

ASX RELEASE (3 MARCH 2022)

Epsilon Commences Exclusive Partnership with The Valens Company

Key Points:

- Epsilon and Valens have entered into an agreement on 1 March 2022, formalising the material elements of their partnership;
- Epsilon's GMP Manufacturing Southport Facility will be funded through the following key partnership features:
 - Valens will cover budgeted operational and capital expenditures of the Southport Facility in return for preferential access of up to 85% of the operational capacity;
 - Epsilon will retain a royalty of 2.5%-4% of all Valens' sales revenue on all medicinal cannabis products manufactured for Valens at the Southport Facility, and
 - Epsilon will pay Valens a management fee on all medicinal cannabis products for its own customers and retain the remaining margin on all sales generated from its non-Valens sales channels;
- A\$2 million sales target of medicinal cannabis products to Valens customers over a three month trial period commencing 1 March 2022 has been instigated;
- Receipt of the first payment of ~A\$230,000 from Valens to cover March 2022 operational expenditure expected within days.

Epsilon Healthcare Limited (ASX:EPN) (Epsilon or the Company) is pleased to announce the commencement of its exclusive partnership with The Valens Company (TSX:VLNS) (NASDAQ: VLNS)(Valens), a Canadian-based, leading manufacturer of cannabis products, through the execution of an Interim Implementation Deed (the Implementation Deed).

Immediate Commencement of Valens Partnership

Under the terms of the Implementation Deed, Valens and Epsilon will operate on the basis that the material terms of the agreement announced on 9 September 2021 are in effect, save for a trial period of three months, which commenced 1 March 2022, and a number of minor clauses of the agreements which are being formalised.

The agreed terms include Valens accessing Epsilon's GMP manufacturing capability at the Southport Facility – the largest cannabis extraction facility in the Southern Hemisphere with TGA and EU GMP capability – in return for Valens funding all mutually budgeted operational and capital expenditures of the Southport Facility for the duration of the partnership on a reimbursement basis.

The terms of the Implementation Deed provide for THC Pharma to receive revenue and pay Valens a management fee on all medicinal cannabis products manufactured by THC Pharma for Valens, such that in effect THC Pharma retains a royalty of 2.5% to 4% of sales revenue for all Valens' customer products.

In addition, THC Pharma will pay Valens a management fee on all medicinal products manufactured by THC Pharma for its own customers, broadly being cost plus 25%, or the price paid for products being sold by THC Pharma through the Valens stream of customers. Significantly higher margins are expected for any products sold through the Epsilon/THC Pharma customer streams than what is retained by Epsilon through the Valens' stream.

The Implementation Deed also includes a three-month trial period, commencing 1 March 2022, through which Valens and Epsilon have set a A\$2 million sales target of medicinal cannabis products sold to Valens customers, as well as a number of other performance indicators for THC Pharma and Valens. If these conditions are not met within the trial period, the Company's partnership with Valens may be terminated on 30 days' notice.

Payment and Provision for Future Funding at Southport

Under the Implementation Deed, Valens will make an initial payment of ~\$230,000 within five (5) business days to provide for THC Pharma's operational expenditure for the month of March 2022, with further payments to be made in accordance with the budgeting mechanisms provided for in the partnership structure, which include provision for the variable working capital requirements for production orders processed at the facility.

With the immediate commencement of the Valens partnership, including a A\$2 million sales target of medicinal cannabis products to Valens customers, Epsilon is confident of the commitment that Valens has to the partnership over the Southport Facility, and to promoting growth in the Australian region for medicinal cannabis products generally.

On the basis of the sales target being met, combined with Epsilon generated revenues through the facility, the Company expects that the Southport Facility will be EBITDA positive to the Group on a go forward run rate basis, following that three-month trial period.

A detailed summary of the terms of the Implementation Deed is provided in an annexure to this ASX Release.

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 Southport Facility) and the Tetra Health clinic group. EPN has a strategic partnership with The Valens Company (NASDAQ: VLNS) for operation and management of its Southport Facility.

The Valens Company (NASDAQ:VLNS, TSX:VLNS) – thevalenscompany.com

The Valens Company is a leading cannabis consumer products company, with significant expertise in manufacturing cannabinoid based products and a mission to bring the benefits of cannabis to the world. Valens provides proprietary cannabis processing services and best-in-class product development, manufacturing, and commercialization of cannabis consumer packaged goods. Valens' high-quality products are formulated for the recreational, health and wellness, and medical consumer segments and are offered across all cannabis product categories, with a focus on quality and product innovation. Valens also manufactures, distributes, and sells a wide range of CBD products in the United States through its subsidiary Green Roads, and distributes medicinal cannabis products to international markets. In partnership with brand houses, consumer packaged goods companies and licensed cannabis producers around the globe, Valens continues to grow its diverse product portfolio in alignment with evolving cannabis consumer preferences. Through Valens Labs, Valens is setting the standard in cannabis testing and research and development with Canada's only ISO17025 accredited analytical services lab, named The Centre of Excellence in Plant-Based Science by partner and scientific world leader Thermo Fisher Scientific.

