



# **Elixinol Global Limited**

**ABN 34 621 479 794**

**Annual Report - 31 December 2017**

**Elixinol Global Limited**  
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**31 December 2017**



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The directors present their report, together with the financial statements, on the consolidated entity (referred to as the 'Group') consisting of Elixinol Global Limited (referred to as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 31 December 2017.

### **Incorporation**

The Elixinol Group of entities was formed through an equity settled business combination which became effective 27 December 2017. Elixinol Global Limited was incorporated on 4 September 2017 to facilitate the acquisition of the entities it controlled at 31 December 2017 and prepare the Group for an initial public offering ('IPO').

### **Directors**

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

Andrew Duff - Non-Executive Chairman (appointed 27 November 2017)  
Paul Benhaim - Chief Executive Officer and Executive Director  
Linda McLeod - Managing Director  
Stratos Karousos - Non-Executive Director

### **Principal activities**

The principal activities of the Company relate to its operation as a holding company for each of Elixinol LLC ('Elixinol USA'), Hemp Foods Australia Pty Ltd ('Hemp Foods Australia') and Elixinol Pty Ltd ('Elixinol AUS').

The principal activities of the Group are:

#### *Elixinol USA*

Elixinol USA is based in Broomfield, Colorado (USA) and was established in 2014 to specialise in the manufacturing and distribution of products made from premium quality, 'whole plant' CBD Hemp Oil which is extracted from organically grown industrial hemp.

#### *Hemp Foods Australia*

Hemp Foods 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.

#### *Elixinol AUS*

Elixinol AUS is a recently incorporated Australian company that has been established to participate in the emerging Australian medicinal cannabis market. It is in the process of applying for licences for the importation, cultivation and manufacture of medicinal cannabis in Australia.

### **Dividends**

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

### **Review of operations**

The reported loss for the Group after providing for income tax amounted to \$2,711,000. As Elixinol Global Limited was incorporated on 4 September 2017, there is no comparative information to disclose.

The Group was formed through an equity settled business combination which became effective 27 December 2017. Accordingly, the results reflect the activities of acquired entities for the period between 27 December 2017 and 31 December 2017. No revenues are reported due to all operational activities ceasing during this 4-day holiday period. The results also reflect the activities of the parent company since its incorporation on 4 September 2017 through 31 December 2017 which primarily relate to the acquisition of the entities and preparing the Group for an initial public offering.

As social and cultural biases against cannabis evolve, the opportunities grow for legally compliant cultivators and distributors of cannabis and cannabis products. Hemp has been cultivated since ancient times. Today's industrial hemp has low (usually less than 0.3%) levels of THC (the psychoactive cannabinoid) and may have high levels of CBD (the non-psychoactive cannabinoid). Cultivated for multiple applications including food, personal care, dietary supplements, textiles, car parts and building materials, to name a few, industrial hemp grows legally around the world. Global hemp regulations are increasingly favourable for legal hemp product manufacturing and distribution. Elixinol USA and Hemp Foods Australia use only industrial hemp which contains insignificant levels of THC.

Medical cannabis is specifically bred for its potent, resinous glands, known as trichomes, which contain high THC and/or CBD concentrations. Laws effectively facilitating the cultivation and distribution of medical cannabis, defined as cannabis to cure or alleviate symptoms of a disease, ailment or injury, are providing emerging opportunities for medical cannabis cultivators and distributors. Elixinol AUS was formed with intentions of participating in the emerging medical cannabis industry.

#### *Elixinol Global*

Elixinol Global Limited (ASX: EXL) was incorporated on 4 September 2017 with the objective of preparing the Group for an initial public offering to leverage the synergies of three companies, Elixinol LLC (Elixinol USA), Elixinol Pty Ltd (Elixinol AUS), and Hemp Foods Australia Pty Ltd (Hemp Foods Australia). Elixinol USA manufactures and sells hemp-derived, high-CBD products, primarily dietary supplements, with distribution in the United States, Latin America, Europe and Japan. Hemp Foods Australia cultivates hemp for food and skin-care products distributed throughout Australia with some exports. Elixinol AUS was recently formed to participate in the emerging medical cannabis market in Australia and is actively pursuing obtaining licences to allow it to cultivate and distribute medical cannabis products in Australia and for export into regulated international markets.

#### *Elixinol USA*

To advance the US industrial hemp industry and to further distinguish it from controlled substances, Elixinol USA has agreed to support both the Hemp Roundtable and Hoban Law Group Legislative Steering Committee, national trade group alliances with active US congressional lobbying and consumer education initiatives. Elixinol USA also continues its shift toward using US-based hemp to manufacture its CBD products. Using US-based hemp provides a consistent high-quality hemp oil source closer to the Elixinol USA manufacturing centre in Broomfield, Colorado.

#### *Hemp Foods Australia*

Hemp Foods Australia is the first and largest known manufacturer of hemp seeds, oil, protein and flour in Australia, producing all of these branded and bulk products in the Northern Rivers of Australia since 2012. Made possible, in part, by Hemp Foods Australia's lobbying efforts, legislation recently changed to allow the sale of hemp seed products as an approved food across Australia and New Zealand. Hemp's nutritional profile is quite extraordinary. The tiny seeds pack the highest source of short chain polyunsaturated fats (Omega 3 & Omega 6) of all foods – the 'good fats' that promote cardiovascular health and combat bad cholesterol. Celebrated as a complete protein – it has all essential and non-essential amino acid profile and its protein is made up of easily digestible edestin and albumin - the highest in the plant kingdom. Hemp's rich source of dietary fibre contributes to a healthy digestive tract and its vast array of vitamins, minerals and antioxidants make Hemp Products a true wellness (whole) food. The raw materials Hemp Foods Australia produces are used to produce products such as snack bars, breads, non-dairy milk, pasta, sauces and many other food products around the world.

Through its strategic partners, Hemp Foods Australia recently drew from its extensive seed bank to plant more than 700 acres of certified organic or sustainable industrial hemp in New South Wales and Victoria. To lower risks and increase success in dry Australian conditions, the sustainably certified cultivation protocol includes modern farming techniques and equipment including high-tech precision-planting machines and pivot irrigation systems. Educational videos are being made of this year's Australian crops to share with farmers via Hemp Foods Australia's website and social media channels.

#### *Elixinol AUS*

In February 2016, the Australian Narcotic Drugs Amendment Act 2016 received royal assent, bringing into effect a regulatory framework, under the Office of Drug Control (ODC), for the licensing of cultivation, production and manufacture of cannabis for medicinal and scientific use. Progress continues with Elixinol AUS' application of submissions with the ODC for a cultivation and manufacturing licence to establish a state-of-the-art integrated cultivation and GMP manufacturing facility for developing proprietary medical cannabis products for the Australian market, and export markets as permitted. Elixinol AUS will leverage the well-established and global Elixinol brand, intellectual property, research and development and significant experience in processing cannabinoids to become a leading provider of cannabis-derived medications in Australia.

### **Significant changes in the state of affairs**

The Company was set up as a holding company on 4 September 2017. On 27 December 2017 the Company acquired and incorporated the businesses of Elixinol USA, Elixinol AUS and Hemp Foods Australia.

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

### **Matters subsequent to the end of the financial period**

On 5 January 2018 the Company was admitted to the official list of ASX Limited ('ASX') under the code EXL and official quotation of securities commenced at 11.00am on 8 January 2018.

25,005,409 securities commenced trading immediately on 8 January 2018 with 77,923,131 securities restricted for periods with restrictions expiring on 27 December 2018 and 8 January 2020.

No other matter or circumstance has arisen since 31 December 2017 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 USA will continue to expand its distribution with a focus on national retail accounts and has recently hired key sales and management personnel throughout the eastern, central and western regions of the US to service bulk sales, medical professionals and distributor sales. The Elixinol USA global distribution network is also expected to grow through strategic partners in Latin America and Europe.

With hundreds of tonnes of edible hemp seeds in stock, Hemp Foods Australia will continue to invest in developing its hemp food production capabilities and offerings.

Elixinol AUS will continue to pursue its licences and is well positioned to become a leader in the emerging Australian medicinal cannabis market.

