Consolidated Financial Report for the Year Ended 31 December 2021

ACN: 614 508 039

2021 FINANCIAL REPORT

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CORPORATE INFORMATION

EPSILON HEALTHCARE LIMITED (ASX: EPN)

Directors
Steven Xiaobo Xu (Chairman)
Rob Jenny
Simon Rowe

Company Secretary
Sonny Didugu
Louisa Ho

Chief Executive Officer
Jarrod White

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Suite 305, Level 3
35 Lime Street
Sydney NSW 2000

Share Registry
Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001

Telephone
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Corporate Accountant
Traverse Accountants
Suite 305, Level 3
35 Lime Street
Sydney NSW 2000

Auditor
RSM Australia Partners
Level 13, 60 Castlereagh Street
Sydney NSW 2000

Stock Exchange Listing
Epsilon Healthcare Limited securities are listed on the Australian Securities Exchange (ASX code: EPN)

Website
epsilonhealthcare.com.au

CHAIRMAN'S LETTER

Dear Fellow Shareholders,

I am pleased to present to you the 2021 Annual Report for Epsilon Healthcare Limited (ASX:EPN) (**Epsilon** or the **Company**).

Over the past year the Company has focussed on expanding its medicinal cannabis and pharmaceuticals business operations, centred around the Southport Facility and the Tetra Health clinic network, including securing key partnerships with The Valens Company (NASDAQ:VLNS) and other groups which have helped to deliver increased production volumes and stronger revenues.

Having regard to worsening market conditions including the ongoing pandemic, and general negative sentiment in the medicinal cannabis exposed equity capital markets over 2021, we looked to continue our operational expenditure reduction programme commenced in late 2020. Taking this lean approach, and favouring debt raising over equity where required, allowed us to limit our equity capital raising activities at depressed prices to only $2.7 million over the past 12 months.

Over 2021, we:

- changed the Company's name to Epsilon Healthcare Limited and ASX Code to EPN reflecting our focus towards healthcare and pharmaceutical manufacturing with Tetra Health and the Southport Facility;
- expanded the Tetra Health clinic business from only telehealth into in-person consultations partnering with leading medicinal cannabis dispensing pharmacies;
- saw continued quarter-on-quarter increases in revenue and patient consultations from Tetra Health reflecting its market leading product agnostic and patient focussed approach continuing to win over patients;
- brought the Company closer towards profitability through continued run rate reductions and increased revenues from the Southport Facility;
- secured new partnerships for the Southport Facility with global market leaders including The Valens Company (NASDAQ:VLNS), Cannim Group, and others; and
- through our partnership with The Valens Company, ensured that the Southport Facility will be fully funded by Valens on a reimbursement basis, underwriting its growth.

Notwithstanding these achievements, unfortunately shareholders have seen a continued downward trend in the Company's share price which we see as being part of a broader global negative sentiment in the medicinal cannabis equity markets over the year. The Company's Board and Management remain highly confident that the Company's fundamentals and financial performance continue to improve and look towards 2022 being a better year for the Company's shareholders.

On behalf of the Board and Management, I thank all shareholders for their continued support of the Company and look forward to what's to come.

Steven Xu
Chairman
31 March 2022

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DIRECTORS' REPORT

Your directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Epsilon Healthcare Limited (formerly THC Global Group Limited, referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the year ended 31 December 2021.

Directors

The following persons were directors of the Company during the financial year and up to the date of this report:

Steven Xiaobo Xu	Chairman, Non-Executive Director
Rob Jenny	Executive Director (Appointed 1 August 2021)
Simon Rowe	Non-Executive Director (Appointed 1 August 2021)
Alan Preston Beasley	Deputy Chairman, Non-Executive Director (Ceased 29 July 2021)
Lou Anthony Cattelan	Non-Executive Director (Ceased 29 July 2021)
Gary John Radcliff	Non-Executive Director (Resigned 5 March 2021)

Chief Executive Officer

Jarrod White

Chief Financial Officer (Interim)

Nicholas Marshall

Company Secretary

Sonny Didugu

Louisa Ho

Information on Directors

Steven Xu
Chairman (Non-Executive)
Appointed 12 January 2018

Steven Xu is the Managing Director of Une-Innovation Consulting Australia Pty Ltd and Founding Partner of INP Capital Inc which manages a series of venture capital funds. The venture capital funds invest in companies specialised in Medical/Healthcare, AI, Fintech and Industrial technology and Medical Cannabis across Australia, New Zealand, North America and Israel.

He has strong international connections and over 15 years' experience working at PricewaterhouseCoopers and listed companies in Australia and China. He specialises in financing, IPO and M&A activities in a broad range of sectors. Steven completed a Bachelor of Management.

He is a member of the Institute of Chartered Accountants (Australia and New Zealand) and the Australian Institute of Company Directors.

Special responsibilities	Chairman from 15 March 2018
Other current ASX directorships:	None
Former ASX directorships in last 3 years	None

Rob Jenny
Executive Director
Appointed 1 August 2021

Dr Rob Jenny is currently an executive at Cannvalate – an Australian medicinal cannabis services company - where he manages their business development activities in the Australian and New Zealand market. Rob has previously held management and research roles including at Ensign Laboratories – one of Australia's largest contract pharmaceutical manufacturers - Immunoglobal Group, and Monash University.

Special responsibilities	None
Other current ASX directorships:	None
Former ASX directorships in last 3 years	None

Simon Rowe
Non-Executive Director
Appointed 1 August 2021

Mr Simon Rowe is currently the Supply Chain Transformation & Operations Leader ANZ at Kimberly-Clark – a Fortune 500 personal care company. Prior to that, Simon has held associate director and senior manager level roles within KPMG and EY advisory specialising in operational transformation and optimisation.

Special responsibilities	None
Other current ASX directorships:	None
Former ASX directorships in last 3 years	None

Information on Key Management Personnel

Jarrod White
Chief Executive Officer

Mr. White is a Chartered Accountant and founding Director of Traverse Accountants Pty Ltd, a Corporate Advisory and Chartered Accounting Firm. In conjunction with his Corporate Advisory roles at Traverse Mr. White has been appointed Company Secretary and Chief Financial Officer of several other listed entities on the Australian Securities Exchange and has a sound knowledge of corporate governance and compliance. Jarrod has also been an advisor to a wide range of capital raisings, IPO's and reverse takeover transactions and has a focus on working with growing companies in the exploration, technology and biotech space.

Sonny Didugu
Chief Operating Officer
Joint Company Secretary

Mr Didugu has significant corporate advisory, equity capital markets transactions, and listed entity compliance experience across a broad range of industry sectors including property development, gaming, fin-tech, esports, and cannabis. His past experience includes advisory roles within private equity houses, working within in-house counsel groups, and consulting to corporate advisory firms. Mr Didugu has previously acted for a wide range of listed and unlisted entities providing investor relations support, equity market transactions advice, and general corporate and governance advisory services. Mr Didugu holds a Bachelor of Laws (Honours) and is a Member of the Australian Institute of Company Directors.

Meetings of Directors (incorporating Audit and Remuneration Committees)

	Meetings	
Director	Attended	Eligible to Attend
Steven Xu	17	17
Simon Rowe	8	8
Rob Jenny	8	8
Lou Cattelan*	8	8
Alan Beasley**	8	8

* ceased on 29 July 2021
** ceased on 29 July 2021

Review of Operations and Financial Results

The net loss after tax for the year was $9,243,178 (2020 loss: $10,535,050).

Principal Activities and Strategy

Epsilon Healthcare is a diversified global healthcare and pharmaceuticals company with primary operations in Australia. Epsilon owns a number of medicinal cannabis assets including the largest GMP cannabis manufacturing facility in the Southern Hemisphere (the Southport Facility) in Southport, Australia and the Tetra Health clinic group. Epsilon additionally has a recently formalised 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.

Significant Changes in State of Affairs

No significant changes in the Group's state of affairs occurred during the financial period.

Matters Subsequent to Balance Date

Since the end of the reporting period:

Exclusive Partnership with The Valens Company

In March 2022, the Company commenced its exclusive partnership with The Valens Company (TSX:VLNS) (NASDAQ: VLNS)(Valens), a Canadian-based, leading manufacturer of cannabis products, through the execution of an Interim Implementation Deed (the Implementation Deed).

Under the terms of the Implementation Deed, Valens and Epsilon will operate on the basis that the material terms of the agreement announced on 9 September 2021 are in effect, save for a trial period of three months, which commenced 1 March 2022, and a number of minor clauses of the agreements which are being formalised. The agreed terms include Valens accessing Epsilon's GMP manufacturing capability at the Southport Facility – the largest cannabis extraction facility in the Southern Hemisphere with TGA and EU GMP capability – in return for Valens funding all mutually budgeted operational and capital expenditures of the Southport Facility for the duration of the partnership on a reimbursement basis.

Restructuring of Canadian Business Units

In March 2022, the Company appointed a 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).

Other Matters

- Epsilon received $1.05 million in R&D Tax Incentives for FY 2021 from ATO in Q1 2022;
- R&D Tax Incentive receipts applied towards repayment of debt with Mitchell Asset Management – reducing outstanding facilities to ~$2.5 million;
- Strong order book for the Southport Facility being developed for the next three months complements strong production throughput over Q1 2022 to date;
- Epsilon's subsidiary, THC Pharma has produced over 18,000 tinctures and over 4,000 dried flower bottles during Q1 2022 to mid March 2022 from both Valens and non-Valens sales pipelines.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect:

a) The Group's operations in future financial years; or
b) The results of those operations in future financial years; or
c) The Group's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in these financial statements because the directors believe it could potentially result in unreasonable prejudice to the Group.

Environmental regulation

The Group's operations are not subject to any significant environmental regulation under either Commonwealth or State legislation. The Board considers that adequate systems are in place to manage the Group's obligations and is not aware of any breach of environmental requirements as they relate to the Group.

Dividends

No dividends were paid to members during the financial year (2020: $Nil).

Indemnification of officers

During the financial year the Group paid premiums in respect of a contract insuring Directors and Executives against liabilities incurred in the ordinary course of business.

Indemnity and insurance of auditor

The Group has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Group or any related entity against a liability incurred by the auditor.

During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Group or any related entity.

