



epsilon
HEALTHCARE

Appendix 4E

Preliminary Final Report for the Year Ended 31 December 2021

ACN: 614 508 039

Appendix 4E

Preliminary final report

Name of entity:

Epsilon Healthcare Limited
(Formerly known as THC Global Group Limited)

ABN or equivalent company
reference:

33 614 508 039

1. Reporting period

Reporting period:

Year ended 31 December 2021

Previous corresponding period:

Year ended 31 December 2020

2. Results for announcement to the market

Current Year
2021
\$

2.1	Revenue from ordinary activities	Down	20.9%	to	5,498,149
2.2	Loss from ordinary activities for the period after tax attributable to members	Down	15.4%	to	(8,908,397)
2.3	Net loss for the period attributable to members	Down	22.0%	to	(8,352,193)
2.4	Dividends	Amount per security		Franked amount per security	
	Final dividend	Nil		N/A	
	Interim dividend	Nil		N/A	
2.5	Record date for determining entitlements to the dividends	N/A			

2.6 Brief explanation of any of the figures reported above to enable the figures to be understood:

Revenue and loss from ordinary activities is attributable to:

- Significant investment and focus by the Company towards growth of the medical cannabis operations which resulted in sales of medicinal cannabis products grow by 159%;
- Other income includes R&D tax incentives of \$2.22 million;
- Negative trading conditions experienced in Canada, with Hydroponic Equipment sales continuing to contract from the half year reported revenues, to total a 52% year-on-year deterioration in revenues;
- Lower margins and lower revenue persisting in the Hydroponic Equipment sales segment due to ongoing negative operating conditions including supply chain constraints affecting product shipment, product outages from Asian suppliers, general working capital constraints through supporting multiple non-core Canadian activities, and a general softening in demand within the hydroponics equipment and Canadian Cannabis market;
- Professional fees and corporate and consulting costs fell by 17% and 62% respectively due to ongoing cost cutting efforts by management;
- Share based payments increased during the period as a proportion of KMP benefits and consultants' fees were settled in scrip to reduce the burden on cash reserves;
- Other operating expenses fell generally, again due to managements continued efforts to conserve working capital and continued focus on operational efficiencies.

3. Consolidated Statement of Comprehensive Income

	Current Period 31 Dec 2021 \$	Previous Period 31 Dec 2020 \$
Revenue from continuing operations	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	2,479,293	855,566
Freight and other selling expenses	(283,414)	(533,091)
Professional expenses	(933,715)	(1,129,614)
Corporate and consulting expenses	(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	-	(23,530)
Depreciation and amortisation expense	(1,557,921)	(1,565,935)
Impairment expense	(2,515,114)	-
Finance expenses	(799,393)	(597,745)
Office and occupancy expenses	(591,940)	(497,127)
Administration expenses	(895,944)	(1,489,448)
Foreign exchange (loss)/gain	(31,215)	2,492
Share based payments	(1,094,122)	(7,311)
Loss before income tax	(10,365,818)	(10,535,050)
Income tax expense	1,457,421	-
Loss after income tax expense from continuing operations	(8,908,397)	(10,535,050)
Items that may be reclassified to profit or loss		
Exchange differences on translating foreign operations, net of tax	67,655	(171,144)
Items that will not be reclassified subsequently to profit or loss		
Gain on revaluation of land and buildings, net of tax	488,549	-
Total comprehensive Profit/(loss) for the year	(8,352,193)	(10,706,194)
Attributable to:		
Members of the Parent Company		
Basic loss per share	(4.61 cents)	(6.63 cents)

