



ASX RELEASE (28 JULY 2022)

## Q2 2022 Quarterly Update & Appendix 4C

### Key Points:

- Production at the Southport Facility continues to ramp up with demand being sourced from both Valens and Epsilon sourced revenue streams;
- Definitive terms of partnership with The Valens Company (NASDAQ:VLNS) remain under review;
- \$1.17 million cash receipts from customers during Q2 2022;
- Canadian operations restructuring and exit nearing completion with no further anticipated cash outflow or financial impact from those operations expected in future financial reporting periods.

Epsilon Healthcare Limited (ASX:EPN) (Epsilon or the Company) is pleased to provide an update on its activities and provides its Appendix 4C for the quarter ended 30 June 2022 (Q2 2022).

### Southport Facility Operations

Epsilon is pleased to report that activities at the Southport Facility continue to scale up, with THC Pharma reaching record revenue milestones from medicinal cannabis product sales. Demand is being sourced from both Valens and non-Valens business development streams with production spanning extraction, fill and finish, and dried flower bottling activities.

Unaudited consolidated half year revenue for Epsilon from manufacture of medicinal cannabis goods was strong, at \$2.6 million, validating the commercial operation and growth of the Southport facility scale up through the initiation of Epsilon's partnership with The Valens Company. Total revenue was further buoyed by the Company's Tetra Health clinic operation, and the Company looks forward to reporting its total financial performance and results for its first financial period wholly focused on Australian Medicinal Cannabis operations.

The Company remains in discussion with The Valens Company (NASDAQ:VLNS) (Valens) towards the progression into execution of definitive agreements.. Until such time that definitive agreements are reached, the Company continues to operate in commercial partnership with Valens, largely consistent with the terms of the existing agreements between the parties (see ASX Announcement: 4 July 2022, 3 March 2022).

Notwithstanding the significant milestones being achieved at the Southport Facility on revenue run rates and production volumes, the Company's working capital position has been strained as a result of accommodating the build-up of both sales and receipt of purchase orders for manufacture that have led to an increase in both debtors and the requisite materials and raw materials inventory required to produce Medicinal Cannabis products at Southport.

This has impacted EPN's closing cash and net working capital position as Southport scales into business and is impacted by timing differences in incurring both revenue and expense obligations and the timing of collections from customers. As at 30 June 2022 THC Pharma had (unaudited) total revenue of \$2.6 million, current trade receivables in excess of \$1.9 million, and current trade payables of \$1.8 million.

The amounts include balances attributable to the Company's partnership under the terms of its existing agreements with The Valens Company, which are currently being reviewed and reconciled for the period to 30 June 2022, with a view to finalising a definitive corporate partnership that is subject of discussions with Valens.

#### Canadian Operations Restructure

Further to the Company's earlier disclosures on the status of the Company's restructure and exit of its Canadian operations (see ASX Announcement: 2 May 2022, 11 March 2022) the Company confirms that its former hydroponic equipment operating entity in Canada, Crystal Mountain Manufacturing is now in a formal process of a bankruptcy towards eventual liquidation. Two other holding entities for minor assets in Canada which were indirect subsidiaries of Epsilon have also been liquidated during Q2 2022 as foreshadowed in prior disclosures.

The Company reaffirms earlier disclosures advising that the Company does not expect the completion of these activities to have any effect on Epsilon's activities outside Canada, and does not expect there to be any further negative financial impact or cash outflow to the consolidated group in future financial reporting periods as these matters move towards finality.

#### R&D Tax Incentive Receipts & Debt Repayment

The Company notes that it has a secured debt facility with Mitchell Asset Management (MAM) under which ~\$2.5 million remains due to be paid on or before 31 October 2022. Before that due date a material principle repayment will be made, which will be funded through R&D Tax Incentive receipts largely stemming from R&D activities being undertaken at the Southport Facility.

The Company will at that time discuss with MAM the prospect of seeking a further extension of the balance of the facility, and continues to explore potential avenues for either a rolling or refinancing of the facility for another 12 months or longer, on superior terms to the current facility. This may include looking at secured and unsecured debt financing opportunities, noting the significant land,

buildings and fixed plant and equipment portfolio that underpins the Company's now commercial operations.

Additional Disclosure

Increases in the run rate of product manufacturing and operating costs, as well as research and development during the quarter are reflective of the increased production throughput and activity at the Southport Facility which the Company expects to continue. The marked reduction in net cash used in operating activities over Q1 2022 (excluding government grants receipts) was achieved through both a significant increase in cash receipts and a material reduction in other costs including administration and corporate costs in Q2 2022.

There was no capital expenditure in Q2 2022 with the Company having prepared for commencement of operations in prior financial periods, meaning that the Company was focussed on increasing production output of the existing capital assets to a commercial scale.

Payments to related parties and their associates in Q2 2022 were all remuneration for services as directors in the ordinary course of business.

ENDS

ASX release authorised by the EPN Executive Management Committee.

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**Epsilon Healthcare Limited (ASX: EPN) – [epsilonhealthcare.com.au](http://epsilonhealthcare.com.au)**

Epsilon Healthcare (ASX:EPN) is a diversified global healthcare and pharmaceuticals company. EPN owns a number of medicinal cannabis assets including the largest GMP cannabis manufacturing facility in the Southern Hemisphere (the Southport Facility) and the Tetra Health clinic group. EPN has a strategic partnership with The Valens Company (NASDAQ: VLNS), a leading cannabis consumer products company with significant expertise in manufacturing cannabinoid based products, for operation and management of its Southport Facility.

## Appendix 4C

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

**Name of entity**

Epsilon Healthcare Limited

**ABN**

33 614 508 039

**Quarter ended ("current quarter")**

June 2022

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	1,172	1,727
1.2 Payments for		
(a) research and development	(87)	(122)
(b) product manufacturing and operating costs	(539)	(883)
(c) advertising and marketing	(7)	(29)
(d) leased assets	(45)	(91)
(e) staff costs	(384)	(1,112)
(f) administration and corporate costs	(463)	(1,179)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(76)	(222)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	1,069
1.8 Deposits refunded	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(429)</b>	<b>(842)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	(55)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	-	<b>(55)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	600	600
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	(1,069)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>600</b>	<b>(469)</b>

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

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	797	2,335
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(429)	(842)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(55)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	600	(469)
4.5	Effect of movement in exchange rates on cash held	(3)	(4)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>965</b>	<b>965</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	965	797
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>965</b>	<b>797</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to related parties and their associates included in item 1	94
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

*Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.*

<b>7.</b>	<b>Financing facilities</b> <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1	Loan facilities	2,610	2,610
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	<b>Total financing facilities</b>	2,610	2,610
7.5	<b>Unused financing facilities available at quarter end</b>		-
7.6	<p>Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.</p> <p>On 30 April 2020, the Company entered into a \$4,000,000 secured debt facility. Following an extension agreed and announced on 27 October 2021, the facility is repayable at any time on or before 31 October 2022. The facility attracts interest at 1.25% per calendar month. Please refer to ASX Announcements dated 30 April 2020 and 27 October 2021 for further details including further facility terms.</p> <p>The Company has made repayments against principal totalling \$477,159 in June 2021 and \$1,068,927 in February 2022.</p>		

<b>8.</b>	<b>Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1	Net cash from / (used in) operating activities (item 1.9)	(429)
8.2	Cash and cash equivalents at quarter end (item 4.6)	965
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	965
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	2.25
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	N/A	
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	N/A	

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

N/A

*Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.*

### Compliance statement

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

Date: 28 July 2022

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

### Notes

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