Proceedings on behalf of the Group

No person has applied to the Court for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group.

Non-audit services

As disclosed under Note 30, the Group's auditor did not provide any non-audit services during the 2021 financial year (2020: nil).

Officers of the company who are former partners of RSM Australia Partners

There are no officers of the company who are former partners of RSM Australia Partners.

Auditor's independence declaration

A copy of the auditor's independence declaration is set out on page 19.

Auditor

RSM Australia Partners continue in office in accordance with section 327 of the Corporations Act 2001.

Shares under option

Unissued ordinary shares under option at the date of this report are as follows:

Grant Date	Expiry Date	Exercise Price	Performance Vesting Share Price/Target	Number Under Option
25/03/19	01/01/22	$0.80	-	175,000
29/11/19	01/01/22	$0.50	-	425,000
29/05/20	29/05/22	$0.40	-	5,000,000
18/02/21	05/03/23	$0.35	-	3,000,000
27/04/21	31/12/22	-	$0.30	350,000
27/04/21	31/12/22	-	$0.35	500,000
27/04/21	31/12/22	-	$0.40	700,000
27/04/21	31/12/22	-	$0.45	850,000
27/04/21	31/12/22	-	$0.50	1,000,000
27/04/21	31/12/22	-	Positive 6-month EBITDA	1,400,000
			Total	**13,400,000**

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

No shares were issued on exercise of options in the 2021 financial year.

The following options were issued over the ordinary shares of Epsilon Healthcare Limited during the year ended 31 December 2021 and up to the date of this report:

Grant Date	Expiry Date	Share Price at Grant Date*	Exercise Price	Performance Vesting Share Price/Target	Expected Volatility	Dividend Yield	Risk-free Interest Rate	Fair Value per Option
27/04/21	31/12/22	$0.1950	-	$0.30	63%	-	0.07%	$0.1441
27/04/21	31/12/22	$0.1950	-	$0.35	63%	-	0.07%	$0.1241
27/04/21	31/12/22	$0.1950	-	$0.40	63%	-	0.07%	$0.1069
27/04/21	31/12/22	$0.1950	-	$0.45	63%	-	0.07%	$0.0924
27/04/21	31/12/22	$0.1950	-	$0.50	63%	-	0.07%	$0.0800
27/04/21	31/12/22	$0.1950	-	Positive 6-month EBITDA	63%	-	0.07%	$0.1950

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of the Group.

Remuneration philosophy

The performance of the Group depends upon the quality of its directors and executives, and the ability of the Group to attract, motivate and retain highly skilled directors and executives.

Remuneration committee

The Remuneration and Nomination Committee of Directors is responsible for determining and reviewing compensation arrangements for the Directors, the Chief Executive Officer and the executive team. The role of the Remuneration and Nomination Committee was undertaken by the full Board.

The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board of Directors recognises that the success of the Group will depend on the quality of its directors and its senior management. For this reason, the Remuneration Committee reviews the remuneration arrangements for all senior employees to ensure that it attracts and keeps motivated, highly skilled and appropriately qualified Directors and executives.

Structure

The Company's Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting of shareholders. An amount not exceeding the amount determined by shareholders in general meeting is then available to be split between the Directors as agreed between them. This determination will be put to shareholders at the next Annual General Meeting.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned between directors will be reviewed annually. The Board takes into account the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company. The Chairman receives a higher fee in recognition of the additional time commitment required of a Chairman.

Non-executive directors are encouraged by the Board to hold shares in the Company (purchased by the directors on market).

Non-executive directors' remuneration is not linked to the performance of the Company.

The remuneration of directors for the year ending 31 December 2021 is detailed in Table 3 of this report. There is currently a maximum director payment pool of $500,000 for non-executive directors.

Senior manager and executive director remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the Remuneration Committee reviews market conditions and the circumstances of the Company to ensure that the remuneration offered is sufficient to attract executives of the highest calibre.

Fixed remuneration

The fixed remuneration of all employees is reviewed by the Remuneration Committee as is considered necessary.

Short-Term and Long-Term Remuneration

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives over a period of three years based on long-term incentive measures. These include increase in shareholders' value relative to the entire market and the increase compared to the consolidated entity's direct competitors.

Equity Based Remuneration

The equity-based remuneration of all employees is reviewed by the Remuneration Committee as is considered necessary.

Table 1: Shareholdings of key management personnel

2021	Opening balance	Granted as compensation	Acquired	Disposed	Closing balance
Alan Beasley	880,000	-	-	-	880,000[1]
Steven Xu	1,830,636	-	-	-	1,830,636
Lou Cattelan	327,803	-	-	-	327,803[1]
Gary Radcliff	207,516	-	-	-	207,516[1]
Jarrod White	249,786	1,250,000	-	-	1,499,786
Sonny Didugu	521,373	1,000,000	-	-	1,521,373
Rob Jenny	-	-	-	-	-
Simon Rowe	245,000[2]	-	-	-	245,000
Laura Harvey	-	-	-	-	-
Total	**4,262,114**	**2,250,000**	**-**	**-**	**6,512,114**

*Note these holdings do not include holdings of performance shares that have a separate class of equity

[1] Shareholdings at date of resignation or removal
[2] Shareholdings at date of appointment

2020	Opening balance	Granted as compensation	Acquired	Disposed	Closing balance
Alan Beasley	780,000	-	100,000	-	880,000
Steven Xu	1,822,302	-	8,334	-	1,830,636
Lou Cattelan	244,469	-	83,334	-	327,803
Gary Radcliff	162,616	-	44,900	-	207,516
Ken Charteris	515,000	-	-	-	515,000[1]
Jarrod White	249,786	-	-	-	249,786
Laura Harvey	-	-	-	-	-
Total	**3,774,173**	**-**	**236,568**	**-**	**4,010,741**

*Note these holdings do not include holdings of performance shares that have a separate class of equity

[1] Shareholdings at date of resignation or removal

Table 2: Option holdings of key management personnel

2021	Opening balance	Granted as compensation	Acquired	Exercised	Lapsed	Closing balance
Jarrod White	-	2,800,000	-	-	-	2,800,000
Sonny Didugu	-	2,000,000	-	-	-	2,000,000
Total	**-**	**4,800,000**	**-**	**-**	**-**	**4,800,000**

2020	Opening balance	Granted as remuneration	Acquired	Exercised	Lapsed	Closing balance
Ken Charteris	5,350,000	-	-	-	-	5,350,000[1]
Total	**5,350,000**	**-**	**-**	**-**	**-**	**5,350,000**

[1] Option holdings at date of removal

Employee options

The Company established an Employee Option Plan (EOP) plan that was approved by shareholders at the Extraordinary General Meeting held on 15 November 2018, which was re-adopted at the 2021 Annual General Meeting for the purpose of ASX Listing Rule 7.2 Exception 13. The EOP is designed to provide long term incentives to senior executives to deliver long-term shareholder returns. Under the plan, employees are granted options which vest if certain criteria are met.

Table 3: Details of remuneration

Name		Salary and fees $	Other fees $	Post-employment benefits $	Share based payments $	Total $
Executive Directors						
Rob Jenny	2021	-	-	-	-	-
	2020	-	-	-	-	-
Non-Executive Directors						
Steven Xu	2021	144,999	-	-	-	144,999
	2020	144,999	-	-	-	144,999
Simon Rowe	2021	25,000	-	-	-	25,000
	2020	-	-	-	-	-
Alan Beasley	2021	32,083	-	-	-	32,083
	2020	55,000	-	-	-	55,000
Lou Cattelan	2021	29,186	-	-	-	29,186
	2020	47,831	-	2,169	-	50,000
Gary Radcliff	2021	53,788	-	-	-	53,788
	2020	41,667	-	-	-	41,667
Subtotal – Non-Executive Directors	**2021**	**285,056**	**-**	**-**	**-**	**285,056**
	2020	**289,497**	**-**	**2,169**	**-**	**291,666**
Key Management Personnel						
Ken Charteris – former CEO	2021	-	-	-	-	-
	2020	395,047	-	-	12,837	407,884
Jarrod White - CEO	2021	293,000[1]	-	-	312,500	605,500
	2020	198,750	-	-	-	198,750
Sonny Didugu - COO	2021	244,000[2]	-	-	250,000	494,000
	2020	157,250	-	-	-	157,250
Diandra Phipps	2021	-	-	-	-	-
	2020	90,525	-	-	-	90,525
Laura Harvey	2021	236,565	-	-	-	236,565
	2020	232,685	-	-	-	232,685
Subtotal – Key Management Personnel	**2021**	**773,565**	**-**	**-**	**562,500**	**1,336,065**
	2020	**1,074,257**	**-**	**-**	**12,837**	**1,087,094**
Total	**2021**	**1,058,621**	**-**	**-**	**562,500**	**1,621,121**
	2020	**1,363,754**	**-**	**2,169**	**12,837**	**1,378,760**

Notes:

1. CEO fees paid to an entity related to Mr White;
2. COO fees paid to an entity related to Mr Didugu.

All payments to related parties are on arms' length terms and at rates comparable to the market rate or average for these contracts. All contracts have received Board approval.

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:	Steven Xu
Title:	Chairman, Non-Executive Director
Agreement commenced:	12 January 2018
Term of agreement:	No fixed term
Details:	Consultancy fees of $12,083 per month, subject to annual review, with all fees to be paid out of the non-executive directors' remuneration pool.

Name:	Simon Rowe
Title:	Non-Executive Director
Agreement commenced:	1 August 2021
Term of agreement:	No fixed term
Details:	Consultancy fees of $5,000 per month, subject to annual review, with all fees to be paid out of the non-executive directors' remuneration pool.

Name:	Rob Jenny
Title:	Executive Director
Agreement commenced:	Appointed 1 August 2021
Term of agreement:	No fixed term
Details:	Rob Jenny's officeholding as a director of the Company is pursuant to a relationship between the Company and Cannvalate Pty Ltd as first disclosed on 9 September 2021. The Company's relationship with Cannvalate is terminable at any time by the Company or Cannvalate, and on such termination, Rob Jenny's officeholding as a director will cease.

Name:	Jarrod White
Title:	Chief Executive Officer
Agreement commenced:	Agreement precedes appointment to current role.
Term of agreement:	12 months
Details:	Consultancy fees of $14,000 per month, subject to annual review.