### **Environmental regulation**

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

### **Information on directors**

Name:	Andrew Duff
Title:	Non-Executive Chairman (independent)
Qualifications:	Chartered Accountant (CA)
Experience and expertise:	Andrew joined the Company in 2017. He has significant ASX-listed company experience, including as a director. He is also the Chairman of Cornerstone Health Pty Ltd and director of Dexus Wholesale Funds Limited. Recently, Andrew held the position of Chief Financial Officer and Finance Director of Primary Health Care (ASX: PRY), an ASX 100 listed company. Prior to joining Primary Health Care, Andrew was Chief Accountant of Medical Defence of Australia from 1995 to 1998, an insolvency manager from 1993 to 1995, and a Senior Audit Manager at Deloitte Touche Tohmatsu in both London and Sydney from 1985 to 1993.
Other current directorships:	None
Former directorships (last 3 years):	Primary Health Care Limited (ASX: PRY)
Special responsibilities:	Chair of Audit and Risk Committee and Chair of Remuneration and Nomination Committee
Interests in shares:	25,000 ordinary shares
Interests in rights:	None

Name: Paul Benhaim  
 Title: Chief Executive Officer and Executive Director  
 Experience and expertise: Paul has over 25 years' experience in the hemp industry and is the co-founder of Elixinol USA, Elixinol AUS and Hemp Foods Australia. Paul has been responsible for creating and developing each of the business plans for Elixinol USA, Elixinol AUS and Hemp Foods Australia and negotiating production, cultivation and distribution. Paul will be responsible for business strategy including organic and acquisition led growth opportunities for the Group. In 1996, Paul created 9bar, one of Europe's first hemp food products. Paul then moved to Australia in 1999 to assist the establishment of a hemp industry. He co-founded Hemp Foods Australia. Paul is considered an expert in the Australian industrial hemp industry and has authored nine books on industrial hemp and is a regular speaker at conferences around the world.

Other current directorships: None  
 Former directorships (last 3 years): None  
 Special responsibilities: Member of Audit and Risk Committee  
 Interests in shares: 54,623,008 ordinary shares  
 Interests in rights: None

Name: Linda McLeod  
 Title: Managing Director  
 Qualifications: BSW, BA, MBA  
 Experience and expertise: Linda has over 30 years in business advisory, corporate finance, private equity and venture capital. Linda has worked across a broad range of industries including healthcare, biotechnology, agriculture and resources sectors. Areas of practice have included business strategy, M&A, due diligence and corporate governance. Linda joined the Company in 2017 with a focus on driving the business strategy and implementing the business plan.

Other current directorships: None  
 Former directorships (last 3 years): None  
 Special responsibilities: Member of Audit and Risk Committee and Member of Remuneration and Nomination Committee  
 Interests in shares: 200,000 ordinary shares  
 Interests in rights: None

Name: Stratos Karousos  
 Title: Non-Executive Director (independent)  
 Qualifications: LLB, MCom  
 Experience and expertise: Stratos has extensive experience as a lawyer working in mergers and acquisitions, equity capital markets, corporate restructuring, private equity transactions, joint ventures, and corporate governance in various sectors, including health and agriculture. Stratos joined the Company in 2017 with a focus on assisting with the execution of its acquisition strategy.

Other current directorships: None  
 Former directorships (last 3 years): None  
 Special responsibilities: Member of Remuneration and Nomination Committee  
 Interests in shares: 100,000 ordinary shares  
 Interests in rights: None

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

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

### Company secretary

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

### Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the period ended 31 December 2017, 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
A Duff	1	1	-	-	-	-
P Benhaim	2	2	-	-	-	-
L McLeod	2	2	-	-	-	-
S Karousos	2	2	-	-	-	-

Held: represents the number of meetings held during the time the director held office.

### 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 (Cth) ('Corporations Act 2001') and its regulations.

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

The key management personnel of the Group consisted of the following directors of Elixinol Global Limited:

- Andrew Duff - Non-Executive Chairman
- Paul Benhaim - Chief Executive Officer and Executive Director
- Linda McLeod - Managing Director
- Stratos Karousos - Non-Executive Director

And the following persons:

- Ron Dufficy - Chief Financial Officer and Company Secretary
- Gabriel Ettenson - General Manager Elixinol USA

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

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional disclosures relating to key management personnel

### *Principles used to determine the nature and amount of remuneration*

An executive reward framework is currently being developed that will aim to ensure reward for performance is competitive and appropriate for the results delivered. The framework is expected to align executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is expected to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') will ensure 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
- 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 plans to structure an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The reward framework will be designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit 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
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

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



#### *Non-executive directors remuneration*

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are to be reviewed annually by the Remuneration and Nomination Committee. The Remuneration and Nomination Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees will be determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman will not be present at any discussions relating to the determination of his 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 \$240,000. 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 aims to reward 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 and is expected to have four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

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

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Remuneration and Nomination Committee based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

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.

#### ***Employee incentive plan***

The Company has adopted an employee incentive plan during the reporting period, which will enable it to assist in the attraction, motivation and retention of the Directors, executive team and other selected employees of the Company ('Plan').

The rules of the Plan ('Plan Rules') provide the framework under which the Plan and any future individual grants will operate. The key features of the Plan are outlined below:

#### *Eligibility*

An employee of the Group or another person determined by the Board as eligible to participate in the Plan.

#### *Types of securities*

Shares.

#### *Offers under the Plan*

Under the Plan, eligible employees may be offered:

- an option to acquire a Share, subject to the terms relating to vesting, exercise and lapsing
- a right to acquire a Share, subject to terms relating to, amongst other things, performance and/or service

#### *Issue price*

To be determined by the Board.

#### *Vesting*

On satisfaction of all of the conditions relating to the offer under the Plan, as determined by the Board.

*Cessation of employment*

Subject to the Board determining otherwise (in its absolute discretion), should a participant cease to be an employee 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

*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.

As at 31 December 2017, no Plan shares have been issued or granted.

*Use of remuneration consultants*

During the financial period ended 31 December 2017, the Board did not engage remuneration consultants to review its existing remuneration policies and provide recommendations on how to improve the STI and LTI programs. However, the Board has recently engaged HRascent to provide advice on the design for the future reward framework which will apply for FY2018 and future periods. To date, no costs have been incurred through this arrangement.

***Details of remuneration***

*Amounts of remuneration*

Details of the remuneration of directors and other key management personnel of the Group are set out in the following tables.

	Cash salary and fees \$	Short-term benefits		Post- employment benefits	Long-term benefits	Share- based payments	Total \$
		Cash bonus \$	Non- monetary \$	Super- annuation \$	Long service leave \$	Equity- settled \$	
<b>4 Sep 2017 to 31 Dec 2017</b>							
<i>Non-Executive Directors:</i>							
A Duff	8,095	-	-	769	-	25,000	33,864
S Karousos	10,220	-	-	971	-	100,000	111,191
<i>Executive Directors:</i>							
P Benhaim	47,084	-	-	3,817	-	-	50,901
L McLeod	50,134	-	-	3,848	-	200,000	253,982
<i>Other Key Management Personnel:</i>							
R Dufficy	38,571	-	-	3,664	-	30,000	72,235
G Ettenson *	2,768	-	-	-	-	-	2,768
	<u>156,872</u>	<u>-</u>	<u>-</u>	<u>13,069</u>	<u>-</u>	<u>355,000</u>	<u>524,941</u>

\* Remuneration is for the period from 27 December 2017 to 31 December 2017.

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

Name	Fixed	At risk - STI *	At risk - LTI *
	remuneration 4 Sep 2017 to 31 Dec 2017	4 Sep 2017 to 31 Dec 2017	4 Sep 2017 to 31 Dec 2017
<i>Non-Executive Directors:</i>			
A Duff	26%	74%	-
S Karousos	10%	90%	-
<i>Executive Directors:</i>			
P Benhaim	100%	-	-
L McLeod	21%	79%	-
<i>Other Key Management Personnel:</i>			
R Dufficy	58%	42%	-
G Ettenson	100%	-	-

\* The STI and LTI incentive plans are both in development.

There were no cash bonuses paid nor forfeited during the period.

### Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Paul Benhaim
Title:	Chief Executive Officer
Agreement commenced:	25 October 2017
Term of agreement:	Paul Benhaim will be employed, subject to the rights of the Company, below: <ul style="list-style-type: none"><li>• The Company may terminate the Chief Executive Officer's employment immediately and without notice in certain circumstances, including if they are guilty of serious misconduct, is grossly negligent or otherwise incompetent in the performance of their duties, becomes bankrupt or commits a crime or other civil wrong which, in the Company's reasonable opinion, may seriously impact on the Chief Executive Officer's ability to perform the duties of their position, or is likely to significantly damage the reputation or business of the Company</li><li>• The Chief Executive Officer's employment may be terminated by either party giving 6 months' written notice</li><li>• The Company may also terminate the Chief Executive Officer's employment by either making a payment equal to 6 months' pay in lieu of the entire notice period (or by making them work part of the notice period and making a payment in lieu of the balance of the notice period)</li></ul>

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

Details: Under the terms of his employment agreement, the Chief Executive Officer is entitled to receive annual total fixed remuneration ('TFR') comprised of:

- base salary of \$272,500 (less tax and deductions and inclusive of superannuation)
- superannuation equal to the minimum amount required to be paid to comply with the superannuation guarantee legislation

The TFR is subject to annual review (starting in December 2018).

