

ASX RELEASE (29 JANUARY 2021)

Q4 2020 Quarterly Update & Appendix 4C

Key Points:

- \$6.9 million in cash receipts for 2020 – 68% year on year growth
- Launch of new corporate strategy and repositioning towards high value pharmaceutical manufacturing and healthcare to complete with February 2021 EGM
- Additional finished dosage forms being added to Southport Facility capabilities
- Southport Facility received A1 rating in TGA GMP inspection and licence variation for the inclusion of 'inhalation products' on TGA GMP licence expected to be approved
- Medimar platform nearing launch with new sales team onboarded

THC Global Group Limited (**THC Global** or the **Company**) reports on its activities and provides its Appendix 4C for the quarter ended 31 December 2020 (**Q4 2020**).

Subject to shareholder approval at the upcoming Extraordinary General Meeting to be held on 18 February, the Company will be renamed Epsilon Healthcare Limited, representing the Company's refocussed approach towards high value pharmaceutical manufacturing and healthcare services.

In pivoting away from being an end-to-end cannabis manufacturer, the Company is looking to better utilise its primary asset – one of the world's largest cannabis extraction and manufacturing facilities with full TGA GMP licencing in Southport, Queensland. Over the course of Q4 2020, the Company has expanded its finished dosage forms production capability, commissioned new IT infrastructure to enable significant automation of the cannabis extraction process, commenced operation of larger scale equipment, and further developed the Company's storage and warehousing capability for Schedule 4 and Schedule 8 medicines.

Together, these changes enable the Company to be a cost effective competitor in the cannabis tolling and contract manufacturing industry with the unique position of being both capable of high volumes and having TGA and EU GMP production capability.

The Southport Facility was also recently audited by the TGA as part of the Company's ongoing GMP licencing. The TGA has given the Southport Facility an A1 rating and accordingly a further routine inspection will not be required for three years. Following this inspection, the Company is also expecting to soon receive approval for the production of 'inhalation products' on the Company's TGA GMP licence expanding its finished dosage forms capability.

The Company is in the final stages of launching the Medimar platform, which offers a publicly accessible nutraceutical and healthcare products ecommerce platform, as well as a separate platform for registered prescribers, pharmacies, and patients to access medicinal cannabis medicines. This medicinal cannabis platform will reduce admin time for prescribers and pharmacies, and offering a streamlined and transparent process for patients with medicinal cannabis prescriptions.

Medimar has been designed to increase the ease of accessibility of medicinal cannabis medicines for patients whilst also reducing the administrative burden on prescribers and pharmacies, and uniquely without being linked to a specific prescriber group or a single cannabis brand – any Australian prescriber, any Australian patient, and any Australian pharmacy can join the platform.



The Company is currently onboarding a new national sales team consisting of five staff across Queensland, New South Wales, and Victoria who will promote Medimar to prescribers and pharmacies. Most of sales team has prior experience in medicinal cannabis, having been formerly employed by a supplier in the Australian market. Medimar is expecting to secure distribution agreements with a number of key Australian cannabis suppliers prior to launch to ensure that the most prescribed medicinal cannabis medicines in Australia will be offered on Medimar at launch.

In Canada, the Company has continued to expand its turnkey cultivation solutions and hydroponics equipment business. In Q4 2020, the Company launched a new fulfilment warehouse in Ontario, Canada through a 3PL arrangement, strengthening the Company's access to additional export markets including the United States. Over the course of 2021, the Company expects to continue to expand its product range – both across its proprietary brands and as a distributor – as well as looking to further expand export opportunities including the United States, Europe, and the Asia Pacific.

Financial Performance

In 2020, the Company has recorded \$6.9 million in cash receipts across the group, representing a strong ~68% year on year growth from 2019 even through the COVID-19 pandemic which affected trading in the Company's Canadian operations throughout the year.

The reduction in operating costs implemented as part of the strategic review commenced in September have been partly reflected in Q4 2020, with a net ~\$652k reduction in operating costs compared to Q3 2020 noting part of the operating cost reduction has been offset by new business including expanding Tetra Health and establishing Medimar. Further cost reductions as a result of the strategic review will also be realised in Q1 2021, and accordingly the Company expects a further reduction in run rate net operating costs over Q1 2021.