Name:	Sonny Didugu
Title:	Chief Operating Officer
Agreement commenced:	Agreement precedes appointment to current role.
Term of agreement:	12 months
Details:	Consultancy fees of $12,000 per month, subject to annual review.

Performance of the company and shareholder returns

The application of the Group's executive reward framework has regard to shareholder return indices. Options issued to executives have exercise prices set at significant premiums to the share price at issue dates. Other with nil exercise prices are subject to EPN's share price meeting a number of performance milestones.

Refer to Note 26 Share based payments for details of the valuation of these payments.

Voting and comments made at the company's 2020 Annual General Meeting ('AGM')

At the 2020 AGM, 92% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2020. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

On behalf of the Directors,

Steven Xu

Chairman

31 March 2022

CORPORATE GOVERNANCE STATEMENT

Epsilon Healthcare Limited ('the Company') has adopted the Fourth Edition of the Corporate Governance Principles and Recommendations which became effective for financial years beginning on or after 1 January 2020.

The Company's Corporate Governance Statement for the financial year ending 31 December 2022 is dated as at 31 March 2022 and was approved by the Board on 31 March 2022. The Corporate Governance Statement is available on the Company's website at https://epsilonhealthcare.com.au/corporate-governance.

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Epsilon Healthcare Limited for the year ended 31 December 2021, 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.

RSM

RSM AUSTRALIA PARTNERS

GNS

GARY N SHERWOOD
Partner

Sydney NSW
Dated: 31 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Year ended 31 December 2021 $	Year ended 31 December 2020 $
Revenue from continuing operations	3	5,498,149	6,953,289
Cost of goods sold		(3,442,528)	(4,566,970)
Gross profit		**2,055,621**	**2,386,319**
Other income		2,477,469	855,566
Freight and other selling expenses		(283,414)	(533,091)
Professional expenses		(933,715)	(1,129,614)
Corporate and consulting expenses	4	(498,372)	(1,305,974)
Plant and facility costs		(397,602)	(724,923)
Research and development expenses		(171,097)	(472,257)
License and registration fees		(132,227)	(45,317)
Employee benefits expense		(4,272,573)	(4,641,752)
Advertising and promotion expenses		(134,278)	(298,906)
Insurance expenses		(591,805)	(446,497)
Bad debts expense		(68,503)	(23,530)
Depreciation and amortisation expense	15, 16	(1,142,797)	(1,565,935)
Impairment expense	5	(2,515,114)	-
Finance expenses	6	(870,220)	(597,745)
Office and occupancy expenses		(609,155)	(497,127)
Administration expenses		(894,123)	(1,489,448)
Foreign exchange (loss)/gain		(31,215)	2,492
Share based payments	26	(1,094,122)	(7,311)
Loss before income tax		**(10,107,242)**	**(10,535,050)**
Income tax benefit	10	864,064	-
Loss for the year		**(9,243,178)**	**(10,535,050)**
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Exchange differences on translating foreign operations, net of tax		68,607	(171,144)
Gain on revaluation of PPE		73,425	-
Total comprehensive loss for the year		**(9,101,146)**	**(10,706,194)**
Earnings per share			
- Basic/diluted losses per share (Cents)	31	**(4.79)**	**(6.63)**

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

epsilon HEALTHCARE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Notes	As at 31 December 2021 $	As at 31 December 2020 $
Assets			
Current Assets			
Cash and cash equivalents	11	2,335,569	6,967,941
Trade and other receivables	12	2,349,865	1,419,381
Inventory	13	2,420,343	2,039,259
Other assets	14	705,032	578,604
Total Current Assets		**7,810,809**	**11,005,185**
Non-Current Assets			
Property, plant and equipment	15	17,207,357	18,900,501
Right-of-use assets	16	429,380	1,172,646
Intangible assets	17	504,699	475,526
Goodwill	8	4,472,985	5,444,481
Other assets	14	126,891	264,530
Total Non-Current Assets		**22,741,312**	**26,257,684**
Total Assets		**30,552,121**	**37,262,869**
Liabilities			
Current Liabilities			
Trade and other payables	18	3,069,871	2,429,186
Contract liabilities	19	158,424	390,585
Borrowings	20	3,663,261	3,794,639
Employee benefits	21	128,909	125,382
Lease liabilities	16	115,126	344,414
Total Current Liabilities		**7,135,591**	**7,084,206**
Non-Current Liabilities			
Deferred tax liability	22	3,185,360	3,886,575
Lease liabilities	16	660,028	973,023
Total Non-Current Liabilities		**3,845,388**	**4,859,598**
Total Liabilities		**10,980,979**	**11,943,804**
Net Assets		**19,571,142**	**25,319,065**
Equity			
Contributed equity	23(a)	44,817,619	41,801,459
Reserves	24	11,057,620	10,594,306
Accumulated losses		(36,304,097)	(27,076,700)
Equity		**19,571,142**	**25,319,065**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

		Contributed equity	Other contributed equity	Accumulated losses	Reserves	Total
	Notes	$	$	$	$	$
At 1 January 2021		**41,801,459**	**-**	**(27,076,700)**	**10,594,306**	**25,319,065**
Loss for the year		**-**	**-**	**(9,243,178)**	**-**	**(9,243,178)**
Other comprehensive income		-	-	-	142,032	142,032
Total comprehensive loss		**-**	**-**	**(9,243,178)**	**142,032**	**(9,101,146)**
Shares issued in the period	23(a)	3,512,500	-	-	-	3,512,500
Costs of capital raising	23(a)	(496,340)	-	-	-	(496,340)
Options vesting expense	24	-	-	-	337,063	337,063
Options lapsed	24	-	-	15,781	(15,781)	-
Total transactions with owners		**3,016,160**	**-**	**15,781**	**321,282**	**3,353,223**
At 31 December 2021		**44,817,619**	**-**	**(36,304,097)**	**11,057,620**	**19,571,142**
At 1 January 2020		**28,448,111**	**850,000**	**(18,044,950)**	**11,068,019**	**22,321,180**
Loss for the year		**-**	**-**	**(10,535,050)**	**-**	**(10,535,050)**
Other comprehensive income		-	-	-	(171,144)	(171,144)
Total comprehensive loss		**-**	**-**	**(10,535,050)**	**(171,144)**	**(10,706,194)**
Shares issued in the period	23(a)	14,237,884	-	-	-	14,237,884
Costs of capital raising		(884,536)	-	-	-	(884,536)
Options issued on acquisition of Tetra		-	-	-	343,420	343,420
Performance shares cancelled		-	(850,000)	850,000	-	-
Options vesting expense and expiration		-	-	653,300	(645,989)	7,311
Total transactions with owners		**13,353,348**	**(850,000)**	**1,503,300**	**(302,569)**	**13,704,079**
At 31 December 2020		**41,801,459**	**-**	**(27,076,700)**	**10,594,306**	**25,319,065**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Year ended 31 December 2021 $	Year ended 31 December 2020 $
Cash flows from operating activities			
Receipts from customers		5,307,392	7,064,223
Payments to suppliers and employees		(11,347,767)	(15,612,056)
Research and development tax incentive received		1,016,491	213,536
Interest received		19,763	24,533
Finance costs		(573,182)	(384,018)
Return of deposits		147,887	-
Net cash outflow from operating activities	27	**(5,429,416)**	**(8,693,782)**
Cash flows from investing activities			
Payments for plant and equipment		(747,711)	(1,079,489)
Payments for land and buildings		-	(155,526)
Investment in subsidiary		-	(496,545)
Acquisition of intangible assets		(39,883)	-
Proceeds from disposal of PPE		50,000	-
Net cash outflow from investing activities		**(737,594)**	**(1,731,560)**
Cash flows from financing activities			
Principal payment of lease liabilities		(564,702)	(559,048)
Proceeds from shares issued net of costs		2,445,030	10,001,463
Proceeds from conversions of options		-	641,884
Proceeds from borrowings		-	3,760,000
Principal payment of borrowings		(365,037)	-
Net cash inflow from financing activities		**1,515,291**	**13,844,299**
Net (decrease)/increase in cash and cash equivalents		**(4,651,719)**	**3,418,957**
Cash and cash equivalents at the beginning of the financial period		6,967,941	3,551,595
Foreign exchange adjustment to cash balance		19,347	(2,611)
Cash and cash equivalents at end of the year	11	**2,335,569**	**6,967,941**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2021

1. Summary of significant accounting policies

These consolidated financial statements and notes represent those of the consolidated entity (referred to hereafter as the 'Group') consisting of Epsilon Healthcare Limited (formerly THC Global Group Limited, referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the year ended 31 December 2021.

Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are reported below. They have been consistently applied unless stated otherwise. All applicable new accounting standards have been adopted for the year ended 31 December 2021.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Accounting policies

a. 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 36.

b. Principles of Consolidation

A controlled entity is any entity Epsilon Healthcare Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

As at the reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year ended.

All inter-company balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Company.

Where controlled entities have entered or left the Group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the Group, are shown separately within the Equity section of the Consolidated Statement of Financial Position and in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

c. Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the financial statements, Epsilon Healthcare Limited ("Epsilon") incurred a loss for the year $9,243,178 and had net cash outflows from operating activities of $5,429,416 for the year ended 31 December 2021. In addition, the borrowings disclosed in Note 20 are repayable by 31 October 2022. The ability of the consolidated entity to continue as a going concern and realise its' assets is dependent on a number of factors, the most significant of which is the ability to raise additional capital, source alternative funding, or increase its revenue and generate profits.

These factors indicate a material uncertainty which may cast significant doubt as to whether Epsilon will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The Directors believe that there are reasonable grounds to believe that Epsilon will be able to continue as a going concern, after consideration of the following factors:

- Epsilon has cash and cash equivalents of $2,335,569 as at 31 December 2021. As at that date Epsilon had net current assets of $675,218 and net assets of $19,571,142;
- The directors are confident that additional share capital or additional debt can be raised should it be required;
- Subsequent to balance date, the Company commenced a partnership with The Valens Company (NASDAQ:VLNS). Under this arrangement, Valens has assumed responsibility for all budgeted operational and capital expenditure of THC Pharma, thereby significantly reducing the working capital requirements of the Group in the foreseeable future. Furthermore, under the arrangement THC Pharma is anticipating purchase orders of $2 million by 31 May 2022;
- As stated in Note 35, subsequent to the balance date, Epsilon received $1.05 million in R&D Tax Incentives for FY 2021 and applied these funds towards the repayment of debt with Mitchell Asset Management reducing the outstanding facilities to approximately $2.5 million.