4. Consolidated Statement of Financial Position

	Current Period 31 Dec 2021 \$	Previous Period 31 Dec 2020 \$
Current Assets		
Cash and cash equivalents	2,335,569	6,967,941
Trade and other receivables	2,163,334	1,419,381
Inventory	2,420,343	2,039,259
Other assets	705,030	578,604
Total Current Assets	7,624,276	11,005,185
Non-Current Assets		
Property, plant and equipment	17,207,357	18,900,501
Right-of-use assets	429,380	1,172,646
Intangible assets	504,699	475,526
Goodwill	4,472,985	5,444,481
Other assets	126,891	264,530
Total Non-Current Assets	22,741,312	26,257,684
Total Assets	30,365,588	37,262,869
Current Liabilities		
Trade and other payables	2,384,128	2,429,186
Contract liabilities	158,424	390,585
Borrowings	3,551,139	3,794,639
Employee benefits	409,646	125,382
Lease liabilities	115,126	344,414
Total Current Liabilities	6,618,463	7,084,206
Non-Current Liabilities		
Deferred tax liability	2,592,003	3,886,575
Lease liabilities	660,028	973,023
Total Non-Current Liabilities	3,252,031	4,859,598
Total Liabilities	9,870,494	11,943,804
Net Assets	20,495,094	25,319,065
Equity		
Contributed equity	44,817,618	41,801,459
Other contributed equity	175,000	-
Reserves	11,471,792	10,594,306
Accumulated losses	(35,969,316)	(27,076,700)
Total Equity	20,495,094	25,319,065

5. Consolidated Statement of Cash Flows

	Current Period 31 Dec 2021 \$	Previous Period 31 Dec 2020 \$
Cash flows from operating activities		
Receipts from customers	5,378,651	7,064,223
Payments to suppliers and employees	(11,298,479)	(15,612,056)
Research and development tax incentive received	1,016,491	213,536
Interest received	19,826	24,533
Finance costs	(502,356)	(384,018)
Net cash used in operating activities	(5,385,867)	(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)
Payments for intangible assets	(39,883)	-
Proceeds from disposal of plant and equipment	50,000	-
Acquisition of subsidiary	-	(496,545)
Net cash used in 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	2,513,603	10,001,463
Proceeds from conversion of options	-	641,884
Loans repaid by related parties	-	3,760,000
Loans repaid to institutions	(477,159)	-
Net cash provided by financing activities	1,471,742	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 year	6,967,941	3,551,595
Effects of exchange rate changes on cash	19,347	(2,611)
Cash and cash equivalents at the end of the year	2,335,569	6,967,941

6. Consolidated Statement of Changes in Equity

	Contributed equity	Other contributed equity	Accumulated losses	Reserves	Total
	\$	\$	\$	\$	\$
Balance at 1 January 2021	41,801,459	-	(27,076,700)	10,594,306	25,319,065
Loss for the year	-	-	(8,908,397)	-	(8,908,397)
Other comprehensive income	-	-	-	556,204	556,204
Total comprehensive loss for the year	-	-	(8,908,397)	556,204	(8,352,193)
Transactions with owners in their capacity as owners:					
Shares issued in the year	3,512,500	-	-	-	3,512,500
Costs of capital raising	(496,341)	-	-	-	(496,341)
Lapsing of performance shares' vesting conditions			15,781	(15,781)	-
Options vesting expense	-	-	-	337,063	337,063
Other contributed equity	-	175,000	-	-	175,000
Total transactions with owners	3,016,159	175,000	15,781	321,282	3,528,222
Balance at 31 December 2021	44,817,618	175,000	(35,969,316)	11,471,792	20,495,094
Balance 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 loss	-	-	-	(171,144)	(171,144)
Total comprehensive loss for the year	-	-	(10,535,050)	(171,144)	(10,706,194)
Transactions with owners in their capacity as owners:					
Shares issued in the year	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
Balance at 31 December 2020	41,801,459	-	(27,076,700)	10,594,306	25,319,065

7. Dividends (in the case of a trust, distributions)

Date dividend is payable

N/A

[†]Record date to determine entitlements to the dividend

N/A

If it is a final dividend, has it been declared?