In addition to the annual TFR, the Chief Executive Officer is eligible to participate in the Company's employee incentive plan in accordance with the Plan Rules and as determined by the Board. The Company and the Chief Executive Officer may agree in writing to vary the terms of the bonus entitlement from time to time.

In addition to the Chief Executive Officer's base salary, the Company may, in its absolute discretion, provide the Chief Executive Officer with other benefits, such as other incentive payments.

At 31 December 2017 and up to the date of signing of this report, no instruments under the employee incentive plan or other incentive payments were issued.

The Chief Executive Officer's employment agreement also includes:

- a post-employment non-competition restraint of trade, which operates in a maximum area covering New South Wales, Victoria, Queensland, Western Australia, South Australia, Northern Territory, Tasmania, the Australian Capital Territory and the United States of America for a maximum period of 12 months from the date on which the Chief Executive Officer's employment ceases
- a post-employment non-solicitation restraint of trade for the same geographical area and period of time

Name: Linda McLeod  
Title: Managing Director  
Agreement commenced: 25 October 2017  
Term of agreement:

Linda McLeod will be employed, subject to the rights of the Company, below:

- The Company may terminate the Managing Director's employment immediately and without notice in certain circumstances, including if they are guilty of serious misconduct, is grossly negligent or otherwise incompetent in the performance of their duties, becomes bankrupt or commits a crime or other civil wrong which, in the Company's reasonable opinion, may seriously impact on the Managing Director's ability to perform the duties of their position, or is likely to significantly damage the reputation or business of the Company
- The Managing Director's employment may be terminated by either party giving 6 months' written notice
- The Company may also terminate the Managing Director's employment by either making a payment equal to 6 months' pay in lieu of the entire notice period (or by making them work part of the notice period and making a payment in lieu of the balance of the notice period)

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

Details: Under the terms of her employment agreement, the Managing Director is entitled to receive annual TFR comprised of:

- base salary of \$288,850 (less tax and deductions and inclusive of superannuation)
- superannuation equal to the minimum amount required to be paid to comply with the superannuation guarantee legislation

The TFR is subject to annual review (starting in December 2018).

In addition to the annual TFR, the Managing Director is eligible to participate in the Company's employee incentive plan in accordance with the Plan Rules and as determined by the Board. The Company and the Managing Director may agree in writing to vary the terms of the bonus entitlement from time to time.

In addition to the Managing Director's base salary, the Company may, in its absolute discretion, provide Linda McLeod with other benefits, such as bonus and other incentive payments.

At 31 December 2017 and up to the date of signing of this report, no instruments under the employee incentive plan or other incentive payments were issued.

The Managing Director's employment agreement also includes:

- a post-employment non-competition restraint of trade, which operates in a maximum area covering New South Wales, Victoria, Queensland, Western Australia, South Australia, Northern Territory, Tasmania, the Australian Capital Territory and the State of Colorado in the United States of America for a maximum period of 12 months from the date on which the Managing Director's employment ceases
- a post-employment non-solicitation restraint of trade for the same geographical area and period of time

Name: Ron Dufficy  
Title: Chief Financial Officer and Company Secretary  
Agreement commenced: 12 October 2017  
Term of agreement: Ron Dufficy will be employed, subject to the rights of the Company, below:

- The Company may terminate the Chief Financial Officer's employment immediately and without notice in certain circumstances, including if they are guilty of serious misconduct, is grossly negligent or otherwise incompetent in the performance of their duties, becomes bankrupt or commits a crime or other civil wrong which, in the Company's reasonable opinion, may seriously impact on the Chief Financial Officer's ability to perform the duties of their position, or is likely to significantly damage the reputation or business of the Company
- The Chief Financial Officer's employment may be terminated by either party giving 6 months' written notice
- The Company may also terminate the Chief Financial Officer's employment by either making a payment equal to 6 months' pay in lieu of the entire notice period (or by making them work part of the notice period and making a payment in lieu of the balance of the notice period)

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

Details: Under the terms of his employment agreement, the Chief Financial Officer is entitled to receive annual TFR comprised of:

- base salary of \$230,000 (less tax and deductions and inclusive of superannuation)
- superannuation equal to the minimum amount required to be paid to comply with the superannuation guarantee legislation

The TFR is subject to annual review (starting in December 2018).

In addition to the annual TFR, the Chief Financial Officer is eligible to participate in the Company's employee incentive plan in accordance with the Plan Rules and as determined by the Board. The Company and the Chief Financial Officer may agree in writing to vary the terms of the bonus entitlement from time to time.

In addition to the Chief Financial Officer's base salary, the Company may, in its absolute discretion, provide Ron with other benefits, such as bonus and other incentive payments.

At 31 December 2017 and up to the date of signing of this report, no instruments under the employee incentive plan or other incentive payments were issued.

The Chief Financial Officer's employment agreement also includes:

- a post-employment non-competition restraint of trade, which operates in a maximum area covering New South Wales, Victoria, Queensland, Western Australia, South Australia, Northern Territory, Tasmania, the Australian Capital Territory and the United States of America for a maximum period of 12 months from the date on which the Chief Financial Officer's employment ceases
- a post-employment non-solicitation restraint of trade for the same geographical area and period of time

Name: Gabriel Ettenson  
Title: General manager, Elixinol USA  
Agreement commenced: 3 November 2017  
Term of agreement: Gabriel's employment will terminate immediately and without notice upon the first of the following events to occur:

- Gabriel's death
- Gabriel's inability to perform his duties for 40 or more days in a 12-month period or 30 consecutive days
- the dissolution or cessation of Elixinol USA business
- termination for cause by Elixinol USA

Details: Gabriel's employment may be terminated either by Elixinol USA without cause or by Gabriel with good reason, in which event Gabriel shall be entitled to receive a payment equal to three month's salary.  
Under the terms of his employment agreement, Gabriel is entitled to receive annual TFR comprised of:

- an annual salary of US\$175,000 (less applicable taxes and deductions)
- participation in any and all health, disability, and group term life insurance plans, any pension, retirement, or profit sharing plans, or any standard fringe benefits, including any medical leave and vacation benefits that may be extended to executive employees of Elixinol USA

If determined by the Board, Gabriel may be eligible to participate in the employee incentive arrangements.

At 31 December 2017 and up to the date of signing of this report, no incentive arrangements were given.

Gabriel's employment agreement contains the following restraints:

- a post-employment non-competition restraint for a period of 1 year in respect to any state in the United States or any other jurisdiction that Elixinol USA is or has made plans to do business
- a post-employment non-solicitation restraint in respect of customers and employees for the same geographical area and period of time

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

### **Share-based compensation**

#### *Issue of shares*

During the period ended 31 December 2017 the following bonus shares were issued to directors and other key management personnel as part of compensation:

Name	Number
A Duff	25,000
L McLeod	200,000
S Karousos	100,000
R Dufficy	30,000

#### *Options*

There were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 31 December 2017.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the period ended 31 December 2017.

*Performance rights*

There were no performance rights over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 31 December 2017.

There were no performance rights over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the period ended 31 December 2017.

***Additional disclosures relating to key management personnel***

*Shareholding*

The number of shares in the Company held during the financial period by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the period	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the period
<i>Ordinary shares</i>					
A Duff	-	25,000	-	-	25,000
P Benhaim*	-	-	54,623,008	-	54,623,008
L McLeod	-	200,000	-	-	200,000
S Karousos	-	100,000	-	-	100,000
R Dufficy	-	30,000	-	-	30,000
G Ettenson**	-	-	12,719,112	-	12,719,112
	-	355,000	67,342,120	-	67,697,120

\* Held indirectly due to Paul Benhaim's interest with the holder of the shares, Raw With Life Pty Ltd.

\*\* Held indirectly due to Gabriel Ettenson's interest with the holder of the shares, D & G Health LLC.

***This concludes the remuneration report, which has been audited.***



### Loans with directors and executives

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 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 53% of the shares in Elixinol Global Limited.

### Shares under option

There were no unissued ordinary shares of Elixinol Global Limited under option outstanding at the date of this report.

