



ASX RELEASE (31 JANUARY 2022)

Q4 2021 Quarterly Update & Appendix 4C

Key Points:

- Epsilon nears final execution of long term exclusive partnership with The Valens Company (NASDAQ: VLNS) (Valens), a leading Canadian manufacturer of cannabis products, for access to Epsilon's GMP Manufacturing Facility in Southport, Queensland – expected by 28 February 2022
- Valens to cover all capital and operating expenditure at the Southport Facility following execution of final documentation
- Valens Purchase Orders for Q1 2022 delivery expected to be finalised early February
- Strong performance at Tetra Health with FY21 revenues on track to exceed 200% of revenues achieved in FY20
- Tetra Health continues to grow profitably with 36% quarter-on-quarter growth following new in-person consultation offering
- Capital raising completed in December 2021 to strengthen cash balance in advance of commencement of Valens partnership and receipt of Valens funding
- AusIndustry R&D Tax Incentive payment of over \$1 million expected in coming weeks

Epsilon Healthcare Limited (ASX:EPN) (Epsilon or the Company) is pleased to provide an update on its activities and provides its Appendix 4C for the quarter ended 31 December 2021.

Partnership with The Valens Company (NASDAQ: VLNS)

The Binding Heads of Agreement between Valens and Epsilon provides the framework for the exclusive partnership, including an operational consultancy in which Valens allows Epsilon a license to use Valens' intellectual property in operating the Southport Facility, and for Valens to provide personnel and support to the facility.

Valens has additionally committed to fund all future operational and capital expenditure of the Southport Facility for the duration of the partnership on a reimbursement basis in return for access to up to 85% of the planned manufacturing of the Southport Facility on a prioritised first right of refusal basis.

The definitive agreements which give effect to the Binding Heads of Agreement between the Company and Valens were due to be executed on or before 31 January 2022, however the parties have agreed, by way of further Deed of Amendment to the Binding Heads of Agreement, to extend this to 28 February 2022.

Both Epsilon and Valens have expressed confidence in achievement of this new target execution date and expect to be announcing the formalisation of this exclusive partnership shortly.

Notwithstanding that the definitive agreements are yet to be executed, Valens and Epsilon, with support from Cannvalate, are continuing to develop a strong sales pipeline for the Southport Facility through 2022. The Company is in the process of finalising new orders in early February with both Valens and Cannvalate, for delivery in Q1 2022.

Tetra Health Clinics Update

Epsilon is pleased to report that its clinic network, Tetra Health, continues to achieve profitable growth. In Q4 2021, Tetra achieved a 36% increase in the number of doctors consultations over Q3 2021. Further, Tetra Health has continued on its record high revenue run-rate, and is expected to exceed \$1.5 million (unaudited) revenue for FY21, more than doubling the revenue result achieved in FY20.

Completion of Capital Raise

During the quarter, Epsilon completed a capital raising of \$2.7 million to professional and sophisticated investors, led by CPS Capital (the Placement).

The Placement was completed at \$0.09 per share and resulted in the issue of 32.22 million fully paid ordinary shares, receiving strong support from both new and existing sophisticated and professional investors exempt from the disclosure under section 708 of the Corporations Act 2001.

The Placement included an issue of options exercisable at \$0.15 expiring three years from their issue, which are to be issued subject to shareholder approval to be sought at the upcoming 2022 Annual General Meeting. The Company will provide a further update on its Annual General Meeting closer to date.

Additional Disclosure

The Company notes that receipts from customers in Q4 2021 was a decrease over Q3 2021, with the majority of those receipts continuing to be derived from the Company's medicinal cannabis business units – Tetra Health and the Southport Facility operator, THC Pharma. The decrease over Q3 2021 was primarily as a result of activities at the Southport Facility being geared towards operational improvements and changes required to be made in advance of commencing large scale production activities under the Company's relationship with The Valens Company.

Similarly, the majority of the Company's expenditure from operating activities relates to operations at the Company's Southport Facility. Acquisitions of property plant and equipment in the quarter relate to the acquisition of distillation equipment and other items required for the further processing of material at the Southport Facility.

The Company also notes that payments to related parties and their associates in the quarter were all remuneration for services as directors in the ordinary course of business.

