



ASX RELEASE (1 NOVEMBER 2021)

Q3 2021 Quarterly Update & Appendix 4C

Key Points:

- Epsilon entered into Binding Heads Agreement for a long term exclusive partnership with The Valens Company (TSX:VLNS)(Valens), a leading Canadian manufacturer of cannabis products, for access to Epsilon's GMP Manufacturing Facility in Southport, Queensland.
- First order of \$540,000 received from The Valens Company for GMP manufacturing at Southport Facility with initial delivery and receipt of payment in September 2021, with further orders expected to be received on an ongoing basis.
- Epsilon entered a Share Sale Agreement with Cannvalate Pty Ltd (Cannvalate) for the acquisition of AlternaMed Pty Ltd (AlternaMed), including its portfolio of intellectual property relating to three novel cannabinoid therapeutic agents.
- Tetra Health launched a new face to face clinic in Melbourne to service Victorian patient demand with Terrywhite Chemmart Hawthorn (TWCH), one of the largest medicinal cannabis dispensing pharmacies in Australia.
- Epsilon signed a long term manufacturing agreement for Cannim Australia Pty Ltd's (Cannim) Jamaican cannabis products and packaged and released for supply the first batch of Cannim's 'HummingBud' dried flower products.
- Two new directors appointed – Dr Rob Jenny as Executive Director and Mr Simon Rowe as Non Executive Director – both with significant relevant experience
- Epsilon secured an extension of its existing debt facility with Mitchell Asset Management for a further 12 months – facility terms remain the same with \$3.6 million now repayable on 31 October 2022

Epsilon Healthcare Limited (ASX:EPN) (Epsilon or the Company) is pleased to announce its activities and provides its Appendix 4C for the quarter ended 30 September 2021.

Partnership with the Valens Company

On 9 September 2021, Epsilon announced that it had entered into a long term exclusive partnership with The Valens Company (TSX:VLNS)(Valens) for access to Epsilon's Southport Manufacturing Facility to further Valens' international expansion to GMP markets in Latin America, Europe, UK, and the Asia-Pacific Regions.

Based in Canada, Valens is a leading manufacturer of cannabis products and is currently listed on the Toronto Stock Exchange and has applied to list its common shares on Nasdaq.

Under the partnership with Epsilon, Valens will access Epsilon's GMP manufacturing capability at the Southport Facility – the largest cannabis extraction facility in the Southern Hemisphere with TGA and EU GMP capability – and will offer Valens the capability to deliver GMP grade products to new markets.

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

A Binding Heads of Agreement provides the framework for the exclusive partnership between the two companies and includes an operational consultancy agreement whereby Valens grants Epsilon a license to use Valens' intellectual property and know-how in operating the Southport Facility and will provide personnel and support to the Southport Facility.

The agreement includes an exclusivity arrangement whereby Valens will not sell or supply any medicinal cannabis products in Australia or New Zealand other than through the Southport Facility where the Southport Facility has the capability to manufacture and supply that product

First Order Under Strategic Partnership with The Valens Company

As announced on 20 September 2021, Epsilon received its first order under the Valens Partnership totalling A\$540,000.

The orders are for white-labelled cannabis products in various formulations, produced at Epsilon's Southport Facility, to be sold in Australia and New Zealand. Epsilon completed delivery of the first two pallets of these products in late September, with further deliveries to be completed early calendar 2022, primarily for the New Zealand market.

Epsilon and Valens expect to see further orders of a similar or greater value to continue to be received on an ongoing basis pursuant to this partnership, particularly for export market supply, noting the global shift towards GMP and EU GMP production standards that Epsilon's Southport Facility is capable of meeting.

Share Sale Agreement with Cannvalate Pty Ltd

In conjunction with the Valens partnership, the Company has also entered into a Share Sale Agreement with Cannvalate Pty Ltd (Cannvalate) for the acquisition of AlternaMed Pty Ltd (AlternaMed) by the Company, including its portfolio of intellectual property relating to three novel cannabinoid therapeutic agents with a view to Schedule 3 medicines production.

Cannvalate is a leader in the science, development and commercialisation of cannabinoid-based prescription medicines with a large patent portfolio of novel cannabinoid and psychedelic drugs.

AlternaMed has a portfolio of three Australian provisional patent applications for novel cannabinoid therapeutic clinical assets, targeting irritable bowel syndrome, menstrual pain, and smoking cessation. These clinical assets are highly prospective in terms of their potential as Schedule 3 medicines. Pursuant to service agreements noted below, Cannvalate will support the Company in the development and commercialisation of this intellectual property post acquisition. AlternaMed additionally has a back-to-back access agreement with Cannvalate for access to a Sigma Pharmaceuticals operated Schedule 8 medicines warehouses, which may be used by Epsilon for the distribution of its pharmaceutical products.

Completion of the Share Sale Agreement with Cannvalate is subject to shareholder and regulatory approval, and the satisfaction of various conditions precedent including the execution of the definitive agreements under the Binding Heads of Agreement with Valens.