Accordingly, the Directors believe that Epsilon will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if Epsilon does not continue as a going concern.

d. Foreign currency translation

i. Functional currency

Items included in the financial statements of the Group's operations are measured using the currency of the primary economic environment in which it operates ('the functional currency').

The functional currency of the Company is Australia dollars (AU$).

The functional currency of CMDV is Canadian dollars (C$).

The functional currency of the Canndeo Pty Ltd is Australian dollars (AU$).

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting period. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges or where they relate to differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

ii. Presentation currency

The financial statements are presented in Australian dollars, which is the Company's presentation currency.

Functional currency balances are translated into the presentation currency using the exchange rates at the balance sheet date. Value differences arising from movements in the exchange rates are recognised in the Foreign Currency Translation Reserve.

e. 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.

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.

f. Revenue recognition

Revenue is recognised when the goods are delivered and have been accepted by customers at their premises.

For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data. In these circumstances, a refund liability and a right to recover returned goods asset are recognised.

The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The refund liability is included in other payables and the right to recover returned goods is included in inventory. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

Interest income is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rates which is the rate that exactly discounts the estimated future cash receipts over the expected future life of the financial asset.

When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

g. Income tax

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or are recognised directly in equity or in other comprehensive income. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of profit or loss when the tax relates to items that are credited or charged directly to equity.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

h. Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows. There is provision made in the Statement of Cash Flows to disclose the applicable GST refunds/payments that have been remitted to the ATO to accurately show the cash position of Epsilon Healthcare Limited.

i. Leases

The Group had early adopted AASB 16 Leases for the first time in the 2018 financial year.

Under AASB 16, all leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted in favour of the Group if it is reasonably certain to assess that option;
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

j. Impairment of assets

At the end of each reporting period the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, the recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash generating unit to which the asset belongs.

k. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

l. 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 allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

m. Other receivables

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

Collectability of other receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance made for doubtful debts is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Objective evidence of impairment includes financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue).

The amount of the impairment loss is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as 'impairment expenses.' When a trade or other receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Profit or Loss and Other Comprehensive Income.

n. Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the year end and which are unpaid. These amounts are unsecured and are usually payable within 30 days of recognition.

o. Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

p. Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

q. Employee benefits

i. Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the end of the reporting period are recognised in other payables in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled.

ii. Retirement benefit obligations

The Group does not maintain a superannuation plan. The Group makes fixed percentage contributions for all Australian resident employees to complying third party superannuation funds and for Canadian resident employees to complying pension funds. The Group's legal or constructive obligation is limited to these contributions.

Contributions to complying third party superannuation funds and pension plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

r. 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.

s. 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.

t. Contributed equity

Costs directly attributable to the issue of new shares are shown as a deduction from the equity as a deduction proceeds net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

u. Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Land, buildings and improvements

Freehold land and buildings are carried at cost, less accumulated depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised against revaluation surplus directly in equity; all other decreases are recognised in profit or loss.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Freehold land and buildings are carried at cost, less accumulated depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised against revaluation surplus directly in equity; all other decreases are recognised in profit or loss.

Manufacturing facility

Manufacturing facility assets are measured under the revaluation model and accounted for at their fair value, being the amount for which the asset could be exchanged between knowledgeable willing parties in an arm's length transaction, based on periodic valuations by external independent valuers or director valuations, less subsequent depreciation.

Increases in the carrying amount arising on revaluation of Manufacturing facility assets are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same assets are charged against fair value reserves directly in equity; all other decreases are charged to the statement of comprehensive income. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use.

Depreciation is calculated over the estimated useful life of the assets as follows:

Plant and equipment – 1 to 10 years

Website development – 3 to 5 years

Land, buildings and improvements – 25 years

Manufacturing facility and related equipment – 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are recognised immediately in profit or loss. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

v. Intangible assets

Patents

Patents have a finite life and is carried at cost less any accumulated amortisation and impairment losses. It has an estimated useful life of 15 years.

Software development costs

Expenditure on the research phase of projects to develop new customised software and/or hardware is recognised as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet the following recognition requirements:

- the development costs can be measured reliably;
- the project is technically and commercially feasible;
- the Group intends to and has sufficient resources to complete the project;
- the Group has the ability to use or sell the software; and
- the software will generate probable future economic benefits.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Costs that are directly attributable include employees' (other than Directors') costs incurred on software and hardware development, along with an appropriate portion of relevant overheads and borrowing costs.

Clinical database

Clinical database 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.

w. Inventories

Inventories are stated standard cost or the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of purchased goods are assigned using the first in, first out cost formula. Manufactured goods are recorded at standard costs which are considered to approximate actual costs. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Medicinal cannabis products manufactured by the group are valued using a standard costing process based on management's estimated costs on of materials, labour and overhead for a selected period of time and for a prescribed set of working conditions.

x. Earnings per share

Basic earnings per share

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

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.

y. 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.

z. Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

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.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum, an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

aa. Research and Development

In FY2018, Canndeo Ltd, a subsidiary of the Group, received a Medicinal Cannabis Licence. The licence provides authorisation for Canndeo to perform research and development of cannabis for medicinal purposes.

Expenditure on the research phase of projects to develop new cannabis strains and products is recognised as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet the following recognition requirements:

• the development costs can be measured reliably
• the project is technically and commercially feasible
• the Group intends to and has sufficient resources to complete the project
• the Group has the ability to use or sell the software
• the developed asset will generate probable future economic benefits.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Directly attributable costs include employee costs incurred on software development along with an appropriate portion of relevant overheads and borrowing costs.

bb. Comparative information

Comparative information presented is for the Group for the year ended 31 December 2020.

cc. New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board

('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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

dd. 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 2021. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

2. 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.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

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 1. The recoverable amounts of cash-generating units have been determined based on fair value less cost to sell . The estimation of fair value requires significant judgment and is subject to estimation uncertainty. Management have estimated the price at which an orderly transaction to sell its assets would take place between market participants at the measurement date under current market conditions

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.

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.

The Group remained in a development phase during the period and consequently there is some uncertainty surrounding the availability of future taxable amounts to utilise tax losses. Management considers it prudent not to raise any deferred tax assets at this point in time.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of property, plant and equipment and land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity.

To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from the property, plant and equipment revaluation surplus to retained earnings. Refer to Note 32 for assumptions of fair value of assets.

There is significant judgment and estimation uncertainty with regards to the methodology used to revalue assets and determine the estimated revalued amounts.

Management engaged an independent expert to revalue the manufacturing facility in the 2021 financial year. The revaluation was done using a market approach and the depreciated replacement cost approach. The depreciated replacement cost method was used because of the specialised nature of the assets and how infrequent transactions are of a similar nature.

3. Revenue

The Group's revenue disaggregated by operating segment is as follows:

	31 December 2021			
	Hydroponics Equipment, Materials and Nutrients	Medicinal Cannabis	Unallocated	Total
	$	$	$	$
Revenue				
Canada	2,831,975	-	-	2,831,975
Australia	-	2,666,174	-	2,666,174
	2,831,975	**2,666,174**	**-**	**5,498,149**
Goods and services transferred at a point in time	2,831,974	2,666,175	-	5,498,149
Services transferred over time	-	-	-	-
	2,831,975	**2,666,174**	**-**	**5,498,149**

	31 December 2020			
	Hydroponics Equipment, Materials and Nutrients	Medicinal Cannabis	Unallocated	Total
	$	$	$	$
Revenue				
Canada	5,923,151	-	-	5,923,151
Australia	-	1,030,138	-	1,030,138
	5,923,151	**1,030,138**	**-**	**6,953,289**
Goods and services transferred at a point in time	5,923,151	1,030,138	-	6,953,289
Services transferred over time	-	-	-	-
	5,923,151	**1,030,138**	**-**	**6,953,289**

4. Corporate and consulting expenses

	For the Year Ending 31 December 2021	For the Year Ending 31 December 2020
Consulting fees	123,441	268,672
Corporate services fees	374,931	1,037,302
	498,372	**1,305,974**

5. Impairment expense

Impairment of intangible assets (Note 8)	971,496	-
Impairment of plant and equipment	1,309,338	-
Impairment of right-of-use assets	234,280	-
	2,515,114	**-**

6. Finance costs

Interest expense	741,942	418,657
Interest expense on lease liabilities	128,278	179,088
	870,220	**597,745**

7. Interests in subsidiaries

Accounting subsidiaries	Country of Incorporation	Percentage Owned 2021	Percentage Owned 2020
Crystal Mountain Manufacturing Inc.	Canada	100%	100%
Dragon Vision Limited	Hong Kong	100%	100%
0970203 B.C. Ltd	Canada	100%	100%
Canndeo Pty Ltd	Australia	100%	100%
Canna Clinics Pty Ltd	Australia	100%	100%
THC Plant Sciences Pty Ltd	Australia	-%	100%
THC Pharma Pty Ltd	Australia	100%	100%
THC Pharma (NZ) Limited (Deregistered 16 March 2022)	New Zealand	100%	100%
Canndeo Canada Inc. (formerly Vertical Canna Inc.)	Canada	100%	100%
10034622 Canada Inc.	Canada	100%	100%
Metra Holdings Pty Ltd	Australia	100%	100%
Tetra Pty Ltd	Australia	100%	100%
Canndeo Fulfillment Inc	Canada	100%	100%
Cannmira Therapeutic Clinics Inc	Canada	100%	100%
Medimar Pty Ltd	Australia	100%	100%
Demimar Pty Ltd	Australia	100%	100%

8. Goodwill

	For the Year Ending 31 December 2021	For the Year Ending 31 December 2020
	$	$
Balance at beginning of the year	5,444,481	2,415,140
Impairment expense	(971,496)	-
Additions (Tetra) (Note 9(c))	-	3,029,341
Balance at end of the year	**4,472,985**	**5,444,481**

9. Business combinations and historical goodwill

a. Crystal Mountain and Dragon Vision ("CMDV")

	As at 31 December 2021
	$
Consideration transferred	
Shares, options and performance shares issued	2,944,200
Other costs of acquisition	174,936
	3,119,136
Net assets acquired in CMDV at the date of acquisition	(1,451,640)
Accumulated impairment	(1,667,496)
Goodwill carried forward	-

b. Canndeo Pty Ltd

	As at 31 December 2021
	$
Consideration transferred	
Shares, options and performance shares issued	3,363,500
	3,363,500
Net liabilities acquired in Canndeo at the date of acquisition	276,144
Accumulated impairment	(2,196,000)
Goodwill carried forward	**1,443,644**

9. Business combinations (continued)

c. Tetra Health

	As at 31 December 2021
	$
Consideration transferred	
Shares, options and performance shares issued	2,843,420
Cash paid on acquisition	500,000
	3,343,420
Fair value of net assets acquired in Tetra Health at the date of acquisition	(314,079)
Goodwill carried forward	**3,029,341**
Total goodwill carried forward	**4,472,985**

The recoverable amount of Goodwill is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In the prior year, the Group prepared Discounted Cash Flow analysis for both Crystal Mountain as a standalone CGU and the remaining businesses have been integrated into a CGU for the development and delivery of medicinal cannabis.