### Shares under performance rights

There were no unissued ordinary shares of Elixinol Global Limited under performance rights outstanding at the date of this report.

### Shares issued on the exercise of options

There were no ordinary shares of Elixinol Global Limited issued on the exercise of options during the period ended 31 December 2017 and up to the date of this report.

### Shares issued on the exercise of performance rights

There were no ordinary shares of Elixinol Global Limited issued on the exercise of performance rights during the period ended 31 December 2017 and up to the date of this report.

### Indemnity and insurance of officers

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

During the financial period, 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 period, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial period, 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 period by the auditor are outlined in note 31 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial period, 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 31 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 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 Deloitte Touche Tohmatsu**

There are no officers of the Company who are former partners of Deloitte Touche Tohmatsu.

#### **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.

#### **Auditor**

Deloitte Touche Tohmatsu have expressed an interest to continue in office, in accordance with section 327 of the Corporations Act 2001, and their continuing appointment will be put forward to shareholders at the Group's first Annual General Meeting.

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



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Paul Benhaim  
Chief Executive Officer and Executive Director

27 February 2018  
Sydney

27 February 2018

The Board of Directors  
Elixinol Group Limited  
Level 6, 50 Pitt St  
SYDNEY NSW 2000

Dear Board Members

**Elixinol Global Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Elixinol Global Limited.

As lead audit partner for the audit of the financial report of Elixinol Global Limited for the financial period ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



Tara Hill  
Partner  
Chartered Accountant

**Elixinol Global Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the period ended 31 December 2017**



	<b>Note</b>	<b>Consolidated 4 Sep 2017 to 31 Dec 2017 \$'000</b>
<b>Revenue</b>	6	2
<b>Expenses</b>		
Employee benefits expenses and Directors' fees		(588)
Depreciation and amortisation expense	7	(17)
Professional services (including IPO) expenses		(1,820)
Sales and marketing expenses		(12)
Administrative expenses		(266)
Other expenses		(32)
<b>Loss before income tax benefit</b>		(2,733)
Income tax benefit	8	22
<b>Loss after income tax benefit for the period attributable to the owners of Elixinol Global Limited</b>	26	(2,711)
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Foreign currency translation		-
Other comprehensive income for the period, net of tax		-
<b>Total comprehensive loss for the period attributable to the owners of Elixinol Global Limited</b>		<u>(2,711)</u>
		<b>Cents</b>
Basic loss per share	41	(62.16)
Diluted loss per share	41	(62.16)

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

**Assets**

**Current assets**

Cash and cash equivalents	9	18,834
Trade and other receivables	10	1,211
Inventories	11	2,470
Other	12	816
Total current assets		<u>23,331</u>

**Non-current assets**

Property, plant and equipment	13	1,064
Intangibles	14	79,122
Deferred tax	15	83
Total non-current assets		<u>80,269</u>

**Total assets**

103,600

**Liabilities**

**Current liabilities**

Trade and other payables	16	1,259
Borrowings	17	38
Income tax	18	206
Provisions	19	60
Other	20	894
Total current liabilities		<u>2,457</u>

**Non-current liabilities**

Borrowings	21	250
Deferred tax	22	1,714
Provisions	23	90
Total non-current liabilities		<u>2,054</u>

**Total liabilities**

4,511

**Net assets**

99,089

**Equity**

Issued capital	24	101,800
Foreign currency translation reserve	25	-
Accumulated losses	26	(2,711)

**Total equity**

99,089

Elixinol Global Limited  
Statement of changes in equity  
For the period ended 31 December 2017



<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Foreign currency translation reserve \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Total equity \$'000</b>
Balance at 4 September 2017	-	-	-	-
Loss after income tax benefit for the period	-	-	(2,711)	(2,711)
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive loss for the period	-	-	(2,711)	(2,711)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 24)	101,800	-	-	101,800
Balance at 31 December 2017	101,800	-	(2,711)	99,089

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

**Elixinol Global Limited**  
**Statement of cash flows**  
**For the period ended 31 December 2017**



	<b>Note</b>	<b>Consolidated 4 Sep 2017 to 31 Dec 2017 \$'000</b>
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of GST)		78
Payments to suppliers and employees (inclusive of GST)		<u>(727)</u>
Net cash used in operating activities	39	<u>(649)</u>
<b>Cash flows from investing activities</b>		
Net cash acquired on purchase of subsidiaries	36	1,808
Payments for property, plant and equipment	13	(9)
Proceeds from loans in other entities *		<u>500</u>
Net cash from investing activities		<u>2,299</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	24	20,000
Share issue transaction costs	24	(1,129)
Other transaction costs related to the offer		<u>(1,687)</u>
Net cash from financing activities		<u>17,184</u>
Net increase in cash and cash equivalents		18,834
Cash and cash equivalents at the beginning of the financial period		<u>-</u>
Cash and cash equivalents at the end of the financial period	9	<u><u>18,834</u></u>

\* Loan proceeds from Elixinol AUS prior to its acquisition by Elixinol Global Limited.

*The above 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 6  
50 Pitt Street  
Sydney NSW 2000

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2018. The directors have the power to amend and reissue the financial statements.

## **Note 2. Acquisition accounting**

Elixinol Global Limited was incorporated on 4 September 2017 for the purpose of becoming a listed company on the ASX, and has subsequently entered into contracts to acquire all of the shares or relevant interests in Elixinol LLC ('Elixinol USA'), Elixinol Pty Ltd ('Elixinol AUS') and Hemp Foods Australia Pty Ltd ('Hemp Foods Australia'). The acquisition was facilitated through an offer of shares in the Company ('Offer').

On completion of the Offer, 27 December 2017, the transaction comprising the contemporaneous acquisition of the above three entities by Elixinol Global Limited occurred. The Directors consider this transaction to be a transaction of substance and, as such, this will be accounted for using the acquisition method under AASB 3 'Business Combinations'. The Directors have further assessed that Elixinol Global Limited is deemed to be acquirer due to the transaction having substance as a result of substantial new shareholders and change in ownership interest of existing shareholders across the acquired entities despite Raw for Life retaining a controlling interest.

## **Note 3. Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out below.

### **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.

### **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, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

### Note 3. Significant accounting policies (continued)

#### *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 4.

#### **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 35.

#### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Elixinol Global Limited as at 31 December 2017 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 5.

#### **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**

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

### Note 3. Significant accounting policies (continued)

#### *Sale of goods*

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

#### *Government grants*

Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the period which the expenses are recognised.

#### *Interest*

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

#### *Other revenue*

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

### Research activities

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

### Income tax

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

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.

### 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.

### **Note 3. Significant accounting policies (continued)**

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

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

#### **Cash and cash equivalents**

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

#### **Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

#### **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, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

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

#### **Associates**

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

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

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

### Note 3. Significant accounting policies (continued)

#### Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

#### *Impairment of financial assets*

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been recognised had the impairment not been made and is reversed to 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 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 and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

#### Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

### Note 3. Significant accounting policies (continued)

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

#### 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.

##### *Patents and trademarks*

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

##### *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 life of 5 years.

##### *Brand names*

Significant costs associated with brand names are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

#### 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 period 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.

### Note 3. Significant accounting policies (continued)

#### 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.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

#### 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.

#### Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

#### Employee benefits

##### *Short-term employee benefits*

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

##### *Defined contribution superannuation expense*

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

##### *Share-based payments*

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

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

#### 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.

### **Note 3. Significant accounting policies (continued)**

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

#### **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.

#### **Business combinations**

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.



### Note 3. Significant accounting policies (continued)

#### Earnings per share

##### *Basic earnings per share*

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

##### *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 2017. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

##### *AASB 9 Financial Instruments*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace AASB 139 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model, as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in AASB 139. Under AASB 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced. The standard introduces additional new disclosures.

### Note 3. Significant accounting policies (continued)

The Group will adopt this standard from 1 January 2018. The Group is still in the process of assessing the impact of this standard which is expected to be immaterial.

#### *AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer.

The Group will adopt this standard from 1 January 2018. The Group is still in the process of assessing the impact of this standard which is expected to be immaterial except for additional disclosure requirements.

#### *AASB 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The Group will adopt this standard from 1 July 2019 and management is currently assessing the impact of this new standard, specifically the impact on the statement of financial position for its four leases (as lessee).

### Note 4. 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.

#### Note 4. Critical accounting judgements, estimates and assumptions (continued)

##### *Business combinations*

As discussed in note 3, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

It is further noted in assessing the manner in which the acquisitions of Elixinol USA, Elixinol AUS and Hemp Foods Australia judgement was applied when assessing whether the acquisitions were of substance as a consequence despite Raw With Life Pty Limited retaining a controlling interest. Furthermore, in concluding that the acquisition constituted a business combination further judgement was applied in concluding Elixinol Global Limited was the acquirer.