Tetra Health Launches New Face to Face Clinic in Melbourne

On 19 August 2021, Epsilon announced that the Company's medicinal cannabis clinic group, Tetra Health, launched a new clinic for in-person consultations and begun first patient consults in September 2021.

Tetra Health is partnering with TerryWhite Chemmart Hawthorn (**TWCH**), one of the largest medicinal cannabis dispensing pharmacies in Australia by dispensed products, and a preferred dispensing pharmacy for Tetra Health in Victoria. Patients can visit TWCH to see a Tetra doctor, receive their scripts, and be dispensed their medication at the one physical location. .

The Company expects to see significant growth from the Tetra Health business, particularly as it expands its physical presence with the new clinic in Victoria and across additional sites planned to be launched in Australia.

Long Term Manufacturing Agreement for Cannim's Jamaican Cannabis Products

Subsequent to quarter end, Epsilon executed a binding term sheet and manufacturing agreement with privately owned Cannim Australia Pty Ltd (Cannim)(refer ASX: 21 October 2021). Additionally, the Company has packaged and released for supply the first batch of Cannim's 'HummingBud' dried flower products.

Cannim is a global cannabis company primarily cultivating in Jamaica on a 500-acre farm under Good Agricultural and Collection Practice (GACP), Cannim have significant supply agreements for flower and oils into Germany, the United Kingdom and Australia.

Under the two-year manufacturing agreement, Epsilon's world class EU GMP compliant Southport Facility will produce medicinal cannabis products from Cannim raw material at scale for supply

into the Australian market as well as global export. Cannim will pay Epsilon for these manufacturing services on a per-order basis.

Over the next two years Epsilon's manufacturing arm, THC Pharma, will receive bulk imports of dried flower for the packaging and release of Australian GMP dried flower. The agreement is terminable at any time by either party.

Following receipt of Cannim's Jamaican grown cannabis material in September 2021, Epsilon has now packaged, tested, and released for supply dried flower products under Cannim's HummingBud brand. These products are available for prescription now, and can be prescribed by Tetra Health – Epsilon's wholly owned clinic network. This production was completed following completion of supply chain audits, implementation of quality agreements and prior to the final formalisation of the Epsilon-Cannim commercial agreement.

Epsilon has received three imports of Cannim's cannabis starting material, with further imports on track for the balance of 2021 to be released as final product during the balance of calendar Q4 2021 and into 2022. Although there are no minimum order commitments, the Company expects to continue to see ongoing purchase orders from Cannim and its partners over the course of the collaboration with Cannim. Epsilon is currently not able to disclose the exact revenue to be earned under this collaboration, however Epsilon is of the view that such revenue will be material to the Company.

Appointment of New Directors

Epsilon announced the appointment of two new directors, effective 1 August 2021 (refer ASX 2 August 2021). The appointments bring significant experience to the Company across pharmaceuticals, research and development, operational optimisation, and supply chain logistics as Epsilon grows as a toll and contract pharmaceutical manufacturer for the medicinal cannabis industry.

Dr Rob Jenny, an experienced pharmaceutical executive, has been appointed as an Executive Director. Rob is currently an executive at Cannvalate, where he manages their business development activities in the Australian and New Zealand markets. Previously, Rod held management and research positions including at Ensign Laboratories, one of Australia's largest contract pharmaceutical manufacturers, and Immunoglobul Group, and Monash University.

Mr Simon Rowe has been appointed as a Non-Executive Director. Simon 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 with KPMG and EY advisory specialising in operational transformation and optimisation.

Additional Disclosure

The Company notes receipts from customers in Q3 2021 was \$1.41 million, a modest improvement over the previous quarter, with the majority of those receipts being derived from the Company's medicinal cannabis business units – Tetra Health and THC Pharma – representative of a continued shift in investment focus towards building those domestic business units. Similarly, expenses during Q3 2021 primarily related to the medicinal cannabis business units, with the Company continuing to advance production at the THC Pharma Southport Facility including through recently announced corporate partnerships. Property plant and equipment acquisitions related to further investment by the Company in expanding and improving the production capacity of the Southport Facility,

The Company also notes that payments to related parties and their associates in the quarter were all payments for fees in the ordinary course of business, however the total amount paid in this quarter has reduced over previous quarters noting the change in directors.

Confirmation of Debt Facility Extension

The Company notes that it has confirmed a 12 month debt extension of its secured debt facility with Mitchell Asset Management on the same terms as the existing facility. \$3.6 million facility now repayable on 31 October 2022.

The original facility amount was for \$4 million with the Company having made ~\$477,000 in principal repayments over the first year of the facility. The Company is now in a strong financial position to execute on our growth initiatives in 2022.

ENDS

ASX release authorised by the EPN Board of Directors.