Key financial inputs into that analysis were:

- Discount rate: 13.5%
- Income tax rate: 26%
- Risk free rate: 0.004%
- Term: 5 years.

In the current year, the recoverable amounts of cash-generating units have been determined based on fair value less cost to sell. The estimation of fair value requires significant judgment and is subject to estimation uncertainty. Management have estimated the price at which an orderly transaction to sell its assets would take place between market participants at the measurement date under current market conditions

10. Income tax expense

a. The components of tax expense comprise:

	For the Year Ending 31 December 2021	For the Year Ending 31 December 2020
	$	$
Current tax	-	-
Deferred tax liability released	(864,064)	-
	(864,064)	**-**

10. Income tax expense (continued)

b. Numerical reconciliation of income tax expense to prima facie tax payable

	For the Year Ending 31 December 2021	For the Year Ending 31 December 2020
	$	$
Loss from continuing operations before income tax expense	(10,107,242)	(10,535,050)
Tax at the Australian tax rate of 26.0% (2020 – 27.5%)	**(2,627,883)**	**(2,897,139)**
Add tax effect of:		
- Other non-allowable items	985,638	260,020
Less tax effect of:		
Other non-assessable items:		
- Research & Development Grants	(578,225)	(106,425)
- Other deductible items	(568,193)	(445,201)
Carried forward tax benefit not recognized in the current year	1,924,599	3,188,745
Total income tax benefit	**(864,064)**	**-**

The Group has carried forward tax losses of approximately $32,931,018 (2020: $27,466,561). The benefit of these losses will only be recognised where it is probable that future taxable income will be available against which the benefits of the deferred tax asset can be utilised.

11. Cash and cash equivalents

Cash at bank and in hand	2,335,569	6,967,941
Balance at end of the year	**2,335,569**	**6,967,941**

12. Trade and other receivables

Current		
Trade receivables	728,939	953,009
Allowance for expected credit losses	(148,253)	(79,296)
R&D tax incentive receivable	1,769,179	545,668
Balance at end of the year	**2,349,865**	**1,419,381**

Allowance for expected credit losses

The Group has recognised a loss of $68,957 in profit or loss in respect of the expected credit losses for the year ended 31 December 2021.

9. Trade and other receivables (continued)

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2021	2020	2021	2020	2021	2020
	%	%	$	$	$	$
Not overdue	-	-	114,238	641,946	-	-
0 to 3 months overdue	5%	12%	246,634	263,886	11,743	32,119
3 to 6 months overdue	37%	100%	364,547	29,231	134,444	29,231
Over 6 months overdue	100%	100%	3,520	17,946	2,066	17,946
Balance at end of the year			**728,939**	**953,009**	**148,253**	**79,296**

Movements in the allowance for expected credit losses are as follows:

	For the Year Ending 31 December 2021	For the Year Ending 31 December 2020
	$	$
Balance at beginning of the year	79,296	80,966
Net movement for the year	68,957	(1,670)
Balance at end of the year	**148,253**	**79,296**

13. Inventory

Finished goods	2,537,300	2,061,262
Less: Provision for slow-moving inventory	(116,957)	(22,003)
Balance at end of the year	**2,420,343**	**2,039,259**

14. Other assets

	$	$
Current		
Prepayments	705,032	578,604
Non-current		
Deposits paid	126,891	264,530
Balance at end of the year	**831,923**	**843,134**

15. Property, plant and equipment

	For the Year Ending 31 December 2021	For the Year Ending 31 December 2020
Website development – at cost	370,000	370,000
Accumulated depreciation – website development	(217,266)	(163,266)
	152,734	**206,734**
Plant and equipment – at cost	716,272	653,795
Accumulated depreciation – plant and equipment	(338,411)	(218,478)
	377,861	**435,317**
Manufacturing facility and related equipment – at revalued amounts	15,387,109	15,496,347
Accumulated depreciation – manufacturing facility and related equipment	(1,196,756)	(1,013,589)
	14,190,353	**14,482,758**
Land, buildings and improvements – at cost	3,873,908	3,811,818
Accumulated depreciation – buildings and improvements	(54,016)	(36,126)
Accumulated impairment	(1,333,483)	-
	2,486,409	**3,775,692**
Balance at end of the year	**17,207,357**	**18,900,501**

See Note 2 and Note 32 for significant judgement in relation to the revaluation of the manufacturing facility.

	Website development	Plant and equipment	Manufacturing Facility and Equipment	Building and improvements	Total
	$	$	$	$	$
Balance at 1 January 2020	260,849	358,027	14,822,478	2,967,152	18,408,506
Acquisitions in the year	-	183,319	673,869	827,951	1,685,139
Depreciation expense	(54,115)	(106,864)	(1,013,589)	(19,411)	(1,193,979)
Foreign exchange adjustment	-	835	-	-	835
Balance at 31 December 2020	**206,734**	**435,317**	**14,482,758**	**3,775,692**	**18,900,501**
Acquisitions in the year	-	62,477	314,962	62,090	439,529
Revaluation in the period	-	-	102,354	-	102,354
Depreciation expense	(54,000)	(119,933)	(709,721)	(34,680)	(918,334)
Impairment expense	-	-	-	(1,309,338)	(1,309,338)
Foreign exchange adjustment	-	-	-	(7,355)	(7,355)
Balance at 31 December 2021	**152,734**	**377,861**	**14,190,353**	**2,486,409**	**17,207,357**

16. Leases and right-of-use assets

Nature of leasing activities (in the capacity as lessee)

The Group leases a number of properties in the jurisdictions from which it operates. In some jurisdictions it is customary for lease contracts to provide for payments to increase each year by inflation or and in others to be reset periodically to market rental rates. In some jurisdictions property leases the periodic rent is fixed over the lease term.

The percentages in the table below reflect the current proportions of lease payments that are either fixed or variable. The sensitivity reflects the impact on the carrying amount of lease liabilities and right-of-use assets if there was an uplift of 5% on the balance sheet date to lease payments that are variable.

	Lease Contracts	Fixed Payments	Variable Payments	Sensitivity
	Number	%	%	$
Property leases with payments linked to inflation	6	-	100%	+/- 28,235

	For the Year Ending 31 December 2021	For the Year Ending 31 December 2020
Right-of-Use Assets - Land and Buildings	$	$
Balance at beginning of the year	1,172,646	611,396
Additions	-	934,041
Disposal	(294,715)	-
Impairment/termination	(234,280)	
Depreciation	(214,271)	(372,791)
Balance at end of the year	**429,380**	**1,172,646**

	For the Year Ending 31 December 2021	For the Year Ending 31 December 2020
Lease Liabilities		
Land and buildings		
Balance at beginning of the year	1,317,437	711,263
Additions	-	986,134
Disposal/termination	(105,859)	
Interest expense	128,278	179,088
Lease payments	(564,702)	(559,048)
Balance at end of the year	**775,154**	**1,317,437**
Short term lease expense	3,379	16,400
Low value lease expense	-	-
Expense relating to variable lease payments not included in the measurement of lease liabilities	-	-

17. Intangible assets

	For the Year Ending 31 December 2021	For the Year Ending 31 December 2020
	$	$
Intangible assets purchased at cost	515,409	475,526
Accumulated amortisation	(10,710)	-
Closing balance	**504,699**	**475,526**
Balance at beginning of the year	475,526	-
Additions	39,883	475,526
Accumulated amortisation	(10,710)	-
Balance at end of the year	**504,699**	**475,526**

18. Trade and other payables

Current

Trade payables	2,375,219	2,157,769
Payroll liabilities	280,737	153,001
Accrued expenses	413,915	118,416
Balance at end of the year	**3,069,871**	**2,429,186**

19. Contract liabilities

Current

Contract liabilities	158,424	390,585
Balance at end of the year	**158,424**	**390,585**

Reconciliation

Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:

Balance at beginning of the year	**390,585**	-
Payments received in advance	158,424	390,585
Products delivered	(390,585)	-
Balance at end of the year	**158,424**	**390,585**

20. Borrowings

	For the Year Ending 31 December 2021	For the Year Ending 31 December 2020
	$	$
Current		
Loans	3,663,261	3,794,639
Balance at end of the year	**3,663,261**	**3,794,639**

This loan is secured by a general security deed in favour of the lender granted by Canndeo Ltd, Epsilon Healthcare Limited and THC Pharma Pty Ltd. The Loan bears interest at 1.25% per month and is repayable by 31 October 2022.