N/A

Amount per security

	Amount per security	Franked amount per security at 30% tax (see note 4)	Amount per security of foreign source dividend
Final dividend: Current year	NIL	N/A	N/A
Interim dividend: Current year	NIL	N/A	N/A

Total dividend (distribution) per security (interim *plus* final)

	Current period	Previous Period
Ordinary securities	N/A	N/A
Preference securities	N/A	N/A

8. Dividend or distribution plans in operation

N/A

The last date(s) for receipt of election notices for the
+dividend or distribution plans

N/A

9. NTA backing

	Current Period 2021 Cents per Share	Previous Period 2020 Cents per Share
Net tangible asset backing per ordinary sha	6.96	10.24

10. Details of entities over which control has been gained or lost during the period

Controlled entities

	Country of Incorporation	Percentage Owned	Date Control Gained
N/A			

11. Details of associates and joint venture entities

N/A

12. Significant information

Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position:

Please refer to section 2.6 above for information on the Group's financial performance.

13. Foreign entities set of accounting standards used in compiling the report (IAS)

The Company is not a foreign entity. Australian Accounting Standards have been applied consistently across all entities in the Group.

14. Commentary on the results for the period

14.1 Earnings per security (EPS)

	Current Period 2021	Previous Period 2020
Basic Loss per share	(4.61 cents)	(6.63 cents)

14.2 Returns to shareholders (Including distributions and buy backs)

	Current Period 2021 \$	Previous Period 2020 \$
Ordinary securities	-	-
Preference securities	-	-
Other equity instruments	-	-
Total	-	-

14.3 Significant features of operating performance

Please refer to section 2.6 above for information on the Group's financial performance.

14.4 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) development and delivery of **medicinal cannabis**; and
- b) manufacture and distribution of hydroponics **equipment, materials and nutrients**.

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

The main source of revenue for these operating segments in the year to 31 December 2021 is from the development and delivery of its Medicinal Cannabis and business segment, reflecting a shift in investment and operational focus to the commercialization of the Company's Southport facility, and the protracted deterioration in the Hydroponics Equipment, Materials and Nutrients business segment. Revenues and profit generated by each of the Group's operating segments, and segment assets, are summarised as follows:

	Hydroponics Equipment, Materials and Nutrients 31 Dec 2021 \$	Medicinal Cannabis 31 Dec 2021 \$	Unallocated 31 Dec 2021 \$	Total 31 Dec 2021 \$
Revenue				
External sales	2,831,975	2,666,174	-	5,498,149
Other	1,825	2,223,940	253,528	2,479,293
Total segment revenue	2,833,800	4,890,114	253,528	7,977,442
Segment operating result	(2,199,419)	(76,011)	(6,632,967)	(8,908,397)
Segment assets	1,501,882	25,550,000	3,313,706	30,365,588

	31 Dec 2020 \$	31 Dec 2020 \$	31 Dec 2020 \$	31 Dec 2020 \$
Revenue				
External sales	5,923,151	1,030,138	-	6,953,289
Other	-	831,034	24,532	855,566
Total segment revenue	5,923,151	1,861,172	24,532	7,808,855
Segment operating result	(343,489)	(5,645,717)	(4,545,844)	(10,535,050)
Segment assets	4,169,418	27,105,628	5,987,823	37,262,869

14.5 Report on trends in performance

Cashflows

- Overall net operating cash outflows experienced a 38% reduction in part due to cost cutting efforts by management.

Revenue

- Growth of the medical cannabis operations saw sales of medicinal cannabis products increase by 159% year-on-year;
- Other income includes R&D tax incentives of \$2.22 million, which were larger than prior periods, due to a timing difference of the recognition of two claims over the reporting period;
- Hydroponics equipment sales in Canada contracted by 52% year-on-year due to ongoing negative operating conditions – refer to 14.6 for information with respect to the Canadian business units

Expenses

- Cost of goods have decreased proportionately to the revenue and segment type that the revenues related to, noting that due to a change in the sales mix of the Medicinal Cannabis versus Hydroponics Equipment, Materials and Nutrients business segments, the overall gross margin increased by 3% to 37% from FY20, as the higher margin Medicinal Cannabis revenues subsidised the contraction of lower margin revenues in the other segment;
- Professional fees and corporate and consulting costs fell by 17% and 62% respectively due to ongoing cost cutting efforts by management;
- Share based payments increased during the period as some transactions were settled in scrip to reduce the burden on cash reserves, which included payments to senior executives and consultants during the period at a share price of \$0.25;
- Other operating expenses fell generally, again due to managements continued efforts to conserve working capital and continued focus on operational efficiencies.

