



Epsilon Healthcare Limited

ACN: 614 508 039

**Appendix 4D and Interim Reviewed Financial Statements
30 June 2022**

APPENDIX 4D

1. Name of Entity **Epsilon Healthcare Limited**
ACN 614 508 039

Half year ended 30 June 2022
 Reporting period 1 January 2022 to 30 June 2022
 Previous period 1 January 2021 to 30 June 2021

2. Results for announcement to the market

	30 June 22 \$	30 June 21 \$	% Change* Up (Down)
2.1 Revenues from continuing operations	3,210,227	3,248,555	(1%)
2.2 Loss from continuing operations after tax attributable to members	(8,078,694)	(4,160,969)	(94%)
2.3 Net loss attributable to members	(8,078,694)	(4,160,969)	(94%)
2.4 Proposed dividends	Nil	Nil	-
2.5 Record date for dividend entitlement	N/A	N/A	

2.6 Brief explanation of figures in 2.1 to 2.5 necessary to enable the figures to be understood

In 1H 2022, revenue attributable to the Company's medicinal cannabis operations represented ~98% of revenue from continuing operations compared to ~42% in 1H 2021. This shift is a result of the Company discontinuing its Canadian hydroponics equipment operations and investing towards the growth of the Company's domestic medicinal cannabis operations – including both the Southport Manufacturing Facility and the Company's clinic operation, Tetra Health. The Company's medicinal cannabis business unit saw an increase of 134% in revenue to \$3,159,992.

Separately, the 94% increase loss from continuing operations was solely due to impairment of goodwill and inventory totalling \$5,994,608. Net loss excluding impairment amounted to \$1,629,229, compared to \$4,088,943 in the comparative period. This was primarily due to a reduction of costs associated with the Canadian operations and other operating cost efficiencies identified in the past year. Employment costs also decreased by 58% to \$1,059,699 for the period, primarily due to discontinued operations in Canada and and pausing of medicinal cannabis cultivation by Epsilon in Australia.

	30 June 2022 Cents	31 December 2022 Cents	% Change Up (Down)
3. Net tangible assets per security	4	7	(42%)

4. During the period, the Group ceased control of the following subsidiaries:

Name of subsidiary	Country of Incorporation
Crystal Mountain Products Limited	Canada
0970203 B.C. Ltd	Canada
Canndeo Canada Ltd (formerly Vertical Canna Inc.)	Canada
Canndeo Fulfillment Inc	Canada
Cannmira Therapeutic Clinic Ltd	Canada

5. There were no payments of dividends during the reporting period.
6. There is no dividend reinvestment plan in operation.
7. There are no associates or joint venture entities.
8. The Company is not a foreign entity.
9. This report is based on financial statements that have been reviewed. The review report is included in the 30 June 2022 Half Year Report.

The Company's half year report follows.

Yours sincerely,



Steven Xu
Executive Chairman
31 August 2022



epsilon
HEALTHCARE

ACN: 614 508 039

**Consolidated Financial Report
for the Half Year Ended
30 June 2022**

Epsilon Healthcare Limited
Consolidated Interim Financial Report
30 June 2022

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Corporate Directory

Directors

Steven Xiaobo Xu (Executive Chairman)
Patrick Baiyu Xu
Simon Rowe

Joint Company Secretaries

Sonny Didugu
Louisa Ho

Chief Financial Officer

Nicholas Marshall

Registered Office & Principal Place of Business

Suite 305 Level 3
35 Lime Street
Sydney NSW 2000

Website:

epsilonhealthcare.com.au

Corporate Accountants

Traverse Accountants
Suite 305, Level 3
35 Lime Street
Sydney NSW 2000
Australia

Auditor

RSM Australia Partners
Level 13, 60 Castlereagh Street
Sydney NSW 2000

Directors' Report

Your directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as "EPN" or the 'Group') consisting of Epsilon Healthcare Limited (referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the half-year ended 30 June 2022.

Directors

The following persons were directors of the Company during the financial period and up to the date of this report, unless otherwise indicated:

Steven Xiaobo Xu	Chairman, Executive Director
Patrick Baiyu Xu	Executive Director, Appointed 3 June 2022
Simon Rowe	Non-Executive Director
Rob Jenny	Executive Director, Resigned 7 August 2022

Review of Operations and Financial Results

The net loss after income tax for the half-year ended 30 June 2022 was \$8,078,694 (2021 loss: \$4,160,969).

Principal Activities and Strategy

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, and the Tetra Health clinic group.

Review of Operations

Over 1H 2022:

- Production at the Southport Facility continues to ramp up with demand being sourced from both Valens and Epsilon sourced revenue streams;
- Definitive terms of partnership with The Valens Company (NASDAQ:VLNS) remain under review;
- \$1.72 million cash receipts from customers;
- Total revenue \$3,210,227, with 134% increase in the medicinal cannabis operating segment totalling \$3,159,992;
- Net loss of \$8,078,694 for the period, which includes impairment \$5,994,608 relating to a fair value adjustment of the medicinal cannabis CGU, as well as impairment of inventory;
- Canadian operations restructuring and exit nearing completion with no further anticipated cash outflow or negative financial impact from those operations expected in future financial reporting periods;
- Employment costs decreased by 58% to \$1,059,699 for the period, primarily due to discontinued operations in Canada and pausing of medicinal cannabis cultivation by Epsilon in Australia.

Significant Changes in State of Affairs

During the period, the Group discontinued its Canadian operations to focus on its Australian medicinal cannabis operations.

No significant changes in the Group's state of affairs occurred during the financial period.

