are shown as a discontinued operation for the comparative period to 30 June 2019, in line with the disclosure in the 31 December 2019 Annual Report.

Financial performance information

	30 Jun 2020 \$'000	Group 30 Jun 2019 \$'000
Sale of goods	-	329
Other income	-	20
Raw materials and consumables used and processing expenses	-	(100)
Employee benefits expenses and Directors' fees	-	(65)
Depreciation and amortisation expense	-	(32)
Professional services expenses	-	(13)
Sales and marketing expenses	-	(22)
Administrative expenses	-	(59)
Other expenses	-	(14)
Total expenses	-	(305)
Profit before income tax expense	-	44
Income tax expense	-	-
Profit after income tax expense from discontinued operations	-	44

Note 8. Current assets - inventories

	30 Jun 2020 \$'000	Group 31 Dec 2019 \$'000
Raw materials - at cost	23,941	27,310
Less: Provision for impairment	(19,663)	(8,724)
	<u>4,278</u>	<u>18,586</u>
Work in progress - at cost	2,515	-
Less: Provision for impairment	(1,309)	-
	<u>1,206</u>	<u>-</u>
Finished goods - at cost	6,053	3,182
Less: Provision for impairment	(2,718)	(642)
	<u>3,335</u>	<u>2,540</u>
Stock in transit - at cost	72	188
	<u>8,891</u>	<u>21,314</u>

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Net realisable values have been reviewed taking into account estimated future demand of finished goods, expiration dates on inventory and current market prices.

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. 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. 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 of \$15,462,000 which has been recognised in the financial statements. In addition, there has been an impairment of Other Current Assets relating to prepayment of inventory of \$4,701,000.

Note 9. Non-current assets - investments accounted for using the equity method

	30 Jun 2020 \$'000	Group 31 Dec 2019 \$'000
Investment in associate - H&W Holdings LLC	-	95
Investment in associate - Altmed Pets LLC	3,294	8,096
Investment in joint venture - Northern Colorado High Plains Producers LLC	-	212
	<u>3,294</u>	<u>8,403</u>

The investments in H&W Holdings LLC and Altmed Pets LLC were impaired during the half-year totalling \$4,734,000.

Note 10. Non-current assets - property, plant and equipment

	30 Jun 2020 \$'000	Group 31 Dec 2019 \$'000
Land - at cost	424	3,139
Less: Impairment	-	(114)
	<u>424</u>	<u>3,025</u>
Leasehold improvements - at cost	3,649	3,524
Less: Accumulated depreciation	(519)	(262)
Less: Impairment	(2,869)	-
	<u>261</u>	<u>3,262</u>
Furniture, fittings and equipment - at cost	189	654
Less: Accumulated depreciation	(85)	(26)
Less: Impairment	-	(518)
	<u>104</u>	<u>110</u>
Motor vehicles - at cost	70	69
Less: Accumulated depreciation	(30)	(23)
	<u>40</u>	<u>46</u>
Computer equipment - at cost	794	741
Less: Accumulated depreciation	(432)	(257)
	<u>362</u>	<u>484</u>
Machinery - at cost	7,189	6,690
Less: Accumulated depreciation	(963)	(566)
Less: Impairment	(2,750)	(366)
	<u>3,476</u>	<u>5,758</u>
	<u><u>4,667</u></u>	<u><u>12,685</u></u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-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	-	37	46	84
Disposals	(2,611)	-	(8)	-	-	(1)	(2,620)
De-classified as held for sale	-	13	25	-	-	88	126
Exchange differences	10	66	4	1	17	138	236
Impairment of assets	-	(2,813)	-	-	-	(2,077)	(4,890)
Depreciation expense	-	(267)	(28)	(7)	(176)	(476)	(954)
Balance at 30 June 2020	<u><u>424</u></u>	<u><u>261</u></u>	<u><u>104</u></u>	<u><u>40</u></u>	<u><u>362</u></u>	<u><u>3,476</u></u>	<u><u>4,667</u></u>

During the period, the Company disposed of the land held by Nunyara for \$2,560,000. Property, plant and equipment includes impairment for assets based on the net realisable value and future expected use.

Note 11. Non-current assets - right-of-use assets

	30 Jun 2020 \$'000	Group 31 Dec 2019 \$'000
Land and buildings - right-of-use	5,031	5,069
Less: Accumulated depreciation	(2,128)	(746)
	<u>2,903</u>	<u>4,323</u>

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

Reconciliations

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

Group	Land and buildings - right- of-use \$'000
Balance at 1 January 2020	4,323
Disposals	(25)
De-classified as held for sale	187
Change in lease terms	(1,053)
Exchange differences	95
Depreciation expense	(624)
Balance at 30 June 2020	<u>2,903</u>

Note 12. Non-current assets - intangibles

	30 Jun 2020 \$'000	Group 31 Dec 2019 \$'000
Goodwill - at cost	76,191	75,705
Less: Impairment	(76,191)	(47,479)
	<u>-</u>	<u>28,226</u>
Website and software - at cost	1,146	1,118
Less: Accumulated amortisation	(233)	(84)
Less: Impairment	(41)	(41)
	<u>872</u>	<u>993</u>
Patents and trademarks - at cost	110	92
Less: Impairment	(2)	(2)
	<u>108</u>	<u>90</u>
Customer relationships - at cost	2,310	2,458
Less: Accumulated amortisation	(1,096)	(863)
Less: Impairment	(1,057)	(32)
	<u>157</u>	<u>1,563</u>
Brand names - at cost	10,667	10,668
Less: Impairment	(10,667)	(1,546)
	<u>-</u>	<u>9,122</u>
	<u><u>1,137</u></u>	<u><u>39,994</u></u>

Reconciliations

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

Group	Goodwill \$'000	Website \$'000	Patents and trademarks \$'000	Customer relationships \$'000	Brand names \$'000	Total \$'000
Balance at 1 January 2020	28,226	993	90	1,563	9,122	39,994
Additions	-	-	18	-	-	18
Exchange differences	486	28	-	14	157	685
Impairment of assets	(28,712)	-	-	(1,187)	(9,279)	(39,178)
Amortisation expense	-	(149)	-	(233)	-	(382)
Balance at 30 June 2020	<u>-</u>	<u>872</u>	<u>108</u>	<u>157</u>	<u>-</u>	<u>1,137</u>

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 2020 from the COVID-19 pandemic, indicators of impairment existed for Elixinol LLC as at balance sheet date. Therefore, impairment testing was performed in June 2020.