Annexure 1

The material terms of the Interim Implementation Deed (the **Implementation Deed**) between the Company, THC Pharma (the Company's wholly owned subsidiary, and owner of the Southport Facility), The Valens Company Inc (**Valens**), and Valens Australia Pty Ltd (Valens' wholly owned subsidiary) (**Valens AU**) (together, the **Parties**) are provided below:

1. As and from 1 March 2022, the terms of the Management and Operational Consultancy Agreement (**MOCSA**) which have been agreed between the parties will come into effect (the **Agreed MOCSA Terms**), with the terms yet-to-be agreed being subject to further negotiation and agreement by 1 June 2022 (the **Pending MOCSA Terms**).
2. Despite the Parties entry into the Implementation Deed, the Binding Heads of Agreement between the Parties continues to be in full force and effect, however the Agreed MOCSA Terms prevail over the terms of the Binding Heads of Agreement.
3. The Agreed MOCSA Terms include trial conditions whereby if the following objectives are not met within the first three months of the term, Valens may terminate the agreement with 30 days' written notice:
 - a. THC Pharma's management team shall have been augmented and/or replaced in whole or part (in Valens' and/or the Management Advisory Committee's discretion) by one or more suitable candidates reasonably approved by Valens;
 - b. the Management Advisory Committee (described below) to be established by the parties operates as intended;
 - c. THC Pharma shall have, in the period from 1 March 2022 to the end of the trial, accepted and fulfilled purchase orders totalling \$2.0 million in aggregate in respect of manufacturing of products for Valens customers;
 - d. Valens and Epsilon being satisfied, acting in each of their own discretions, that the Trial has been successful; and
 - e. Valens and Cannvalate finalising and entering into a supplementary business engagement provided that Valens uses its best endeavours to achieve this (and procures Cannvalate to do the same) and Valens discloses the relevant structural terms of the arrangement to THC Pharma.
4. A further summary of the Agreed MOCSA Terms is below:
 - a. Valens and/or Valens AU will provide management and operational consultancy services to THC Pharma in respect of its manufacture of medicinal cannabis products for supply to the Australian and international markets.
 - b. Valens will cover the cost of THC Pharma's mutually budgeted operational and capital expenditure in return for priority access to THC Pharma's manufacturing output and 50% membership in the Management Advisory Committee.
 - c. Valens will leverage its preferred partnership with Cannvalate to sell GMP products manufactured in the Epsilon Southport Facility for sale in Australia or New Zealand.
 - d. THC Pharma will pay Valens a management fee on all medicinal cannabis products manufactured by THC Pharma for Valens customers such that in effect THC Pharma retains a 'royalty' of 2.5% to 4% of sales revenue for all Valens customers products.
 - e. THC Pharma will pay Valens a management fee on all medicinal products manufactured by THC Pharma for its own customers being the lower of; (a) cost of production plus 25%; (b) where Valens sells the same product at similar volumes to another customer, that price; or (c) such other amount the parties agree after good faith negotiations;

- f. THC Pharma and Valens will establish a Management Advisory Committee comprising of two Valens appointees (one being the President of Valens, Jeff Fallows) and two THC Pharma appointees to direct the operations of THC Pharma;
- g. The Management Advisory Committee will be responsible for setting the manufacturing plan for the Southport Facility and a monthly budget which will form the basis for Valens' reimbursements of operational and capital expenditure to THC Pharma;
- h. Payments from Valens for operational and capital expenditure are expected to be received by THC Pharma on a monthly basis in arrears with an exception of the first month (March 2022) for which an estimated operational expenditure amount has been set and is to be paid within 5 business days of the execution of this agreement;
- i. The term of the agreement, subject to the trial conditions, is for five years, with one five year renewal option, and a final 12 month renewal option, each of which can be exercised at Valens's discretion.
- j. The agreement may otherwise be terminated in the event of a material increase in the monthly forecasted costs or annual costs of the facility over a continuous period, in the event of a failure to meet regulatory and statutory requirements, a breach of law or regulation, a change of control of THC Pharma, or failure to meet specified confidential performance criteria under the agreement for two consecutive quarters.
- k. Where Valens commits capital towards the acquisition of new equipment that is installed at THC Pharma's facility, Valens will retain title to and ownership of that funded equipment, and on termination of the agreement, THC Pharma will be offered the opportunity to either acquire that equipment from Valens at an agreed valuation or have Valens 'make good' any such installation such that THC Pharma's facility is returned to the position it was in prior to that equipment being installed;
5. A summary of the Pending MOCSA Terms is below:
- a. The Parties agreeing to how intellectual property is shared between the parties and who will own any new intellectual property created through the partnership;
 - b. The Parties agreeing to the terms of the non-competition provisions to ensure that THC Pharma has exclusivity from Valens in its local market for the manufacturing of medicinal cannabis products;
 - c. The Parties agreeing to Valens being granted a first right of refusal to purchase the Facility from THC Pharma in the event THC Pharma proposes to sell the facility or a third party offer is made for the facility.
 - d. The Parties entering into an Export Supply Agreement, broadly on the following terms:
 - i. Valens AU appoints THC Pharma as its contract manufacturer for the manufacture of medicinal cannabis products in Australia at the order of Valens AU for export from Australia by Valens AU to Valens customers.
 - ii. Valens AU will be the 'sponsor' of the product for Australian compliance purposes and will be responsible for all regulatory obligations as the sponsor of the products.
 - iii. The term of the agreement is for five years, with one five year renewal option, and a final 12 month renewal option, each of which can be exercised at Valens's discretion.

The Company will provide a further update to market as the Pending MOCSA Terms are settled and the final MOCSA is in place, which will result in the Implementation Deed and the Binding Heads of Agreement coming to an end.