21. Employee benefits

Current

Annual leave	128,909	125,382
Balance at end of the year	**128,909**	**125,382**

22. Deferred tax liabilities

Deferred tax liability comprises temporary differences attributable to:

Revaluation of manufacturing facility and related equipment	3,185,360	3,886,575

23. Contributed equity

a. Share capital

	As at 31 December 2021		As at 31 December 2020	
	No. of Shares	**$**	**No. of Shares**	**$**
At the beginning of the period	189,456,949	41,801,459	139,164,832	28,448,111
Share placement	30,000,000	2,700,000	48,687,408	13,596,000
Options converted	-	-	1,604,709	641,884
Shares issued to directors, employees and advisors	3,250,000	812,500	-	-
Cost of capital raising	-	(496,340)	-	(884,536)
Balance at end of the year	**222,706,949**	**44,817,619**	**189,456,949**	**41,801,459**

Ordinary shares

Each ordinary shareholder maintains, when present in person or by proxy or by attorney at any general meeting of the Company, the right to cast one vote for each ordinary share held.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

23. Contributed equity (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.

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 31 December 2020 Annual Report.

24. Reserves

	As at 31 December 2021	As at 31 December 2020
	$	$
Options reserve	689,842	368,560
Foreign currency translation reserve	47,928	(20,679)
Asset revaluation reserve	10,319,850	10,246,425
Balance at end of the year	**11,057,620**	**10,594,306**

a. Options reserve

	As at 31 December 2021		As at 31 December 2020	
	No. of Options	$	No. of Options	$
At the beginning of the year	8,300,000	368,560	10,516,665	671,129
Options issued to KMP's	4,800,000	169,541	-	-
Options issued to advisors	3,000,000	167,522	-	-
Options issued to acquire Tetra	-	-	5,000,000	343,420
Vesting expense on issued options	-	-	-	7,311
Options lapsed	(2,700,000)	(15,781)	(7,216,665)	(653,300)
Balance at end of the year	**13,400,000**	**689,842**	**8,300,000**	**368,560**

Options reserve

The reserve records the cumulative value of employee service received for the issue of share options. When the option is exercised the amount in the share option reserve is transferred to share capital.

24. Reserves (Continued)

b. Foreign currency translation reserve

	As at 31 December 2021	As at 31 December 2020
	$	$
Balance beginning of financial year	(20,679)	150,465
Movement in the financial year	68,607	(171,144)
Balance at end of the year	**47,928**	**(20,679)**

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

c. Asset revaluation reserve

	As at 31 December 2021	As at 31 December 2020
Balance beginning of financial year	10,246,425	10,246,425
Movement in the financial year	73,425	-
Balance at end of the year	**10,319,850**	**10,246,425**

Revaluation surplus reserve

The reserve is used to recognise increments and decrements in the fair value of the manufacturing facility.

25. Segment information

Management identifies its operating segments based on the Group's service lines, which represent the main products and services provided by the Group. The Group's two (2) main operating segments are:

a. manufacture and distribution of hydroponics equipment, materials and nutrients; and
b. development and delivery of medicinal cannabis.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

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.

25. Segment information (continued)

Major customers

The main source of revenue for these operating segments in the year to 31 December 2021 is a mix of distributing hydroponics equipment, materials and nutrients, and the manufacture, sale and advisory services related to medicinal cannabis. The revenues and profit generated by each of the Group's operating segments and segment assets are summarised as follows:

Segment performance

	31 December 2021			
	Hydroponics Equipment, Materials and Nutrients	**Medicinal Cannabis**	**Unallocated**	**Total**
	$	**$**	**$**	**$**
Revenue				
External sales	2,831,975	2,666,175	-	5,498,150
Other (R&D tax incentive and interest income)	-	2,223,940	253,528	2,477,468
Total segment revenue	**2,831,975**	**4,890,115**	**253,528**	**7,975,618**
EBIDTA	(2,021,688)	(5,081,529)	(991,008)	(8,094,225)
Depreciation and amortisation	(122,037)	(1,020,760)	-	(1,142,797)
Finance costs	(101,264)	(787,642)	18,686	(870,220)
Profit before income tax expense	**(2,244,989)**	**(6,889,931)**	**(972,322)**	**(10,107,242)**
Income tax benefit	-	864,064	-	864,064
Profit after income tax expense	**(2,244,989)**	**(6,025,867)**	**(972,322)**	**(9,243,178)**
Assets				
Current assets	720,415	4,485,119	2,605,275	7,810,809
Non-current assets	18,866	17,541,031	708,430	18,268,327
Goodwill	-	4,472,985		4,472,985
Total assets	**739,281**	**25,499,135**	**3,313,705**	**30,552,121**
Liabilities				
Current liabilities	1,120,334	5,965,500	49,757	7,135,591
Non-current liabilities	280,889	379,139	-	660,028
Deferred tax liabilities	-	3,185,360	-	3,185,360
Total liabilities	**1,401,223**	**9,529,999**	**49,757**	**10,980,979**

25. Segment information (continued)

	31 December 2020			
	Hydroponics Equipment, Materials and Nutrients	Medicinal Cannabis	Unallocated	Total
	$	$	$	$
Revenue				
External sales	5,923,151	1,030,138	-	6,953,289
Other (R&D tax incentive and interest income)	-	831,034	24,532	855,566
Total segment revenue	**5,923,151**	**1,861,172**	**24,532**	**7,808,855**
EBIDTA	**(181,812)**	**(3,901,850)**	**(4,287,708)**	**(8,371,370)**
Depreciation and amortisation	(113,026)	(1,230,174)	(222,735)	(1,565,935)
Finance costs	(48,651)	(513,693)	(35,401)	(597,745)
Profit before income tax expense	**(343,489)**	**(5,645,717)**	**(4,545,844)**	**(10,535,050)**
Income tax expense	-	-	-	-
Profit after income tax expense	**(343,489)**	**(5,645,717)**	**(4,545,844)**	**(10,535,050)**
Assets				
Current assets	1,947,327	4,025,223	5,032,635	11,005,185
Non-current assets	1,250,595	18,607,420	955,188	20,813,203
Goodwill	971,496	4,472,985	-	5,444,481
Total assets	**4,169,418**	**27,105,628**	**5,987,823**	**37,262,869**
Liabilities				
Current liabilities	1,362,137	4,609,419	1,112,650	7,084,206
Non-current liabilities	346,771	484,686	141,566	973,023
Deferred tax liabilities	-	3,886,575	-	3,886,575
Total liabilities	**1,708,908**	**8,980,680**	**1,254,216**	**11,943,804**

25. Segment information (continued)

The Group's segment operating profit reconciles to the Group's profit before tax as presented in its financial statements as follows:

	For the Year Ending 31 December 2021	For the Year Ending 31 December 2020
	$	$
Total reporting segment operating loss	(2,592,993)	(5,989,206)
Share-based payment expenses	(1,094,122)	(7,311)
Employee benefit expenses	(1,727,005)	(1,024,529)
Other income not allocated	90,257	23,020
Other expenses not allocated	(3,919,315)	(3,537,024)
Group operating loss	**(9,243,178)**	**(10,535,050)**

26. Share based payments

The Group made the below share-based payments in the financial year:

Description	Shares $	Options $	Total $
Periodic vesting expense on current year issued securities	-	167,522	167,522
Shares issued to advisors and KMP during the year	926,600	-	926,600
	926,600	**167,522**	**1,094,122**

Employee options

The Company established an Employee Option Plan (EOP) plan that was approved by shareholders at the Extraordinary General Meeting held on 15 November 2018. The EOP is designed to provide long term incentives to senior executives to deliver long-term shareholder returns. Under the plan, employees are granted options which vest if certain criteria are met.

Set out below are summaries of options granted under the proposed plan thus far:

	31 December 2021		31 December 2020	
	Average exercise price per option	No. of Options	Average exercise price per option	No. of Options
At the beginning of the year	0.42	5,600,000	0.75	10,516,665
Granted during the year	0.32	7,800,000	0.40	5,000,000
Lapsed during the year	0.37	(2,700,000)	0.76	(9,916,665)
Balance at end of the year	**0.36**	**10,700,000**	**0.42**	**5,600,000**
Vested and exercisable	**0.36**	**10,700,000**	**0.42**	**5,600,000**

26. Share based payments (continued)

For options granted during the current financial period, the Hull-White ESO valuation model inputs used to determine the fair value at the grant date are as follows:

Grant Date	Expiry Date	Share Price at Grant Date*	Exercise Price	Performance Vesting Share Price/Target	Expected Volatility	Dividend Yield	Risk-free Interest Rate	Fair Value per Option
27/04/21	31/12/22	$0.1950	-	$0.30	63%	-	0.07%	$0.1441
27/04/21	31/12/22	$0.1950	-	$0.35	63%	-	0.07%	$0.1241
27/04/21	31/12/22	$0.1950	-	$0.40	63%	-	0.07%	$0.1069
27/04/21	31/12/22	$0.1950	-	$0.45	63%	-	0.07%	$0.0924
27/04/21	31/12/22	$0.1950	-	$0.50	63%	-	0.07%	$0.0800
27/04/21	31/12/22	$0.1950	-	Positive 6-month EBITDA	63%	-	0.07%	$0.1950

27. Reconciliation of loss after income tax to net cash outflow from operating activities

	For the Year Ending 31 December 2021	For the Year Ending 31 December 2020
	$	$
Loss for the year	(9,243,178)	(10,535,050)
Depreciation expense	1,142,797	1,565,935
Impairment expense	2,515,114	-
Share-based payments	1,094,122	7,311
Lease expenses allocated to financing activities	564,702	559,048
Effects of foreign exchange	31,215	(171,144)
Deferred tax unwind	(701,215)	-
Other non-cash transactions	86,904	-
Bad debts expense	68,503	-
Change in operating assets and liabilities		
Increase in trade and other receivables	(843,748)	(1,077,241)
Increase in trade and other payables	311,977	1,343,497
Increase in inventories	(456,609)	(386,138)
Net cash outflow from operating activities	**(5,429,416)**	**(8,693,782)**

28. Changes in liabilities arising from financing activities

	Loans	Lease liabilities	Total
	$	$	$
Balance at 1 January 2020	-	711,263	711,263
Net cash from/(used in) financing activities	3,760,000	(559,048)	3,200,952
Acquisition of leases	-	986,134	986,134
Interest accrued	34,639	179,088	213,727
Balance at 31 December 2020	3,794,639	1,317,437	5,112,076
Net cash used in financing activities	(254,970)	(564,702)	(819,672)
Termination of leases	-	(105,859)	(105,859)
Interest accrued	123,592	128,278	251,870
Balance at 31 December 2021	**3,663,261**	**775,154**	**4,438,415**

29. Financial risk management

a. Financial risk management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and inter-entity loans. The directors' overall risk management strategy seeks to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The receivable balances are monitored on an ongoing basis. The group's exposure to bad debts is not significant.