Balance Sheet

- A reduction in net assets attributable to total impairment expenses of A\$2.52 million, which is solely related to its Canadian Hydroponics Equipment, Materials and Nutrients business segment, and the impact of its value to Epsilon as an ongoing Cash Generating Unit (CGU). Prudent revaluations of these assets have been made (further disclosure on these assumptions are at item 14.6), specifically to:
 - Impairment of goodwill (A\$0.97m) in relation to the original acquisition of its hydroponics business, and a further write down of other assets used in that business unit of (A\$0.24m);
 - A further provision for the likely recoverable value of plant and equipment (A\$0.92m) used in its other non-core Canadian activities;
 - Revaluation as required due to a likely abandonment of the Company's Nova Scotia project (A\$0.39m);
- The closure of the Epsilon office in Sydney saw a 63% reduction in right-of-use assets and 42% decline in lease liabilities;
- Increase in expected trade and other debtors by 52% to \$2.163 million, which was materially due to R&D tax incentive receipts due but not yet received as at 31 December 2021, which were ~\$1.053m in total.

14.6 Report any factors which have affected the results during the reporting period or which are likely to affect results in the future, including those where the effect could not be quantified.

The Company's Canadian assets which primarily operate its Canadian hydroponics equipment and supplies business has seen continued negative trading conditions which have been slow to improve.

The Company has reported over the past 12 months a protracted deterioration of the business conditions in the Canadian market including COVID-19 related supply chain impacts, negative trading conditions, and an overall decline in Canadian cannabis market generally. Notwithstanding the Company's local management's attempts to continue to operate through these conditions, the Company has sought to engage an external management consultant to provide an independent evaluation of Epsilon's current position as the ultimate parent entity and largest creditor of all the Canadian entities.

The Consultant is in the process of preparing a final report for the Company, however the Company has been advised to expect that the likely outcome of this report will be that the Canadian operations may require a restructuring event to better position Epsilon to make more efficient use of its working capital and reduce its exposure to the local operations in the Canadian market.

This is aligned with Epsilon's previously announced strategic position towards focusing on its local medicinal cannabis operations and export opportunities to increase the size and scale of its medicinal cannabis, healthcare, and pharmaceutical operations.

The Company will continue to keep the market informed of the outcomes of the evaluation of its Canadian interests and expects to disclose what next steps it is taking over the course of the coming weeks.

Whilst the Company is yet to receive the final report from the consultant, the Company has made a prudent attempt to quantify the likely impact of the deterioration of its Canadian businesses in conservatively providing for a write-down equal to the value of all of the non-operating assets of the Canadian businesses (A\$2.52m). It is likely that this is an overly conservative write-down, however the Company has deemed this a prudent course of action given the interim nature of the facts known at the date of this disclosure.

The Company does not expect these events to have any effect on the group's operations outside Canada, and will quantify the likely impact of any restructuring event in future disclosures.

Any other information required to be disclosed to enable the reader to compare the information presented with equivalent information for previous periods. This must include information needed by an investor to make an informed assessment of the entity's activities and results.

No further information.

15. Compliance statement

This report is based on accounts to which one of the following applies.
(Tick one)

- | | | | |
|-------------------------------------|--|--------------------------|---|
| <input type="checkbox"/> | The accounts have been audited. | <input type="checkbox"/> | The accounts have been subject to review. |
| <input checked="" type="checkbox"/> | The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> | The accounts have not yet been audited or reviewed. |

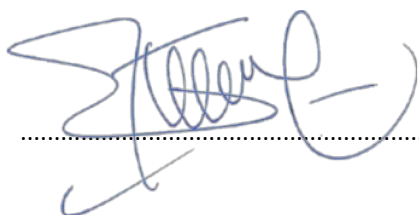
16. If the accounts have not yet been audited or subject to audit review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:

The report is based upon the accounts which are in the process of being audited, and it is unlikely that there will be any dispute or qualification.

16. If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification:

N/A

Sign here:



Date: 1 March 2022

Print name:

Jarrod White, CEO
as Approved by the Full Board of Directors