Note 12. Non-current assets - intangibles (continued)

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 has 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.

Sensitivity analysis was performed and is detailed below.

Key assumptions

Elixinol LLC

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

- the revenue growth reflects management's expectation of growth in the short to medium term based on market growth expectations;
- expenditure is 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; and
- terminal growth rate of 2.0% after 5 years.

Sensitivity

Elixinol LLC

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.

Note 13. Non-current liabilities - borrowings

	30 Jun 2020 \$'000	Group 31 Dec 2019 \$'000
Related party loan from Raw With Life	250	-

Prior to its acquisition by Elixinol Global 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 28.3% of the shares in Elixinol Global Limited. The Group assessed the fair value of the loan at the reporting date and the amount is not materially different from its fair value.

At 31 December 2019, the related party loan was impaired to nil as part of a condition connected to the potential Hemp Foods Australia sale. Following the termination of the sale, as at 30 June 2020 the loan has been re-instated.

Note 14. Equity - issued capital

	30 Jun 2020 Shares	31 Dec 2019 Shares	30 Jun 2020 \$'000	Group 31 Dec 2019 \$'000
Ordinary shares - fully paid	<u>192,703,954</u>	<u>137,761,002</u>	<u>198,566</u>	<u>188,771</u>

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	\$0.20	5,343
Retail Entitlement Offer	2 June 2020	28,230,102	\$0.20	5,646
Share issue transaction costs				(1,194)
Balance	30 June 2020	<u>192,703,954</u>		<u>198,566</u>

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.

Treasury shares

Treasury shares are ordinary shares of the parent entity held by subsidiaries and/or associates.

Note 15. Contingent liabilities

On 4 December 2019, the Group became aware of a class-action suit having been filed against the Group's subsidiary Elixinol LLC ('EXU') in the United States District Court for the Northern District of California. The suit alleged, amongst other allegations, that the Group's products are mislabelled as dietary supplements or illegally contain CBD and that this may constitute misleading conduct. On 11 May 2020, the Company announced that the plaintiffs in the class-action suit filed against EXU in the United States District Court for the Northern District of California, filed a Notice of Voluntary Dismissal (Notice). The withdrawal of the class-action suit is vindication of the Company's position that its products are accurately labelled and that the plaintiffs' misleading conduct claims were without merit.

Note 16. Commitments

	30 Jun 2020 \$'000	Group 31 Dec 2019 \$'000
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Inventory purchases under contract	<u>334</u>	<u>3,679</u>

Note 17. Earnings per share

	30 Jun 2020 \$'000	Group 30 Jun 2019 \$'000
<i>Earnings per share for loss from continuing operations</i>		
Loss after income tax	(90,271)	(9,881)
Non-controlling interest	(31)	(22)
Loss after income tax attributable to the owners of Elixinol Global Limited	<u>(90,302)</u>	<u>(9,903)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>149,241,274</u>	<u>127,323,773</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>149,241,274</u>	<u>127,323,773</u>
	Cents	Cents
Basic loss per share	(60.51)	(7.78)
Diluted loss per share	(60.51)	(7.78)
	30 Jun 2020 \$'000	Group 30 Jun 2019 \$'000
<i>Earnings per share for profit from discontinued operations</i>		
Profit after income tax attributable to the owners of Elixinol Global Limited	<u>-</u>	<u>44</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>149,241,274</u>	<u>127,323,773</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>149,241,274</u>	<u>127,323,773</u>
	Cents	Cents
Basic earnings per share	-	0.03
Diluted earnings per share	-	0.03
	30 Jun 2020 \$'000	Group 30 Jun 2019 \$'000
<i>Earnings per share for loss</i>		
Loss after income tax	(90,271)	(9,837)
Non-controlling interest	(31)	(22)
Loss after income tax attributable to the owners of Elixinol Global Limited	<u>(90,302)</u>	<u>(9,859)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>149,241,274</u>	<u>127,323,773</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>149,241,274</u>	<u>127,323,773</u>

Note 17. Earnings per share (continued)

	Cents	Cents
Basic loss per share	(60.51)	(7.74)
Diluted loss per share	(60.51)	(7.74)

Note 18. Events after the reporting period

The impact of the COVID-19 pandemic is ongoing and while it has had a financial effect for the Group up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

On 30 July 2020, the Group issued 2,346,919 Performance Share Rights under an employee incentive scheme.

On 1 September 2020, subsidiary Nunyara Pharma Pty Ltd changed its name to Elixinol Australia Pty Ltd.


No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Oliver Horn
Group Chief Executive Officer

14 September 2020
Sydney

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Elixinol Global Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Elixinol Global Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, 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 half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of 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 the audit of the annual 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 the same terms if given to the directors as at the time of this auditor's review report.

Material uncertainty relating to going concern

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

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Company's financial position as at 30 June 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BDO Audit Pty Ltd



Leah Russell
Director

Sydney, 14 September 2020