##### *Goodwill and other indefinite life intangible assets*

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Due to the proximity of the acquisition to the period end, no value-in-use calculations were performed.

##### *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 fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

##### *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.

##### *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.

#### Note 5. Operating segments

##### *Identification of reportable operating segments*

The Group is organised into two operating segments: Australasia and North America. 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 EBITDA (earnings before interest, tax, depreciation and amortisation). 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.

## Note 5. Operating segments (continued)

### Types of products and services

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

Australasia	This includes the results from the trading operations of Hemp Foods Australia and Elixinol AUS. This relates to the sale of hemp-based products in the case of Hemp Foods Australia and the application for licences in respect of the importation and cultivation of medicinal cannabis in Australia in the case of Elixinol AUS.
North America	This includes the trading results of Elixinol USA in the US through the manufacture and distribution of hemp-derived CBD products.

### 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 period ended 31 December 2017 no sales were derived from major customers.

### Operating segment information

<b>Consolidated - 4 Sep 2017 to 31 Dec 2017</b>	Australasia \$'000	North America \$'000	Unallocated \$'000	Total \$'000
<b>Revenue</b>				
Interest received	-	-	2	2
<b>Total revenue</b>	-	-	2	2
<b>EBITDA</b>	(18)	(17)	(2,683)	(2,718)
Depreciation and amortisation				(17)
Interest revenue				2
<b>Loss before income tax benefit</b>				(2,733)
Income tax benefit				22
<b>Loss after income tax benefit</b>				(2,711)
<b>Assets</b>				
Segment assets	18,699	67,906	16,995	103,600
<b>Total assets</b>				103,600
<i>Total assets includes:</i>				
Acquisition of non-current assets	-	-	9	9
<b>Liabilities</b>				
Segment liabilities	1,504	2,745	262	4,511
<b>Total liabilities</b>				4,511

There is no non-interest revenue for the Group disclosed as revenue would be for the four day period from 27 December 2017 to 31 December 2017 when subsidiaries were closed over the Christmas and New Year holiday period.

**Note 5. Operating segments (continued)**

*Geographical information*

	Sales to external customers 4 Sep 2017 to 31 Dec 2017 \$'000	Geographical non-current assets 31 Dec 2017 \$'000
Australasia	-	20,763
North America	-	59,423
	-	80,186

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

**Note 6. Revenue**

	Consolidated 4 Sep 2017 to 31 Dec 2017 \$'000
Interest	2

**Note 7. Expenses**

**Consolidated**  
**4 Sep 2017**  
**to 31 Dec**  
**2017**  
**\$'000**

Loss before income tax includes the following specific expenses:

<i>Depreciation</i>	
Leasehold improvements	1
Computer equipment	1
Machinery	<u>2</u>
Total depreciation	<u>4</u>
<i>Amortisation *</i>	
Customer relationships	3
Brand names	<u>10</u>
Total amortisation	<u>13</u>
Total depreciation and amortisation	<u>17</u>
<i>Rental expense relating to operating leases</i>	
Minimum lease payments	<u>3</u>
<i>Superannuation expense</i>	
Defined contribution superannuation expense	<u>14</u>
<i>Share-based payments expense</i>	
Share-based payments expense	<u>355</u>

\* Amortisation has been estimated with reference to provisionally accounted identifiable intangible assets. The amortisation charge will be 'trued-up' upon completion and finalisation of acquisition accounting.

**Note 8. Income tax benefit**

	<b>Consolidated 4 Sep 2017 to 31 Dec 2017 \$'000</b>
<i>Income tax benefit</i>	
Current tax	(12)
Deferred tax - origination and reversal of temporary differences	<u>(10)</u>
Aggregate income tax benefit	<u><u>(22)</u></u>
Deferred tax included in income tax benefit comprises:	
Increase in deferred tax assets (note 15)	(6)
Decrease in deferred tax liabilities (note 22)	<u>(4)</u>
Deferred tax - origination and reversal of temporary differences	<u>(10)</u>
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>	
Loss before income tax benefit	<u>(2,733)</u>
Tax at the statutory tax rate of 30%	(820)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:	
Sundry items	<u>103</u>
	(717)
Current period tax losses not recognised	215
Current period temporary differences not recognised	<u>480</u>
Income tax benefit	<u><u>(22)</u></u>

The anti-inversion rules in the USA apply to the Company on the basis that the former shareholders of Elixinol USA owned at least 80% of the vote, or value, of the Company following its acquisition of Elixinol USA and because the Company did not have substantial business activities outside of the USA. As a result, the Company is treated as a resident of the USA for income tax purposes.

In addition, the Company is treated as a resident of Australia for Australian income tax purposes.

Management is assessing the impact of the Company being considered a dual resident.

**Note 9. Current assets - cash and cash equivalents**

	<b>Consolidated 31 Dec 2017 \$'000</b>
Cash on hand	7
Cash at bank	3,827
Cash on deposit	<u>15,000</u>
	<u><u>18,834</u></u>

**Note 10. Current assets - trade and other receivables**

	<b>Consolidated 31 Dec 2017 \$'000</b>
Trade receivables	1,007
Other receivables	87
Receivable from director, Paul Benhaim	11
Acceleration grant	31
GST recoverable	73
Interest receivable	2
	<hr/>
	1,211
	<hr/> <hr/>

*Impairment of receivables*

Refer to note 36 'Business combinations' for further details.

*Past due but not impaired*

Customers with balances past due but without provision for impairment of receivables amount to \$532,000 as at 31 December 2017.

The Group did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	<b>Consolidated 31 Dec 2017 \$'000</b>
1 to 30 days overdue	344
31 to 60 days overdue	146
61 to 90 days overdue	1
Over 90 days overdue	41
	<hr/>
	532
	<hr/> <hr/>

**Note 11. Current assets - inventories**

	<b>Consolidated 31 Dec 2017 \$'000</b>
Raw materials - at cost	1,556
Less: Provision for impairment	(74)
	<hr/>
	1,482
	<hr/>
Finished goods - at cost	997
Less: Provision for impairment	(84)
	<hr/>
	913
	<hr/>
Stock in transit - at cost	75
	<hr/>
	2,470
	<hr/> <hr/>



**Note 12. Current assets - other**

	<b>Consolidated 31 Dec 2017 \$'000</b>
Prepayments	783
Security deposits	23
Other deposits	10
	<u>816</u>

**Note 13. Non-current assets - property, plant and equipment**

	<b>Consolidated 31 Dec 2017 \$'000</b>
Leasehold improvements - at cost	188
Less: Accumulated depreciation	(1)
	<u>187</u>
Furniture, fittings and equipment - at cost	5
Computer equipment - at cost	9
Less: Accumulated depreciation	(1)
	<u>8</u>
Machinery - at cost	866
Less: Accumulated depreciation	(2)
	<u>864</u>
	<u><u>1,064</u></u>

*Reconciliations*

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

<b>Consolidated</b>	Leasehold improvements \$'000	Furniture, fittings and equipment \$'000	Computer equipment \$'000	Machinery \$'000	Total \$'000
Balance at 4 September 2017	-	-	-	-	-
Additions	-	-	9	-	9
Additions through business combinations (note 36)	188	5	-	866	1,059
Depreciation expense	(1)	-	(1)	(2)	(4)
Balance at 31 December 2017	<u>187</u>	<u>5</u>	<u>8</u>	<u>864</u>	<u>1,064</u>

*Property, plant and equipment secured under finance leases*

Refer to note 33 for further information on property, plant and equipment secured under finance leases.

#### Note 14. Non-current assets - intangibles

The following balances are all provisional in relation the business combination during the period. Refer to note 36.

	<b>Consolidated 31 Dec 2017 \$'000</b>
Goodwill - at cost	72,635
Patents and trademarks - at cost	20
Customer relationships - at cost	1,942
Less: Accumulated amortisation	(3)
	<u>1,939</u>
Brand names - at cost	4,538
Less: Accumulated amortisation	(10)
	<u>4,528</u>
	<u><u>79,122</u></u>

#### Reconciliations

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

<b>Consolidated</b>	Goodwill \$'000	Patents and trademarks \$'000	Customer relationships \$'000	Brand names \$'000	Total \$'000
Balance at 4 September 2017	-	-	-	-	-
Additions through business combinations (note 36)	72,635	20	1,942	4,538	79,135
Amortisation expense	-	-	(3)	(10)	(13)
Balance at 31 December 2017	<u>72,635</u>	<u>20</u>	<u>1,939</u>	<u>4,528</u>	<u>79,122</u>

#### Impairment testing of goodwill

As the goodwill amount was only recognised on acquisition of the subsidiaries which occurred on 27 December 2017, no value-in-use calculations were performed.

