



ASX RELEASE (31 OCTOBER 2022)

## Q3 2022 Quarterly Update & Appendix 4C

### Key Points:

- Production at Southport Facility continues to increase, with nearly \$1 million of flower and oil manufacturing completed during Q3 2022 and over \$600k in production booked in October alone
- Southport performance is predominantly ex-Valens
- Tetra revenues exceeded \$350k in Q3 2022 representing continued increase in revenue and patient numbers
- Post-quarter capital raising secured \$1.55 million at 2.75c and further \$100k top-up placement being completed on same terms
- Debt facility extension secured to 31 December 2022 with further extension or refinancing likely to proceed

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 September 2022 (**Q3 2022**).

### Operations Update – Revenue Performance Strong

Epsilon is pleased to report that the Southport Facility has completed production in Q3 2022 totalling nearly \$1 million across both its flower packing and oil production lines – a nearly 70% increase over the production volume in Q2 2022. Promisingly, the majority of this production demand has been sourced directly by the Company rather than through the Valens relationship.

Production volumes continue to increase month on month, with October alone expected to exceed \$600k, and Q4 2022 on track to exceed \$1.6 million in product value.

This represents a significant ongoing ramp up in demand, with positive headwinds in the sector and impending regulatory changes pushing medicinal cannabis brands towards the Company's high volume TGA GMP manufacturing capability.

Tetra Health continues to perform well, with the business unit exceeding \$350k in revenue through Q3 2022, which represents both an improvement over Q2 2022 and Q3 2021.

### Financial Update

Notwithstanding the significant revenue performance milestones achieved again in Q3 2022, the Company's working capital position continues to be strained as a result of a build-up of sales and receipts of purchase orders for manufacturing which has led to an increase in both debtors and a build up of requisite raw materials inventory to complete production. Additionally, the Company continues to see delays in receipts from customers with a group receivables balance exceeding \$2 million.

Additionally, the Company notes that it has been unable to progress its relationship with The Valens Company, with the Company still awaiting a final review and reconciliation of the trial period results from 30 June 2022, and negotiations with Valens towards a definitive future corporate partnership. However, with the strong performance recorded in Q3 2022 without any significant input from Valens, the Company considers this to be a low risk item and will look towards bringing the relationship with Valens to an end in due course, as well as collecting on amounts outstanding from sales they have introduced, as well as operational expenditure reimbursements under the previous arrangements with Valens.

### Capital Raising & Debt Restructuring

The Company is pleased to have received strong support to complete a \$1.55 million placement in September 2022 at 2.75c per share. On 30 September 2022, the Company reported a delay in receipt of \$500k from a placement participant and indicated that it was working towards identifying a replacement investor or otherwise collecting from the defaulting party. This matter has been addressed, with a replacement investor identified and the full \$500,000 received on 28 October 2022.

Additionally, the Company proposes to conduct a \$100,000 top up placement on the same terms as the September 2022 placement using the remaining Listing Rule 7.1 capacity it has available. As per the September 2022 placement the issue price will be 2.75c per share, and the participant will be entitled to attaching Options on a 3 Options for 4 Shares basis. The Options are exercisable at 5c expiring three years from the date of issue, with the issue of Options subject to shareholder approval as per the September 2022 placement.

The Company will convene an Extraordinary General Meeting for December 2022 to, amongst other things, seek shareholder approval for the issue of those Options as well as ratify previous uses of the Listing Rule 7.1 and 7.1A capacities by the Company.

The Company notes it has secured an in principle extension to the loan facility with Mitchell Asset Management. The loan facility was to come due on 31 October 2022, however has been extended until at least 31 December 2022, with a further extension or refinancing likely to occur.

Additional Disclosure

As disclosed above, receipts from customers in Q3 2022 is not reflective of the sales revenue achieved from Southport due to delays in receipts. Payments for product manufacturing and operating costs remain on trend with Q2 2022, with further payments to be made once sales revenue is receipted. The Company continues to take a capital conservation approach whilst its cash flows are constrained.

There was no material capital expenditure in Q3 2022 with the Company having prepared for commencement of operations in prior periods.

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 Board of Directors.

For further information, please contact:



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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.

## 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 2022

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	693	2,420
1.2 Payments for		
(a) research and development	(121)	(243)
(b) product manufacturing and operating costs	(976)	(1,859)
(c) advertising and marketing	(7)	(36)
(d) leased assets	(37)	(128)
(e) staff costs	(416)	(1,528)
(f) administration and corporate costs	(438)	(1,617)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(67)	(289)
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>(1,369)</b>	<b>(2,211)</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	(17)	(72)
(d) investments	-	-
(e) intellectual property	-	-
(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	-	-
(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 Net cash from / (used in) investing activities</b>	<b>(17)</b>	<b>(72)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	1,050	1,650
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	(51)	(51)
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 Net cash from / (used in) financing activities</b>	<b>999</b>	<b>530</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	965	2,335
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,369)	(2,211)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(17)	(72)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	999	530
4.5	Effect of movement in exchange rates on cash held	-	(4)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>578</b>	<b>578</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	578	965
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>578</b>	<b>965</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	80
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. <b>Financing facilities</b> <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>	<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 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
<p>On 30 April 2020, the Company entered into a \$4,000,000 secured debt facility with Mitchell Asset Management (MAM). 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. The Company has made repayments against principal totalling \$477,159 in June 2021 and \$1,068,927 in February 2022.</p> <p>The Company has received in principle approval from MAM for the extension of the due date of the facility until 31 December 2022, with a further extension or refinancing beyond that date likely to be agreed in the coming period.</p>		

8. <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)	(1,369)
8.2 Cash and cash equivalents at quarter end (item 4.6)	578
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	578
8.5 <b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	0.42
<p><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></p>	
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?	
<p>No, the Company does not expect to have the current level of net operating cash flows in future periods. The Company expects marked improvements in future periods due primarily to an increasing level of activity at the Southport Facility and further advancements towards collection of receivables from customers.</p>	

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?

As per the attached Quarterly Activities Report, the Company has completed capital raisings totalling \$1.55 million in September 2022, with \$500,000 of that total only received on 28 October 2022. The Company additionally proposes to conduct a small \$100,000 top up placement on the same terms as the September 2022 placement as disclosed in the Quarterly Activities Report.

The Company also notes that the fundamental underlying performance of the Group has markedly improved over this year, however delays in collections of receivables from customers combined with an increased inventory and raw material requirements has placed significant strain on the Company's working capital position.

Separately, the Company notes that it expects to receive a material R&D Tax Incentive payment in Q4 2022 which will be applied towards repayment of the MAM Facility.

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?

Yes, the Company expects to continue its operations and meet its business objectives and refers to the notes above.

The Company also notes that its previous capital raising activities have been successful and the Company is confident that further capital (debt or equity) would be able to be sourced if deemed necessary.

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

## Compliance statement

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

Date: 31 October 2022

Authorised by: EPN 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.