



ASX RELEASE (11 MARCH 2022)

Epsilon Mid Quarter Update

Key Points:

- Epsilon receives \$1.05 million in R&D Tax Incentives for FY 2021 from ATO;
- Funds applied towards repayment of debt with Mitchell Asset Management – reducing outstanding facilities to ~\$2.5 million;
- Partnership with The Valens Company (NASDAQ:VLNS) commenced with first payment for operational expenditure at the Southport Facility of ~\$230,000 due;
- Strong order book being developed for the next three months complements strong production throughput over Q1 2022 to date
- THC Pharma has produced over 18,000 tinctures and over 4,000 dried flower bottles during Q1 2022 to date from both Valens and non-Valens sales pipelines, with that number set to increase further through to the end of Q1 2022;

Epsilon Healthcare Limited (ASX:EPN) (Epsilon or the Company) is pleased to provide a mid-quarter update below.

\$1.05 million R&D Tax Incentive

Epsilon is pleased to confirm that the Company has received R&D Tax Incentive refunds totalling \$1.05 million across its two R&D Tax Incentive eligible entities – THC Pharma and Canndeo.

The R&D Tax Incentive offers eligible entities a refundable tax offset of up to 43.5% of eligible research and development activities. The R&D activities during the 2021 financial year mainly related to activity at the Southport Facility.

Pursuant to an agreement with Mitchell Asset Management (MAM), the lender of a secured debt facility to the group, the Company has directed the full R&D Tax refund received towards the repayment of the principal amount, reducing total debt to ~\$2.5 million of an original \$4 million debt facility. The Company is in discussions with MAM to consider its ability to redraw funds up to the original facility limit, or otherwise explore secured debt financing opportunities.

THC Pharma – Valens Partnership Commences

With the Company's partnership with The Valens Company (NASDAQ:VLNS) now in effect (ASX Announcement: 3 March 2022) and Valens now covering the operational and capital expenditure at the Southport Facility, the Company and Valens have commenced a scale up of production over the coming three months – targeting A\$2 million in purchase orders accepted and fulfilled before 31 May 2022.

The aggressive increases in the production throughput targeted over the coming three months complement the significant number of orders processed at the Southport Facility over Q1 2022 to date, being over 18,000 tincture bottles and over 4,000 dried flower bottles for a range of customers from both Valens and non-Valens sales pipelines.

Restructuring of Canadian Business Units

The Company refers to its Appendix 4E Preliminary Final Report (ASX Announcement: 1 March 2022) where the Company noted that it was considering a restructuring event with respect to its Canadian assets. Acting in its capacity as the sole shareholder, the Company has since resolved to appoint a Trustee (the **Trustee**) to commence an insolvency management process across two of the Company's direct Canadian subsidiaries being – 0970203 B.C. Ltd (203) and Canndeo Canada Ltd (CCL), and will separately seek the deregistration of two other dormant entities which have no material assets, liabilities, or operations (one of which is an indirectly held subsidiary). The appointed Trustee will conduct the process in relation to 203 and CCL in a manner similar to an administration process in Australia. At this stage, no further action is being taken with respect to Crystal Mountain, Epsilon's hydroponics equipment business, which is owned by 203. Epsilon expects to receive an update from the Trustee over the course of their appointment as to the likelihood of the continuation of the Crystal Mountain operation in its current form, although the Company considers this to be unlikely at this stage, noting the negative trading conditions and other circumstances disclosed in the Appendix 4E and earlier disclosures. The Company will provide further information as the process continues, including as to the quantification of any financial impact on Epsilon beyond the statements made in the Appendix 4E.

Corporate Updates

The Company refers to its earlier announcement of its proposed acquisition of AlternaMed Pty Ltd (**AlternaMed**) from Cannvalate (ASX Announcement: 9 September 2021). As previously disclosed, the completion of the AlternaMed acquisition is subject to a number of conditions precedent which as at this date are substantially outstanding. Accordingly, the AlternaMed acquisition is not proceeding at this time. The Company will advise should discussions subsequently result in the parties agreeing to pursue this transaction in a revised format. The Company notes that this does not affect the Company's relationship with The Valens Company, nor impact its relationship with Cannvalate through Valens, as a sales agent in the local market.

ENDS

ASX release authorised by the EPN Board of Directors.

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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 Southport Facility) and the Tetra Health clinic group. EPN has a strategic partnership with The Valens Company (NASDAQ: VLNS), a leading cannabis consumer products company with significant expertise in manufacturing cannabinoid based products, for operation and management of its Southport Facility.