#### Note 15. Non-current assets - deferred tax

	<b>Consolidated 31 Dec 2017 \$'000</b>
<i>Deferred tax asset comprises temporary differences attributable to:</i>	
Amounts recognised in profit or loss:	
Employee benefits	24
Other provisions and accruals	59
Deferred tax asset	<u>83</u>
<i>Movements:</i>	
Credited to profit or loss (note 8)	6
Additions through business combinations (note 36)	77
Closing balance	<u><u>83</u></u>

**Note 16. Current liabilities - trade and other payables**

	<b>Consolidated 31 Dec 2017 \$'000</b>
Trade payables	101
GST payable	49
Credit cards	252
Deposits received in advance	201
Other payables	656
	<u>1,259</u>

Refer to note 28 for further information on financial instruments.

**Note 17. Current liabilities - borrowings**

	<b>Consolidated 31 Dec 2017 \$'000</b>
Lease liability	<u>38</u>

Refer to note 28 for further information on financial instruments.

**Note 18. Current liabilities - income tax**

	<b>Consolidated 31 Dec 2017 \$'000</b>
Provision for income tax	<u>206</u>

**Note 19. Current liabilities - provisions**

	<b>Consolidated 31 Dec 2017 \$'000</b>
Annual leave	<u>60</u>

**Note 20. Current liabilities - other**

	<b>Consolidated 31 Dec 2017 \$'000</b>
Accrued expenses	<u>894</u>

**Note 21. Non-current liabilities - borrowings**

**Consolidated**  
**31 Dec 2017**  
**\$'000**

Loan from Raw With Life	250
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Refer to note 28 for further information on financial instruments.

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 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 due to the accounting for this being provisional under the business combination. Interest and fair value will be determined within 12 months of the acquisition date. 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 53% of the shares in Elixinol Global Limited.

The borrowings are provisionally accounted for in relation to the business combinations which occurred in the period. The Company has 12 months from the date of acquisition to finalise its fair value accounting.

*Total secured liabilities*

The total secured liabilities (current and non-current) are as follows:

**Consolidated**  
**31 Dec 2017**  
**\$'000**

Lease liability	38
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*Assets pledged as security*

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position under the category 'machinery' in property, plant and equipment, revert to the lessor in the event of default.

**Note 22. Non-current liabilities - deferred tax**

**Consolidated**  
**31 Dec 2017**  
**\$'000**

*Deferred tax liability comprises temporary differences attributable to:*

Amounts recognised in profit or loss:	
Customer relationship intangibles	1,714

Deferred tax liability	1,714
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*Movements:*

Credited to profit or loss (note 8)	(4)
Additions through business combinations (note 36)	1,718

Closing balance	1,714
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### Note 23. Non-current liabilities - provisions

Consolidated  
31 Dec 2017  
\$'000

Lease make good	90	90
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#### Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms.

#### Movements in provisions

Movements in each class of provision during the current financial period, other than employee benefits, are set out below:

### Consolidated - 31 Dec 2017

Carrying amount at the start of the period	-	
Additions through business combinations (note 36)	90	90
Carrying amount at the end of the period	90	90

Lease  
make-good  
\$'000

### Note 24. Equity - issued capital

Consolidated  
31 Dec 2017  
Shares      31 Dec 2017  
\$'000

Ordinary shares - fully paid	102,928,540	101,800
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#### Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Issue of shares on incorporation	4 September 2017	1	\$1.00	-
Issue of shares on Initial Public Offer	27 December 2017	20,000,000	\$1.00	20,000
Issue of shares on acquisition of Elixinol LLC	27 December 2017	64,681,750	\$1.00	64,682
Issue of shares on acquisition of Elixinol Pty Ltd	27 December 2017	5,294,863	\$1.00	5,295
Issue of shares on acquisition of Hemp Foods Australia Pty Ltd	27 December 2017	12,416,926	\$1.00	12,417
Issue of bonus shares	27 December 2017	535,000	\$1.00	535
Share issue transaction costs				(1,129)
Balance	31 December 2017	102,928,540		101,800

#### 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.

#### Note 24. Equity - 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 Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

#### Note 25. Equity - foreign currency translation reserve

**Consolidated**  
**31 Dec 2017**  
**\$'000**

Foreign currency translation reserve

-

##### *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. At 31 December 2017, the amount is less than one thousand dollars.

#### Note 26. Equity - accumulated losses

**Consolidated**  
**31 Dec 2017**  
**\$'000**

Retained profits at the beginning of the financial period

-

Loss after income tax benefit for the period

(2,711)

Accumulated losses at the end of the financial period

(2,711)

#### Note 27. Equity - dividends

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

#### Note 28. 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, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

## Note 28. Financial instruments (continued)

### 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.

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

Consolidated	Assets	Liabilities
	31 Dec 2017 \$'000	31 Dec 2017 \$'000
US dollars	139	184

The Group had net liabilities denominated in foreign currencies of \$45,000 (assets of \$139,000 less liabilities of \$184,000) as at 31 December 2017. Based on this exposure, had the Australian dollars weakened by 5%/strengthened by 5% against these foreign currencies with all other variables held constant, the Group's profit before tax for the period would have been \$2,000 lower/\$2,000 higher and equity would have been \$2,000 lower/\$2,000 higher. 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. The actual foreign exchange loss for the period ended 31 December 2017 was less than \$1,000.

#### Price risk

The Group is not exposed to any significant price risk.

#### Interest rate risk

The Group's main interest rate risk arises from leases.

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

### Credit risk

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

The Group has a credit risk exposure with a merchant processor, which as at 31 December 2017 owed the Group \$171,644 (10.6% of trade receivables). There are no guarantees against this receivable but the Group is in negotiation with the processor for the outstanding holding fee. Due to the uncertainty of the outcome, a provision of \$119,748 (US\$93,572) has been made.

### Liquidity risk

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

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

## Note 28. Financial instruments (continued)

### Remaining contractual maturities

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

Consolidated - 31 Dec 2017	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
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	101	-	-	-	101
Other payables	-	1,109	-	-	-	1,109
Other loans	-	-	-	250	-	250
<i>Interest-bearing - fixed rate</i>						
Lease liability	-	38	-	-	-	38
Total non-derivatives		1,248	-	250	-	1,498

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

## Note 29. 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 30. 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:

	Consolidated 4 Sep 2017 to 31 Dec 2017 \$
Short-term employee benefits	156,872
Post-employment benefits	13,069
Share-based payments	355,000
	524,941



### Note 31. Remuneration of auditors

During the financial period the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Company:

	<b>Consolidated 4 Sep 2017 to 31 Dec 2017 \$</b>
<i>Audit services - Deloitte Touche Tohmatsu</i>	
Audit of the financial statements	140,000
<i>Other services - Deloitte Touche Tohmatsu</i>	
Taxation compliance services	52,750
Due diligence and tax advice for the IPO *	579,674
	<u>632,424</u>
	<u><u>772,424</u></u>

\* Included in fees is \$277,728 paid to Deloitte US for the provision of US income tax advice and diligence.

### Note 32. Contingent liabilities

The Group had no contingent liabilities at 31 December 2017.

### Note 33. Commitments

	<b>Consolidated 31 Dec 2017 \$'000</b>
<i>Lease commitments - operating</i>	
Committed at the reporting date but not recognised as liabilities, payable:	
Within one year	339
One to five years	75
	<u>414</u>
<i>Lease commitments - finance</i>	
Committed at the reporting date and recognised as liabilities, payable:	
Within one year	39
Total commitment	39
Less: Future finance charges	<u>(1)</u>
Net commitment recognised as liabilities	<u><u>38</u></u>
Representing:	
Lease liability - current (note 17)	<u><u>38</u></u>
<i>Capital commitments</i>	
Committed at the reporting date but not recognised as liabilities, payable:	
Property, plant and equipment	<u><u>2,463</u></u>

### Note 33. Commitments (continued)

#### *Lease commitments - operating*

Operating lease commitments includes contracted amounts for various offices under non-cancellable operating leases expiring within 1 to 2 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

#### *Lease commitments - finance*

Finance lease commitments includes contracted amounts for various plant and equipment with a written down value of \$79,000 under finance leases expiring within 1 year. Under the terms of the leases, the Group has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

#### *Capital commitments*

Includes land purchase commitment for a sale contract entered into on 23 October 2017 subject to the following conditions:  
a) granting of a Cultivation License and a manufacture License under the Office of Drug Control Medical Cannabis Legislation to Elixinol;  
b) the successful IPO of Elixinol; and  
c) development approval from Byron Shire Council for the intended use of Elixinol.

