

ASX RELEASE (2 AUGUST 2021)

Q2 2021 Quarterly Update & Appendix 4C

Key Points:

- Further significant reduction in net cash used in operating activities of 50% over Q1 2021 following receipt of 2020 R&D tax incentive;
- Divisional Manager of Cannabis Operations appointed in Q2 2021 – ex Project Lead for Valens Australia Project for Cannvalate and General Manager of Canopy Farms (Australia);
- Southport Facility capabilities continue to be improved, with further investment in filtration and other additional process steps to enhance capabilities;
- Tetra Health continues to outperform, with 48% increase in products dispensed compared to Q1 2021, and record unaudited half year revenue of over \$785k;
- Strong closing cash position at end of quarter of \$3.1 million notwithstanding material debt repayments of \$477k during the quarter;

Epsilon Healthcare Limited (ASX:EPN) (Epsilon or the Company) reports on its activities and provides its Appendix 4C for the quarter ended 30 June 2021.

The Company's capital conservation strategy as led by the Group CEO and COO has delivered another strong result in Q2 2021, with net cash used in operating activities reduced by 50% in Q2 2021 over Q1 2021, resulting in the Company having \$3.1 million cash in bank at the end of Q2 2021.

Medicinal Cannabis Operations

During the quarter, the Company has invested further in the Southport Facility to add new production capabilities, including improved filtration technologies and has now commenced dried flower packaging for customers under a licence received from the TGA earlier this year.

The Company received regulatory approvals during the quarter for improvements to the licensing and permitted volumes of API and raw biomass in addition to installation and validation of new bottling line equipment. These increases in production efficiency and capacity during the quarter are representative of the Company's readiness to expand its production throughput and capabilities towards a predominantly toll manufacturing focused operation.

In June 2021, the Company appointed Edward Jones the Divisional Manager of Cannabis Operations with oversight over the THC Pharma and Canndeo operating assets of the Company.

Edward's previous experience included acting as Project Lead on the Valens Australia Project for Cannvalate where he assisted in the development of The Valens Company's (TSX:VLNS) presence in Australia, and prior to that the General Manager of Canopy Farms (Australia), a subsidiary of Canopy Growth Corporation (TSX:WEED).

Since his appointment, Edward has been a great addition to the Epsilon management team, and has added significant value given his background in quality and project management and has been supporting the broader management team in achieving corporate and strategic initiatives targeted by the Company.

Tetra Health Continues to Expand Market Presence

Tetra Health, the Company's clinic network, has continued to report strong growth, with record revenues for the half year to 30 June 2021. Unaudited revenue for the Tetra business exceeded \$750,000 for the half year and is a record 6 month run rate.

The number of products dispensed to Tetra patients has increased over Q2 2021 by 48% compared to Q1 2021, pointing to continued success in patient acquisition, and a strong domestic cannabis market. The Company expects to continue to see strong growth from the Tetra Health business, particularly as it expands its physical presence with new clinics across the east coast of Australia.

New Zealand Update

The Company refers to its announcement in June 2020 with respect to a production agreement with Medleaf Therapeutics which provided for an initial order of 2,250 bottles of full spectrum CBD medicines. As disclosed in the Q3 2020 Quarterly Update (ASX Release: 30 October 2020), the Company's fulfilment of this order within the original delivery timeframes was frustrated as a result of delays in securing the required approvals from the New Zealand government for the supply, as well as associated product stability testing required by the New Zealand government.

Since October 2020 the Company continued to work with Medleaf to revise the commercial arrangements both around the product release and sharing of additional costs required to comply with the transitioning New Zealand government medical cannabis framework.

Epsilon additionally cites the ongoing lack of clarity on the New Zealand medicinal cannabis regulatory framework adding further difficulty to the settlement of this arrangement, noting particularly that the transitional period for New Zealand's medicinal cannabis scheme has continued to be extended – expected to have been ending on 1 October 2020, but since twice extended to now 30 September 2021.

Due to a culmination of the above events, a revised delivery date was not able to be agreed with Medleaf Therapeutics, and accordingly, as foreshadowed by the Q3 2020 Quarterly Update, the agreement with Medleaf was abandoned during this quarter.

The Company has since identified new partners within the New Zealand market and expects to disclose new material purchase orders for supply into this market.

Debt Repayment and Debt Facility Update

The Company notes that it has a debt facility due for repayment on or before 31 October 2021, with a current balance of \$3.52 million owing following repayments of \$477k during the quarter.

Given current market and economic conditions, the Company is of the view that a refinancing of existing debt rather than an equity raising is in shareholders' best interests. The Company is accordingly in discussions towards the refinancing of the debt facility on similar or better terms than currently in place, and expects to report on this further prior to the repayment date of 31 October 2021.

Additional Disclosure

As required by the ASX Listing Rules, the Company notes that payments made to related parties and their associates in Q2 2021 were all related to remuneration for services under existing services agreements, with no non-remuneration related payments made in the quarter.

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ASX release authorised by the Board of Directors.

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 June 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,351	3,106
1.2 Payments for		
(a) research and development	(98)	(274)
(b) product manufacturing and operating costs	(1,043)	(2,340)
(c) advertising and marketing	(19)	(61)
(d) leased assets	(170)	(314)
(e) staff costs	(1,019)	(2,504)
(f) administration and corporate costs	(811)	(1,152)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	2
1.5 Interest and other costs of finance paid	(151)	(306)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	1,021	1,021
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(937)	(2,822)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(123)	(596)
(d) investments	-	-
(e) intellectual property	-	(40)
(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	-	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	(123)	(586)

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)	(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)	(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	4,627	6,968
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(937)	(2,822)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(123)	(586)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(477)	(477)
4.5	Effect of movement in exchange rates on cash held	12	19
4.6	Cash and cash equivalents at end of period	3,102	3,102

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	3,102	4,627
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)	3,102	4,627

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	186
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 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.		
On 30 April 2020, the Company entered into a \$4,000,000 secured debt facility. The facility is repayable at any time on or before 31 October 2021 and attracts interest at 1.25% per calendar month. The group repaid \$477,159 in June 2021 and will remit further repayment on lodgement of its 2021 R&D incentive post 1 July 2021. Please refer to the ASX Announcement dated 30 April 2020 for further details.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(937)
8.2 Cash and cash equivalents at quarter end (item 4.6)	3,102
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	3,102
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.3
<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: 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?	
Answer: 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?	
Answer: N/A	
<i>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.</i>	

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: 2 August 2021

Authorised by: The 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.