Jarrold White, Chief Executive Officer of Epsilon, said: "The primary focus of Q4 2021 was to ensure that the Southport Facility was setting the foundations for the commencement of the Company's partnership with The Valens Company (NASDAQ: VLNS) and Cannvalate. With that completed, and the execution of the definitive agreements in sight, we're looking forward to what will be a very busy Q1 2022."

ENDS

ASX release authorised by the EPN Board of Directors.

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Epsilon Healthcare Limited (ASX: EPN) – epsilonhealthcare.com.au

Epsilon Healthcare (ASX:EPN) is a diversified global healthcare and pharmaceuticals company. EPN owns a number of medicinal cannabis assets including the largest GMP cannabis manufacturing facility in the Southern Hemisphere, the Tetra Health clinic group, and the Medimar Platform. EPN additionally operates a turn-key cannabis cultivation solutions provider based in Vancouver, Canada.

Appendix 4C

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

Name of entity

Epsilon Healthcare Limited

ABN

33 614 508 039

Quarter ended ("current quarter")

31 December 2021

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	458	4,981
1.2 Payments for		
(a) research and development	(48)	(369)
(b) product manufacturing and operating costs	(618)	(4,027)
(c) advertising and marketing	(56)	(134)
(d) leased assets	(96)	(551)
(e) staff costs	(545)	(4,086)
(f) administration and corporate costs	(788)	(2,426)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	16	20
1.5 Interest and other costs of finance paid	(34)	(474)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	1,055
1.8 Deposits refunded	-	148
1.9 Net cash from / (used in) operating activities	(1,711)	(5,863)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(33)	(768)
(d) investments	-	-
(e) intellectual property	-	(40)
(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	-	50
	(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	(33)	(758)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	2,700	2,700
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(255)	(255)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	(477)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	2,445	1,968

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	1,635	6,968
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,711)	(5,863)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(33)	(758)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,445	1,968
4.5	Effect of movement in exchange rates on cash held	(1)	20
4.6	Cash and cash equivalents at end of period	2,335	2,335

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	2,335	1,635
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)	2,335	1,635

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	24
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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.

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

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	3,523	3,523
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	3,523	3,523
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.		
<p>On 30 April 2020, the Company entered into a \$4,000,000 secured debt facility. Following an extension agreed and announced on 27 October 2021, the facility is repayable at any time on or before 31 October 2022. The facility attracts interest at 1.25% per calendar month. Please refer to ASX Announcements dated 30 April 2020 and 27 October 2021 for further details including further facility terms.</p> <p>Following repayments made in Q2 2021, the total principal amount outstanding is stated in Item 7.1 above.</p> <p>The Company notes that it expects approximately a further \$1 million in R&D Tax Incentives to be receipted in Q1 2022, which will be applied towards repayment of debt, and if applied would result in an ~\$2.5 million remaining debt outstanding. The Company is exploring the potential to redraw against this facility subject to consent from the Lender.</p>		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,711)
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,335
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	2,335
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.3
<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:

No, the Company does not expect to have the current level of net operating cash flows for the time being.

The Company refers to its ASX Announcement dated 9 September 2021 disclosing that it had signed a Binding Heads of Agreement with The Valens Company (TSX:VLNS) (Valens) for an exclusive strategic partnership over its manufacturing facility (the Southport Facility). The definitive agreements pursuant to the Binding Heads of Agreement are expected to be executed on or before 28 February 2022 as per the Q4 2022 Quarterly Update to which this Appendix 4C is annexed.

Subject to the execution of the definitive agreements, Valens will cover all operating and capital expenditure at the Southport Facility from the date of those agreements. Accordingly, the Company expects that by around 28 February 2022, the Company's net operating cash flows should materially increase given the Company will continue to receive receipts from customers from sales from the Southport Facility as well as full reimbursement of the operating and capital expenses of the Southport Facility.

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:

Given the Company's responses to Items 7.1 and 8.6.1 above, the Company is of the view that it does not need to raise further cash to fund its operations at this time. However, as noted above at Item 7.6, the Company is exploring the potential to redraw against its existing debt facility, and will consider exploring other debt or hybrid raising opportunities should additional cash be required to fund operations.

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:

The Company is highly confident that it will be able to continue its operations to meet its business objectives on an ongoing basis having regard to the responses to Items 7.1, 8.6.1, and 8.6.2.

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.

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: 31 January 2022

Authorised by: Epsilon Board of Directors
(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.