On 5 January 2018, the Group was admitted to the official list of the Australian Securities Exchange and all reasonable endeavours to obtain the licenses are underway.

### Note 34. Related party transactions

#### *Parent entity*

Elixinol Global Limited is the parent entity.

#### *Subsidiaries*

Interests in subsidiaries are set out in note 37.

#### *Associates and other investee*

Interests in associates are set out in note 38.

#### *Key management personnel*

Disclosures relating to key management personnel are set out in note 30 and the remuneration report included in the directors' report.

#### *Cash flow transactions with related parties*

	<b>Consolidated 4 Sep 2017 to 31 Dec 2017 \$</b>
Loan proceeds from Elixinol AUS prior to its acquisition by Elixinol Global	500,000

#### *Receivable from and payable to related parties*

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

	<b>Consolidated 31 Dec 2017 \$</b>
Current receivables:	
Receivables from associates (net of provision)	105,115
Loan to director, Paul Benhaim	10,783
Current payables:	
Payables to associates	21,179
Payable to directors, Paul Benhaim and Linda McLeod	2,294

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

#### Note 34. Related party transactions (continued)

##### Loans to/from related parties

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

	<b>Consolidated 31 Dec 2017 \$</b>
Non-current borrowings:	
Loan from Raw With Life, an entity controlled by Paul Benhaim, to Hemp Foods Australia Pty Ltd *	250,000

- \* 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 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 due to the accounting for this being provisional under the business combination. Interest and fair value will be determined within 12 months of the acquisition date. 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 53% of the shares in Elixinol Global Limited.

Loan transactions were made on negotiated terms and conditions.

#### Note 35. Parent entity information

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

##### Statement of profit or loss and other comprehensive income

	<b>Parent 4 Sep 2017 to 31 Dec 2017 \$'000</b>
Loss after income tax	(2,671)
Total comprehensive loss	(2,671)

##### Statement of financial position

	<b>Parent 31 Dec 2017 \$'000</b>
Total current assets	17,769
Total assets	100,171
Total current liabilities	1,042
Total liabilities	1,042
Equity	
Issued capital	101,800
Accumulated losses	(2,671)
Total equity	99,129

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

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2017.

### Note 35. Parent entity information (continued)

#### *Contingent liabilities*

The parent entity had no contingent liabilities as at 31 December 2017.

#### *Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2017.

#### *Significant accounting policies*

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 3, 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 36. Business combinations

#### *Elixinol LLC, Elixinol Pty Ltd and Hemp Foods Australia Pty Ltd*

As part of the Company's initial public offering of its securities, Elixinol Global Limited entered into contracts to acquire all of the shares or relevant interests in Elixinol LLC ('Elixinol USA'), Elixinol Pty Ltd ('Elixinol AUS') and Hemp Foods Australia Pty Ltd ('Hemp Foods Australia'). The acquisition was facilitated through an offer of shares in the Company ('Offer').

On completion of the Offer, 27 December 2017, the transaction comprising the contemporaneous acquisition of the above three entities by Elixinol Global Limited occurred. The Directors consider this transaction to be a transaction of substance and, as such, this will be accounted for using the acquisition method under AASB 3 'Business Combinations'. The Directors have further assessed that Elixinol Global Limited is deemed to be acquirer due to the transaction having substance as a result of substantial new shareholders and change in ownership interest of existing shareholders across the acquired entities despite Raw for Life retaining a controlling interest.

AASB 3 requires that the identifiable assets and liabilities acquired, including intangible assets, are measured at their respective fair values at acquisition date. The Company has performed a preliminary assessment of the fair values of the identifiable assets and liabilities acquired. The assets and liabilities have been recorded at their **provisional fair values** at 31 December 2017. Under Australian Accounting Standards, the period to finalise the fair values shall not exceed 12 months from the date of acquisition.

The provisional goodwill balance of \$72,635,000 represents the future value expected to be obtained from the integration of the businesses into the Group.

**Note 36. Business combinations (continued)**

Details of the acquisitions are as follows:

	Elixinol LLC Fair value \$'000	Elixinol Pty Ltd Fair value \$'000	Hemp Foods Australia Pty Ltd Fair value \$'000	Provisional Total Fair value \$'000
Cash and cash equivalents	912	612	284	1,808
Trade receivables	600	64	635	1,299
Inventories	1,251	-	1,208	2,459
Prepayments	450	16	56	522
Current tax assets	-	2	-	2
Other current assets	-	500	-	500
Leasehold improvements	66	-	122	188
Furniture, fittings and equipment	-	-	5	5
Machinery	176	-	690	866
Patents and trademarks	2	-	18	20
Customer relationships	1,890	-	52	1,942
Brand names	3,768	-	770	4,538
Security deposits	16	-	7	23
Deferred tax asset	-	-	77	77
Trade and other payables	(1,317)	(17)	(259)	(1,593)
Current tax liabilities	(58)	-	(161)	(219)
Employee benefits	(92)	-	(30)	(122)
Lease make good provision	-	-	(90)	(90)
Loans	-	-	(250)	(250)
Lease liability	-	-	(38)	(38)
Deferred tax liability	(1,500)	-	(218)	(1,718)
Other liabilities	(167)	(60)	(233)	(460)
Net assets acquired	5,997	1,117	2,645	9,759
Goodwill	58,685	4,178	9,772	72,635
Acquisition-date fair value of the total consideration transferred	<u>64,682</u>	<u>5,295</u>	<u>12,417</u>	<u>82,394</u>
Representing:				
Elixinol Global Limited shares issued to vendor	<u>64,682</u>	<u>5,295</u>	<u>12,417</u>	<u>82,394</u>
Acquisition costs expensed to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,103</u>
Cash used to acquire business, net of cash acquired:				
Acquisition-date fair value of the total consideration transferred	64,682	5,295	12,417	82,394
Less: cash and cash equivalents	(912)	(612)	(284)	(1,808)
Less: shares issued by Company as part of consideration	<u>(64,682)</u>	<u>(5,295)</u>	<u>(12,417)</u>	<u>(82,394)</u>
Net cash received	<u>(912)</u>	<u>(612)</u>	<u>(284)</u>	<u>(1,808)</u>

The initial accounting for acquisition of subsidiaries has only been provisionally determined at the end of the reporting period.

For tax purposes, the tax value of \$438,363 (US\$342,541) assets are required to be reset based on market values of the assets. At the date of finalisation of these consolidated financial statements, the necessary market valuations and other calculations had not been finalised and they have, therefore, only been provisionally determined based on the director's best estimate of the likely tax value.

**Note 36. Business combinations (continued)**

The receivables acquired, which principally comprised trade receivables, in these transactions with a fair value of \$635,000 (Hemp Foods Australia) and \$600,000 (Elixinol USA) has gross contracted amounts of \$720,000 and \$1,047,000 respectively. The best estimate at acquisition date of these contractual cash flows not expected to be collected are \$64,000 and \$447,000.

The Group is also seeking professional tax advice to determine the deductibility of the goodwill arising on these acquisitions.