There is considerable concentration of credit risk within the Group as it only has a limited number of customers at this stage of its development.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises form default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised third parties, there is no requirement for collateral security.

The maximum exposure to credit risk at balance date is as follows:

	As at 31 December 2021	As at 31 December 2020
	$	$
Cash and cash equivalents	2,335,569	6,967,941
Trade and other receivables	2,349,865	1,419,381

Liquidity risk

The Group's policy is to maintain a comfortable level of liquidity through the continual monitoring of cash reserves and the raising of additional capital as required.

29. Financial risk management (continued)

Market risk

Foreign exchange risk

Most of the Group's transactions that occur in Canada are predominantly denominated in CAD and USD. Cash and cash equivalents used to fund working capital are mainly held in Canadian and US bank accounts.

The Group is exposed to foreign exchange risk when capital is raised in AUD and then transferred to the Canadian subsidiary. The Group closely monitors foreign currency movements at such times but does not use hedging instruments to manage such risk.

Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those reported to key management translated into $AUD at the closing rate:

	Short Term Exposure	Long Term Exposure
	$	$
31 December 2021		
Financial assets	230,883	18,866
Financial liabilities	1,121,534	-
31 December 2020		
Financial assets	666,481	17,765
Financial liabilities	1,500,916	-

The following table illustrates the sensitivity of profit or loss and equity in regards to the Group's financial assets and financial liabilities and the CAD/AUD and NZD/AUD exchange rate 'all other things being equal'. It assumes a +/- 10% change of the CAD/AUD and NZD/AUD exchange rate for the year. This percentage has been determined based on the average market volatility in exchange rate in the previous twelve (12) months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date and also takes into account forward exchange contracts that offset effects from changes in currency exchange rates.

If the AUD had strengthened/weakened against the CAD and NZD by 10% then this would have had the following impact:

	Loss for the Year		Equity	
	+ 10%	-10%	+ 10%	-10%
31 December 2021	192,784	(235,626)	43,140	-52,727
31 December 2020	247,954	(77,264)	(168,103)	205,459

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

epsilon HEALTHCARE

29. Financial risk management (continued)

b. Financial instrument composition and maturity analysis

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity as well as management's expectations of the settlement period of all other financial instruments. As such, the amounts may not reconcile to the Statement of Financial Position.

	Weighted average interest rate	Non-interest bearing	Floating interest rate	Fixed interest rate maturing within 1 year	Total
2021	**%**	**$**	**$**	**$**	**$**
Financial Assets					
Cash and cash equivalents	0.02	-	2,335,569	-	2,335,569
Trade and other receivables	-	2,349,865	-	-	2,349,865
Total financial assets		**2,349,865**	**2,335,569**	**-**	**4,685,434**
Financial Liabilities					
Trade and other payables	-	2,655,429	-	-	2,655,429
Loans	15%	-	-	3,551,139	3,551,139
Total financial liabilities		**2,655,429**	**-**	**3,551,139**	**6,206,568**
2020	**%**	**$**	**$**	**$**	**$**
Financial Assets					
Cash and cash equivalents	0.03	-	6,967,941	-	6,967,941
Trade and other receivables	-	1,419,381	-	-	1,419,381
Total financial assets		**1,419,381**	**6,967,941**	**-**	**8,387,322**
Financial Liabilities					
Trade and other payables	-	2,429,186	-	-	2,429,186
Loans	15%	-	-	3,794,639	3,794,639
Total financial liabilities		**2,429,186**	**-**	**3,794,639**	**6,223,825**

29. Financial risk management (continued)

	Carrying amount	Contractual cash flow due 1 to 3 months	Contractual cash flow due 3 months to 1 year	Contractual cash flow due 1 to 5 years
2021	**$**	**$**	**$**	**$**
Financial Assets				
Trade and other receivables	2,349,865	728,208	-	-
Total financial assets	**2,349,865**	**728,208**	**-**	**-**
Financial Liabilities				
Trade and other payables	3,069,871	3,069,871	-	-
Loans	3,663,261	-	3,663,261	-
Total financial liabilities	**6,733,132**	**3,069,871**	**3,663,261**	**-**
2020				
Financial Assets				
Trade and other receivables	1,419,381	1,419,381	-	-
Total financial assets	**1,419,381**	**1,419,381**	**-**	**-**
Financial Liabilities				
Trade and other payables	2,429,186	2,429,186	-	-
Loans	3,794,639	-	3,794,639	-
Total financial liabilities	**6,223,825**	**2,521,536**	**3,794,639**	**-**

c. Net fair values

The net fair value of assets and liabilities approximates their carrying value. No financial assets and liabilities are readily traded on organised markets in standardised form.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the Statement of Financial Position and notes to the financial statements.

d. Sensitivity Analysis

The Company has performed a sensitivity analysis relating to its exposure to foreign currency risk at balance date. The effect on profit or loss and equity as a result of changes in the value of the Australian Dollar to the US Dollar and Canadian Dollar with all other variables remaining constant, is not expected to be significant.

30. Auditor's remuneration

	For the Year Ending 31 December 2021	For the Year Ending 31 December 2020
	$	$
RSM Australia Partners		
- Audit and review of the financial statements	94,500	65,000
- Other services	-	-
KS Black & Co		
- Audit of the financial statement	-	89,745
- Other services	-	-

31. Earnings per share

	For the Year Ending 31 December 2021	For the Year Ending 31 December 2020
	Cents	Cents
Basic earnings per share	(4.79)	(6.63)
Diluted earnings per share	(4.79)	(6.63)
Weighted average number of shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:		
- Basic earnings per share	193,043,250	158,915,935
- Diluted earnings per share	193,043,250	158,915,935

The loss used to calculate earnings per share was $9,243,178 (2020: loss $10,535,050).

32. Fair Value Measurement

The Group measures and recognises specialised plant and equipment assets at fair value on a recurring basis after initial recognition.

The Group does not subsequently measure any liabilities at fair value on a non-recurring basis.

a. Fair value hierarchy

AASB 13: Fair Value Measurement requires the disclosure of fair value information by level of fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorized into as follows:

Level 1	Level 2	Level 3
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.

32. Fair Value Measurement (continued)

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation Techniques

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- Market approach: valuation techniques that use prices and other relevant information generated by market transaction for identical or similar assets or liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risk. When selecting a valuation technique, the Group gives priority to those techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data are not available and therefore are developed using the best information available about such assumptions are considered unobservable.

The following tables provide the fair values of the Group's assets and liabilities measured and recognized on a recurring basis after initial recognition and their categorization within the fair value hierarchy.

Recurring fair value measurements

	31 December 2021			
	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total** **$**
Total non-financial assets recognized at fair value on a recurring basis	-	-	14,190,353	14,190,353
Total non-financial assets recognised at fair value	**-**	**-**	**14,190,353**	**14,190,353**

a. Valuation techniques and inputs used to measure Level 3 fair values

Description Non-financial assets	**Fair value ($) at 31 Dec 2021**	**Valuation technique**	**Inputs used**
Manufacturing facility	14,190,353	Combination of market approach and depreciated replacement cost approach	Gross replacement cost, depreciation asset useful life, asset prices of identical or similar assets and various other inputs and factors.
	14,190,353		

32. Fair Value Measurement (continued)

The manufacturing facility was last revalued on 23 February 2021 based on independent assessments by a member of the Australian Property Institute having recent experience in the location and category of manufacturing facility being valued. The directors do not believe that there has been a material movement in fair value since the revaluation date.

The fair value of the facility was determined used a combination of the market approach and the Depreciated Replacement Cost (DRC) method, The DRC method is most commonly used for the valuation of specialised assets. This is because transactions involving the sale of specialised assets are relatively infrequent and when they do occur, the assets are often sold as part of a going concern business. In such situations, the values attributable to each individual asset may not be agreed by a buyer or seller as part of the transaction and in any event are typically not disclosed.

This method calculates the current market value of an asset based on the gross replacement cost of a modern equivalent replacement asset which has been optimised for the particular purpose, which is then adjusted for depreciation to reflect the reduced lifespan of the original asset.

33. Related party transactions

a. Key management personnel

Disclosures relating to key management personnel are set out in the Remuneration Report.

b. Transactions with other related parties

There were no related party transactions aside from those listed in the Remuneration Report.

34. Contingent assets and liabilities

The Group did not have any contingent assets or liabilities at 31 December 2021 (31 December 2020: Nil).

35. Events occurring after the balance sheet date

Since the end of the reporting period;

Exclusive Partnership with The Valens Company

In March 2022, the Company commenced its exclusive partnership with The Valens Company (TSX:VLNS) (NASDAQ: VLNS)(Valens), a Canadian-based, leading manufacturer of cannabis products, through the execution of an Interim Implementation Deed (the Implementation Deed).

Under the terms of the Implementation Deed, Valens and Epsilon will operate on the basis that the material terms of the agreement announced on 9 September 2021 are in effect, save for a trial period of three months, which commenced 1 March 2022, and a number of minor clauses of the agreements which are being formalised. The agreed terms include Valens accessing Epsilon's GMP manufacturing capability at the Southport Facility – the largest cannabis extraction facility in the Southern Hemisphere with TGA and EU GMP capability – in return for Valens funding all mutually budgeted operational and capital expenditures of the Southport Facility for the duration of the partnership on a reimbursement basis.

Restructuring of Canadian Business Units

In March 2022, the Company appointed 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).

Other Matters

- Epsilon received $1.05 million in R&D Tax Incentives for FY 2021 from the ATO;
- Funds applied towards the repayment of debt with Mitchell Asset Management – reducing outstanding facilities to ~$2.5 million;
- 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.

35. Events occurring after the balance sheet date

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect:

a. The Group's operations in future financial years; or

b. The results of those operations in future financial years; or

c. The Group's state of affairs in future financial years.

36. Annual report differences from lodged Appendix 4E

Adjustments have been made to the 2021 financial statements subsequent to the lodgement of the Appendix 4E on 1 March 2022. The below is a summary of the differences between the financial statements contained in the Annual Report and the lodged Appendix 4E.