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

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

Appendix 4C

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

Name of entity

Epsilon Healthcare Limited

ABN

33 614 508 039

Quarter ended ("current quarter")

30 September 2021

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (9 months) \$A'000 |
|---|------------------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 1,417 | 4,523 |
| 1.2 Payments for | | |
| (a) research and development | (47) | (321) |
| (b) product manufacturing and operating costs | (1,069) | (3,409) |
| (c) advertising and marketing | (17) | (78) |
| (d) leased assets | (141) | (455) |
| (e) staff costs | (1,037) | (3,541) |
| (f) administration and corporate costs | (486) | (1,638) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 2 | 4 |
| 1.5 Interest and other costs of finance paid | (134) | (440) |
| 1.6 Income taxes paid | - | - |
| 1.7 Government grants and tax incentives | 34 | 1,055 |
| 1.8 Deposits refunded | 148 | 148 |
| 1.9 Net cash from / (used in) operating activities | (1,330) | (4,152) |
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire or for: | | |
| (a) entities | - | - |
| (b) businesses | - | - |
| (c) property, plant and equipment | (139) | (735) |
| (d) investments | - | - |
| (e) intellectual property | - | (40) |
| (f) other non-current assets | - | - |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (9 months) \$A'000 |
|--------------------------------------|---|----------------------------|---------------------------------------|
| 2.2 | Proceeds from disposal of: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |
| | (c) property, plant and equipment | - | 50 |
| | (d) investments | - | - |
| | (e) intellectual property | - | - |
| | (f) other non-current assets | - | - |
| 2.3 | Cash flows from loans to other entities | - | - |
| 2.4 | Dividends received (see note 3) | - | - |
| 2.5 | Other (provide details if material) | - | - |
| 2.6 | Net cash from / (used in) investing activities | (139) | (725) |

| | | | |
|-------------|---|----------|--------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | - | - |
| 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 | - | (477) |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (provide details if material) | - | - |
| 3.10 | Net cash from / (used in) financing activities | - | (477) |

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

| | | | |
|------------|--|--------------|--------------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 3,102 | 6,968 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (1,330) | (4,152) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (139) | (725) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | - | (477) |
| 4.5 | Effect of movement in exchange rates on cash held | 2 | 21 |
| 4.6 | Cash and cash equivalents at end of period | 1,635 | 1,635 |

| | | | |
|------------|---|------------------------------------|-------------------------------------|
| 5. | Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$A'000 | Previous quarter \$A'000 |
| 5.1 | Bank balances | 1,635 | 3,102 |
| 5.2 | Call deposits | - | - |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (provide details) | - | - |
| 5.5 | Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 1,635 | 3,102 |

| | | |
|-----------|---|------------------------------------|
| 6. | Payments to related parties of the entity and their associates | Current quarter \$A'000 |
| 6.1 | Aggregate amount of payments to related parties and their associates included in item 1 | 57 |
| 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.

| 7. | Financing facilities | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|-----|--|---|--|
| | <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i> | | |
| 7.1 | Loan facilities | 3,523 | 3,523 |
| 7.2 | Credit standby arrangements | - | - |
| 7.3 | Other (please specify) | - | - |
| 7.4 | Total financing facilities | 3,523 | 3,523 |
| 7.5 | Unused financing facilities available at quarter end | | - |
| 7.6 | <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.</p> <p>The Company notes that it expects a further approximately \$1 million in R&D Tax Incentives to be receipted within the following quarter, which will be applied towards repayment of debt, and if applied would result in an ~\$2.5 million remaining debt outstanding. The Company is exploring the potential to redraw against this facility subject to consent from the Lender.</p> | | |

| 8. | Estimated cash available for future operating activities | \$A'000 |
|-----|--|----------------|
| 8.1 | Net cash from / (used in) operating activities (item 1.9) | (1,330) |
| 8.2 | Cash and cash equivalents at quarter end (item 4.6) | 1,635 |
| 8.3 | Unused finance facilities available at quarter end (item 7.5) | - |
| 8.4 | Total available funding (item 8.2 + item 8.3) | 1,635 |
| 8.5 | Estimated quarters of funding available (item 8.4 divided by item 8.1) | 1.2 |
| | <i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i> | |

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

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

The Company refers to its ASX Announcement dated 9 September 2021 disclosing that it has signed a Binding Heads of Agreement with The Valens Company (TSX:VLNS) (**Valens**) for an exclusive strategic partnership over its manufacturing facility (the **Southport Facility**). The definitive agreements pursuant to the Binding Heads of Agreement are expected to be executed on or before 30 November 2021.

Subject to the execution of the definitive agreements, Valens will cover all operating and capital expenditure at the Southport Facility from the date of those agreements. Accordingly, the Company expects that by around 1 December 2021, the Company's net operating cash flows should materially increase given the Company will continue to receive receipts from customers from sales from the Southport Facility as well as full reimbursement of the operating and capital expenses of the Southport Facility.

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

Given the Company's responses to Items 7.1 and 8.6.1 above, the Company is of the view that it does not need to raise further cash to fund its operations at this time. However, should the Company look to raise further cash in the near term, the Company would prefer to explore further debt or hybrid securities rather than equity capital raising given current market and economic conditions. The Company expects any such capital raising to be highly likely to be successful should it be commenced.

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

Answer:

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

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

Compliance statement

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

Date: 29 October 2021

Authorised by: Epsilon Board of Directors
(Name of body or officer authorising release – see note 4)

Notes

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