**Note 37. 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 3:

Name	Principal place of business / Country of incorporation	Ownership interest 31 Dec 2017 %
Elixinol LLC	Unites States of America	100.00%
Elixinol Pty Ltd	Australia	100.00%
Hemp Foods Australia Pty Ltd	Australia	100.00%
Elixinol Investments Pty Ltd	Australia	100.00%

**Note 38. Interests in associates and other investee**

Interests in associates are accounted for using the equity method of accounting. Interests in other investee is measured at fair value less any impairment loss. The carrying amounts were fully impaired as at the reporting date. Information relating to associates and other investee of the Group are set out below:

Name	Principal place of business / Country of incorporation	Ownership interest 31 Dec 2017 %
Elixinol Co. Ltd*	Japan	10.00%
H&W Holdings LLC*	United States of America	18.50%
Hemp Foods Japan**	Japan	25.00%

\* Holding through Elixinol LLC

\*\* Holding through Hemp Foods Australia Pty Ltd

**Note 39. Reconciliation of loss after income tax to net cash used in operating activities**

	<b>Consolidated 4 Sep 2017 to 31 Dec 2017 \$'000</b>
Loss after income tax benefit for the period	(2,711)
Adjustments for:	
Depreciation and amortisation	17
Share-based payments	355
Non-operating transaction costs related to equity settled business combination	1,687
Other-non cash items	180
Change in operating assets and liabilities:	
Decrease in trade and other receivables	88
Increase in inventories	(11)
Increase in deferred tax assets	(6)
Increase in prepayments	(261)
Increase in other operating assets	(10)
Decrease in trade and other payables	(334)
Decrease in provision for income tax	(11)
Decrease in deferred tax liabilities	(4)
Decrease in other provisions	(62)
Increase in accrued expenses	434
Net cash used in operating activities	<u>(649)</u>

**Note 40. 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.

<b>Consolidated</b>	Loan with Raw With Life \$'000	Lease liabilities \$'000	Total \$'000
Balance at 4 September 2017	-	-	-
Changes through business combinations (note 36)	250	38	288
Balance at 31 December 2017	<u>250</u>	<u>38</u>	<u>288</u>

**Note 41. Loss per share**

	<b>Consolidated 4 Sep 2017 to 31 Dec 2017 \$'000</b>
Loss after income tax attributable to the owners of Elixinol Global Limited	<u>(2,711)</u>
	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>4,361,380</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>4,361,380</u>
	<b>Cents</b>
Basic loss per share	(62.16)
Diluted loss per share	(62.16)

**Note 42. Events after the reporting period**

On 5 January 2018 the Company was admitted to the official list of ASX Limited ('ASX') under the code EXL and official quotation of securities commenced at 11.00am on 8 January 2018.

25,005,409 securities commenced trading immediately on 8 January 2018 with 77,923,131 securities restricted for periods with restrictions expiring on 27 December 2018 and 8 January 2020.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.



In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 3 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 2017 and of its performance for the financial period 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

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



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Paul Benhaim  
Chief Executive Officer and Executive Director

27 February 2018  
Sydney

## Independent Auditor's Report to the Members of Elixinol Global Limited

### Report on the Audit of the Financial Report

#### *Opinion*

We have audited the financial report of Elixinol Global Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 31 December 2017, 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 period then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, 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 2017 and of its financial performance for the period then ended; 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 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* (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.

## 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 for 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.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><b>Accounting for the IPO structuring and associated acquisition of subsidiaries</b></p> <p>As a consequence of the Initial Public Offering ("IPO") of the Company's shares, the Group made a number of significant acquisitions as disclosed in Note 36. The companies acquired were:</p> <ul style="list-style-type: none"> <li>• Elixinol LLC</li> <li>• Elixinol Pty Ltd; and</li> <li>• Hemp Foods Australia Pty Ltd</li> </ul> <p>Whilst management has provisionally accounted for the assets and liabilities where the allocation of the purchase consideration requires the assistance of a formal valuation yet to be finalised, accounting for other aspects of these transactions is complex and judgemental, requiring management to determine:</p> <ul style="list-style-type: none"> <li>• mid-month accurate cut off of acquired entities' trading positions and balance sheet accounts;</li> <li>• effective acquisition date of the subsidiaries and identification of the acquirer given the complexity of the acquisition steps upon IPO; and</li> <li>• appropriate disclosures, including those relating to provisional accounting in the financial statements.</li> </ul>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• reviewing the underlying IPO implementation deed and shareholders' agreement;</li> <li>• reviewing management's assessment of the acquisition date, identification of the acquirer and purchase consideration as a result of scrip for scrip share rollover;</li> <li>• assessing the accuracy of exchange rates used to transpose the Elixinol LLC financial information to Australian dollars.</li> <li>• assessing cut-off of opening balances at the date of acquisition; and</li> <li>• engaging our tax specialists to review and challenge the income and deferred tax impact of the business combination.</li> </ul> <p>We also assessed the appropriateness of the disclosures in Note 2 and 36 to the financial statements.</p>

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the period ended 31 December 2017, but does not include the financial report and our 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 is 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 Group's ability 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 have 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on the Remuneration Report**

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 7 to 15 of the Directors' Report for the period ended 31 December 2017.

In our opinion, the Remuneration Report of Elixinol Global Limited, for the period ended 31 December 2017, 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.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Tara Hill  
Partner  
Chartered Accountants  
Sydney, 27 February 2018

The shareholder information set out below was applicable as at 22 February 2018.

### Distribution of equitable securities

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

	Number of holders of ordinary shares	Total units
1 to 1,000	456	271,998
1,001 to 5,000	532	1,564,124
5,001 to 10,000	190	1,522,619
10,001 to 100,000	186	6,308,874
100,001 and over	36	93,260,925
	<u>1,400</u>	<u>102,928,540</u>
Holding less than a marketable parcel	<u>98</u>	<u>26,367</u>

### Equity security holders

#### *Twenty largest quoted equity security holders*

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

	Number held	Ordinary shares % of total shares issued
RAW WITH LIFE PTY LTD AS TRUSTEE FOR BENHAIM TRADING TRUST	54,623,008	53.07
D & G HEALTH LLC	12,719,112	12.36
TIVERTON FOOD PTY LTD	3,733,761	3.63
ROBOTEXPERT UG (GERMANY)	3,301,342	3.21
NATIONAL NOMINEES LIMITED	2,166,066	2.10
J P MORGAN NOMINEES AUSTRALIA LIMITED	2,052,941	1.99
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,750,932	1.70
MR DANNY SCHULTZ	1,324,378	1.29
CS FOURTH NOMINEES PTY LIMITED (HSBC CUST NOM AU LTD 11 A/C)	1,291,053	1.25
SEAVIEW GROUP (QLD) PTY LTD (SEAVIEW A/C)	1,187,938	1.15
CS THIRD NOMINEES PTY LIMITED (HSBC CUST NOM AU LTD 13 A/C)	974,000	0.95
MR ARTHUR PENDRAGON JAFFE	731,808	0.71
UBS NOMINEES PTY LTD	724,746	0.70
ELIXINOL KABUSHIKIGAISHA	658,943	0.64
MR BRENDAN COLLINS + MS LAURIE COLLINS	647,776	0.63
CITICORP NOMINEES PTY LIMITED	636,253	0.62
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	540,187	0.52
MR LEONARD MARSHALL	492,230	0.48
MR RICHARD JAMES COONEY	400,000	0.39
MR MICHAEL NICHOLAS ROSS	371,216	0.36
	<u>90,327,690</u>	<u>87.75</u>

#### *Unquoted equity securities*

There are no unquoted equity securities.



**Substantial holders**

Substantial holders in the Company are set out below:

	<b>Number held</b>	<b>Ordinary shares % of total shares issued</b>
RAW WITH LIFE PTY LTD AS TRUSTEE FOR BENHAIM TRADING TRUST	54,623,008	53.07
D & G HEALTH LLC	12,719,112	12.36

**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.

**Restricted securities**

<b>Class</b>	<b>Expiry date</b>	<b>Number of shares</b>
Ordinary shares	27 December 2018	52,559
Ordinary shares	8 January 2020	<u>77,870,572</u>
		<u><u>77,923,131</u></u>

Directors	Andrew Duff - Non-Executive Chairman Paul Benhaim - Chief Executive Officer and Executive Director Linda McLeod - Managing Director Stratos Karousos - Non-Executive Director
Chief Financial Officer and Company Secretary	Ron Dufficy
Registered office	Level 12 680 George Street Sydney NSW 2000 Tel: 02 4044 4585
Principal place of business	Level 6 50 Pitt Street Sydney NSW 2000
Share register	Computershare Investor Services Pty Limited Level 4 60 Carrington Street Sydney NSW 2000 Tel: 1300 787 272
Auditor	Deloitte Touche Tohmatsu Grosvenor Place 225 George Street Sydney NSW 2000
Solicitors	Gilbert + Tobin Level 35, Tower 2 200 Barangaroo Avenue Barangaroo NSW 2000
Stock exchange listing	Elixinol Global Limited shares are listed on the Australian Securities Exchange (ASX code: EXL)
Website	<a href="http://www.elixinolglobal.com">www.elixinolglobal.com</a>
Corporate Governance Statement	<p>The Company's directors and management are committed to conducting the Consolidated Entity'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 (3rd Edition) ('Recommendations') to the extent appropriate to the size and nature of the Consolidated Entity's operations.</p> <p>The Company has prepared a Corporate Governance Statement which sets out the corporate governance practices that were in operation throughout the financial year, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations.</p> <p>The Company's Corporate Governance Statement and policies, which is approved at the same time as the Annual Report, can be found on its website: <a href="http://www.elixinolglobal.com/investor-1/">www.elixinolglobal.com/investor-1/</a></p>