	Annual Report	Appendix 4E	Variance
	$	$	$
Loss after income tax	(9,243,178)	(8,908,397)	(334,781)
Net assets	19,571,142	20,495,094	(923,952)
Total equity	**19,571,142**	**20,495,094**	**(923,952)**
Operating cash flows	(5,429,416)	(5,385,867)	(43,549)

A number of adjustments were made in the course of the audit of the FY2021 financial statements for changes in accounting estimates for expected credit losses and deferred tax liability exposure.

37. Parent entity disclosures

	For the Year Ending 31 December 2021	For the Year Ending 31 December 2020
	$	$
Epsilon Healthcare Limited		
Financial position		
Assets		
Total current assets	2,589,821	5,056,246
Total non-current assets	24,697,638	23,860,541
Total assets	**27,287,459**	**28,916,787**
Liabilities		
Total current liabilities	1,378,150	767,691
Total non-current liabilities	-	141,566
Total liabilities	**1,378,150**	**909,257**
Equity		
Contributed equity	44,817,618	41,801,459
Other contributed equity	-	-
Reserves	689,842	514,796
Accumulated losses	(19,598,151)	(14,308,725)
Total equity	**25,909,309**	**28,007,530**
Financial performance		
Loss for the year	(5,451,444)	(4,545,164)
Other comprehensive income	-	-
Total comprehensive loss	**(5,451,444)**	**(4,545,164)**

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

The parent entity and some of its subsidiaries are party to a deed of cross guarantee under which each company guarantees the debts of the others. No deficiencies of assets exist in any of these subsidiaries.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2021 and 31 December 2020.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2021 and 31 December 2020.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

● Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

● Investments in associates 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.

DECLARATION BY DIRECTORS

The directors of the Company declare that, in the opinion of the directors:

a. the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including

   i. giving a true and fair view of the financial position and performance of the Company and the Group; and

   ii. complying with Australian Accounting Standards, including the Interpretations, and the Corporations Regulations 2001;

b. the financial statements and notes thereto also comply with International Financial Reporting Standards, as disclosed in Note 1; and

c. there are reasonable grounds to believe that the Company and the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors:

Steven Xu

Chairman

31 March 2022

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INDEPENDENT AUDITOR'S REPORT

To the Members of Epsilon Healthcare Limited

Opinion

We have audited the financial report of Epsilon Healthcare Limited ('Epsilon', 'the Company') and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, 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 year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 2021 and of its financial performance for the year 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a loss for the year $9,243,178 and had net cash outflows from operating activities of $5,429,416 for the year ended 31 December 2021. The ability of the consolidated entity to continue as a going concern and realise its' assets is dependent on a number of factors. These events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as going concern. Our opinion is not modified in respect of this matter.

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 of 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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed this matter</th></tr>
<tr><td colspan="2">Asset Valuations (PPE)
Refer to Note 15, Note 2, and Note 32 in the financial statements</td></tr>
<tr><td>Included within property, plant and equipment is a manufacturing facility carried at $14,190,353 which was revalued in the 2021 financial year. This represents a substantial portion of the Group’s total assets.

There is significant judgement and estimation uncertainty with regards to the methodology used to revalue assets and determine the estimated revalued amounts.

Management engaged an independent expert to revalue the manufacturing facility in the 2021 financial year. The revaluation was done using a combination of the market approach and the depreciated replacement cost approach. The depreciated replacement cost method was used because of the specialised nature of the assets and how infrequent transactions are of a similar nature.

Because of the subjectivity and complexity involved in such valuations, we have considered the valuation of PPE held under the revaluation model to be a Key Audit Matter.</td><td>Our audit procedures included the following:
Attended a site visit to physically verify the existence and condition of the manufacturing facility having consideration of the independent valuation report. Obtained an understanding on the specialised nature of the facility and the history in relation to its construction and previous use.
Obtained the 2021 asset valuation reports and inspected the following:
Obtained an understanding of the work conducted by the valuer including the purpose of the valuation to determine whether the work performed was considered to be appropriate audit evidence relevant to supporting the carrying value of the manufacturing facility.
The revalued amounts in the financial statements in 2021 agreed materially to the valuation report.
Inspected that the valuation was conducted in accordance with the International Valuation Standards 2013.
Inspected that the valuation techniques applied were one of the three acceptable techniques allowed in terms of AASB 13, Fair Value Measurement.
Reviewed the valuation report more generally including the assumptions for compliance with the requirements of AASB 13, Fair Value Measurement.</td></tr>
</table>

Key Audit Matter	How our audit addressed this matter
	○ Evaluated the experience and expertise of the company performing the valuation. ○ Evaluated the professional qualifications of the individual performing the valuation. ○ Considered the independence and objectivity of the company and the individual performing the valuation. • Considered the market capitalisation of the company relative to the total assets of the company. Considered the Director's estimation of the fair value less costs to sell of the business relative to the carrying value of all assets. • Considered the going concern assumptions and related supporting evidence relative to the valuation of the assets. • Inspected the disclosures in the financial statements were consistent with the requirement of the Australian Accounting Standards. • Reviewed other documentation that supported the carrying value of the facility.
Goodwill Assets and Potential Impairment Refer to Note 8 and Note 2 in the financial statements	
At 31 December 2021, the Statement of Financial Position reflected goodwill with a carrying amount of \$4.5m, which represents approximately 15% of the Group's total assets. As required under AASB 136, management has tested goodwill for impairment. As goodwill does not generate cashflows that are largely independent from other assets, its recoverable amount was determined by calculating the recoverable amount of the cash generating unit ('CGU') to which is belongs. This recoverable amount was then compared to the CGU's carrying amount. In this instance, the recoverable amount was determined using the fair value less costs of disposal. We determined the impairment review of goodwill to be a Key Audit Matter because of the materiality of the Goodwill balance, and because of the significant	Our audit procedures included, among others: • Updating our understanding of management's annual impairment testing process. • Holding discussions with senior management, reviewing the Group's ASX announcement and reading minutes of the directors' meetings to gather sufficient information regarding the operations of the current reporting period, as well as the expectations going forward. • Assessing the reasonableness of management's determination that the goodwill should be allocated to a single CGU in accordance with AASB 136 Impairment of Assets, based on the nature of the Group's business.

Key Audit Matter	How our audit addressed this matter
management judgements and assumptions used to determine the fair value less costs of disposal.	• Assessing the valuation methodology used to determine the recoverable amount of the Goodwill. • Evaluating the documentation and related information used to estimate the fair value less costs of disposal. • Obtaining written representations from management in respect of the assertions made in relation to their determination of the fair value less costs of disposal. • Reviewing the completeness and accuracy of the disclosures included in the financial report to ensure compliance with Australian Accounting Standards.

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 year ended 31 December 2021, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly 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 are 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 ability of the Group 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 17 of the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of Epsilon Healthcare Limited for the year ended 31 December 2021, 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.

RSM

RSM Australia Partners

GNS

Gary N Sherwood

Partner

Sydney, NSW dated 31 March 2022

SHAREHOLDER INFORMATION

ASX additional information

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 25 March 2022.

a. Spread of Shareholders

At 25 March 2022, there were 8,326 holders of Shares. The shareholders were entitled to one vote for each Share held.

Spread of Holdings	No. of Holders	No. of Units	% Issued Capital
1 – 1000	1,113	753,076	0.34
1,001 – 5,000	3,698	9,609,456	4.31
5,001 - 10,000	1,193	9,414,809	4.23
10,001 - 100,000	1,957	60,311,801	27.08
100,001 and over	365	142,617,807	64.04
Total	**8,326**	**222,706,949**	**100.00**

There were 6,063 shareholders holding less than a marketable parcel of 10,417 shares as at 25 March 2022 ($0.0480). Under the ASX Listing Rules, any shareholding values at less than $500 is considered to be an unmarketable parcel.

b. Top 20 Shareholders

	Holder Name	Share Holding	% Issued Capital
1	JVT HOLDING BV	5,555,556	2.49
2	SUPERHERO NOMINEES PTY LTD <CLIENT A/C>	4,158,522	1.87
3	BARCOO HOLDINGS PTY LTD <WYAN FAMILY INVESTMENTS>	3,795,824	1.70
4	META GROWTH CORP	2,942,489	1.32
5	SUNSET CAPITAL MANAGEMENT PTY LTD <SUNSET SUPERFUND A/C>	2,888,872	1.30
6	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	2,765,654	1.24
7	HEALTH360 INVESTMENT MANAGEMENT INC	2,698,334	1.21
8	BARCOO HOLDINGS PTY LTD <MAPLE VNTURES>	2,438,341	1.09
9	MR GEORGE DAABOUL	2,000,000	0.90
9	DYAMOND TRADING AND CONSULTING PTY LTD <DYAMOND FAMILY A/C>	2,000,000	0.90
9	MCANN INVESTMENTS PTY LTD	2,000,000	0.90
12	CITICORP NOMINEES PTY LIMITED	1,734,463	0.78
13	UNE-INNOVATION CONSULTING AUSTRALIA PTY LTD	1,587,302	0.71
14	PEARS DAISLEY PTY LTD <DAISLEY PEARS A/C>	1,500,000	0.67
15	MR NICHOLAS CHARLES DEVERELL POWNALL	1,450,000	0.65
16	SAWFAM PTY LTD <SAWYER SUPER FUND A/C>	1,409,751	0.63
17	MS MEILI YANG	1,300,000	0.58
18	TIGER PTY LTD	1,250,000	0.56

	Holder Name	Share Holding	% Issued Capital
19	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,193,709	0.54
20	AGRI FIBRE INDUSTRIES PTY LTD	1,158,417	0.52
	Total	45,827,234	20.58

c. Substantial Shareholders

The Company's register of shareholders had no substantial shareholders as at 25 March 2022. Substantial holders are shareholders who hold 5% or more of the Company's Shares.

d. Voting Rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

e. Statement of Restricted Securities

The Company has no securities which are Restricted Securities as at 25 March 2022.

f. Utilisation of Cash for Business Objectives

The Company confirms that it has used cash and cash equivalents held at the time of listing in a way consistent with stated business objectives.