Operating costs incurred in Q4 2020 primarily relate to the ongoing operation of the Southport Facility, expanded operations at Tetra Health, development of the new Medimar platform operation, and the Company's Canadian operations with the primary source of receipts from customers remaining to be the Company's Canadian operations.

Payments made to related parties and their associates in the quarter were all related to remuneration for services under existing services agreements, with no non-remuneration related payments made in the quarter to those parties.

Separately, following the strategic and operational review completed in Q4 2020, the Company has now exited the New Zealand market as a local participant, and the Company's New Zealand incorporated subsidiary, THC Pharma (NZ) Limited, has been placed into shareholder appointed liquidation, with KPMG being appointed. This does not affect any of the export agreements that the Company's Australian subsidiaries have with their partners in New Zealand, including Medleaf Therapeutics with whom the Company was the first group other than Tilray to submit a portfolio of products for assessment.

Completion of Strategic Placement

In Q4 2020, the Company also completed a placement raising \$2.75 million from a strategic investment partner with institutional support at an issue price of \$0.25 per share. Funds from that strategic placement have been applied towards working capital, including the advancement of the Medimar platform and expanding the Company's manufacturing capabilities.

For further information, please contact:



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ASX release authorised by THC Global's Management Committee.

THC Global Group Limited (ASX: THC)
to be renamed Epsilon Healthcare Limited (ASX:EPN)

THC Global is a diversified global healthcare and pharmaceuticals company with primary operations in Australia and Canada. THC Global is the first ASX listed entity to fully own and operate end to end commercial medicinal cannabis production facilities under Australia's cannabis regulations. THC Global's Southport Facility in Southport, Australia is one of the largest pharmaceutical GMP cannabis manufacturing facilities in the world. THC Global also owns and operates a fast growing turnkey cultivation solutions provider, including a hydroponics equipment and supplies wholesaler and retailer servicing the rapidly expanding cannabis sectors in North America and Europe.

Appendix 4C

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

Name of entity

THC Global Group Limited

ABN

33 614 508 039

Quarter ended ("current quarter")

31 December 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,632	6,916
1.2 Payments for		
(a) research and development	(194)	(472)
(b) product manufacturing and operating costs	(930)	(6,505)
(c) advertising and marketing	(87)	(293)
(d) leased assets	(192)	(528)
(e) staff costs	(1,272)	(4,689)
(f) administration and corporate costs	(1,228)	(3,881)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	25
1.5 Interest and other costs of finance paid	(155)	(384)
1.6 Income taxes paid	(44)	(44)
1.7 Government grants and tax incentives	17	410
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(2,452)	(9,445)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	(125)	(497)
(b) businesses	-	-
(c) property, plant and equipment	(170)	(1,080)
(d) investments	-	-
(e) intellectual property	(156)	(156)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(451)	(1,733)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	2,750	10,886
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	642
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(140)	(688)
3.5	Proceeds from borrowings	-	3,850
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	(90)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	2,610	14,600

Appendix 4C

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

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	7,264	3,552
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,452)	(9,445)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(451)	(1,733)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,610	14,600
4.5	Effect of movement in exchange rates on cash held	(3)	(6)
4.6	Cash and cash equivalents at end of period	6,968	6,968

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	6,968	7,264
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	6,968	7,264

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	234
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	4,000	4,000
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	4,000	4,000
7.5	Unused financing facilities available at quarter end		-
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well. On 30 April 2020, the Company entered into a \$4,000,000 secured debt facility. The facility is repayable at any time on or before 31 October 2021 and attracts interest at 1.25% per calendar month. Please refer to the ASX Announcement dated 30 April 2020 for further details.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(2,452)
8.2	Cash and cash equivalents at quarter end (item 4.6)	6,968
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	6,968
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.84
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: N/A	
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer: N/A	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: N/A	
	<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

Compliance statement

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

Date: 29 January 2021

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

Notes

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