Matters Subsequent to Balance Date

The following matters happened subsequent to 30 June 2022:

- Appointment of Mr Steven Xu as Executive Chairman (previously non-exec Chairman), and appointment of Mr Patrick Xu as Executive Director (previously non-exec Director);
- Resignation of the Chief Executive Officer, Jarrod White;
- Resignation of Dr Rob Jenny as an Executive Director.

No other matters or circumstances have arisen since 30 June 2022 which significantly affected, or may significantly affect:

- a) The Group's operations in future financial years; or
- b) The results of those operations in future financial years; or
- c) The Group's state of affairs in future financial years.

Likely Developments and Expected Results of Operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in these financial statements because the directors believe it could potentially result in unreasonable prejudice to the Group.

Dividends

No dividends were proposed or paid to members during the financial period (2021: \$Nil).

Indemnification of Officers

During the financial year the Company paid premiums in respect of a contract insuring Directors and Executives against a liability incurred in the ordinary course of business.

Proceedings on Behalf of the Group

No person has applied to the Court for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group.

Auditor's Independence Declaration

The auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 6.

Signed in accordance with a resolution of the Board of Directors.

On behalf of the Board:



Steven Xu
Executive Chairman
31 August 2022

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RSM Australia Partners

Level 13, 60 Castlereagh Street Sydney NSW 2000

GPO Box 5138 Sydney NSW 2001

T +61 (0) 2 8226 4500

F +61 (0) 2 8226 4501

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Epsilon Healthcare Limited for the half year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

RSM

RSM AUSTRALIA PARTNERS

 GNS

Gary Sherwood
Partner

Sydney, NSW

Dated: 31 August 2022

Epsilon Healthcare Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Half-Year Ended 30 June 2022

	Note	30 June 2022 \$	30 June 2021 \$
Revenue from continuing operations	4	3,210,227	3,248,555
Cost of goods sold		(2,335,000)	(2,114,606)
Gross profit		875,227	1,133,949
Other income	4	968,534	1,911,960
Other cost of sales		(4,517)	(179,444)
Bad debts expense		(172,682)	-
Professional expenses		(509,623)	(593,765)
Consulting and due diligence expenses		(62,847)	(475,258)
Plant and facility costs		(188,764)	(261,449)
Employee benefits expense		(1,059,699)	(2,577,874)
Advertising and promotion expenses		(36,309)	(60,652)
Insurance expenses		(276,613)	(296,218)
License and registration expenses		(39,617)	(80,000)
Depreciation and amortisation expenses		(660,566)	(711,406)
Research and development		(103,383)	(233,611)
Finance expenses		(174,262)	(401,629)
Foreign exchange loss		(3,609)	(25,656)
Office and occupancy expenses		(181,845)	(264,248)
General and administration expenses		(370,866)	(495,279)
Share based payments		(82,645)	(855,731)
Impairment expense	5	(5,994,608)	(72,026)
Loss on disposal of fixed assets		-	(48,339)
Loss before income tax		(8,078,694)	(4,586,676)
Income tax revenue		-	425,707
Loss for the period		(8,078,694)	(4,160,969)
Other comprehensive income			
<i>Items that will be reclassified subsequently to profit or loss when specific conditions are met:</i>			
Exchange differences on translating foreign operations, net of tax		60	84,444
Total comprehensive profit/(loss) for the period		(8,078,634)	(4,076,525)
Earnings per share			
<i>From continuing operations</i>			
- Basic/diluted earnings per share (cents)		(3.54)	(2.18)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Epsilon Healthcare Limited
Consolidated Statement of Financial Position
As at 30 June 2022

		As at 30 June 2022 \$	As at 31 December 2021 \$
	Note		
ASSETS			
Current Assets			
Cash and cash equivalents		965,352	2,335,569
Trade and other receivables		2,717,718	2,349,865
Inventory		387,382	2,420,343
Other assets		308,800	705,032
Total Current Assets		4,379,252	7,810,809
Non-Current Assets			
Property, plant and equipment		14,408,501	17,207,357
Right-of-use assets		364,387	429,380
Intangible assets		501,699	504,699
Goodwill	5	-	4,472,985
Other assets		107,596	126,891
Total Non-Current Assets		15,382,183	22,741,312
Total Assets		19,761,435	30,552,121
LIABILITIES			
Current Liabilities			
Trade and other payables		3,306,446	3,069,871
Contract liabilities		100,724	158,424
Borrowings		2,485,208	3,663,261
Employee benefits		226,088	128,909
Lease liabilities		147,410	115,126
Total Current Liabilities		6,265,876	7,135,591
Non-Current Liabilities			
Deferred tax liability		2,648,710	3,185,360
Lease liabilities		285,958	660,028
Total Non-Current Liabilities		2,934,668	3,845,388
Total Liabilities		9,200,544	10,980,979
Net Assets		10,560,891	19,571,142
EQUITY			
Contributed equity	6	45,350,944	44,817,619
Reserves	7	9,240,596	11,057,620
Accumulated losses		(44,030,649)	(36,304,097)
Equity		10,560,891	19,571,142

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Epsilon Healthcare Limited
Consolidated Statement of Changes in Equity
For the Half-Year Ended 30 June 2022

		Contributed equity	Other contributed equity	Accumulated losses	Reserves	Total
	Note	\$	\$	\$	\$	\$
At 1 January 2022		44,817,619	-	(36,304,097)	11,057,620	19,571,142
Loss for the period		-	-	(8,078,694)	-	(8,078,694)
Other comprehensive income	7(b/c)	-	-	-	60	60
Total comprehensive (loss)/income		-	-	(8,078,694)	60	(8,078,634)
Shares issued in the period	6(a)	600,000	-	-	-	600,000
Costs of capital raising		(66,675)	-	-	63,000	(3,675)
Equity settled acquisitions	6(b)	-	-	-	-	-
Options lapsed		-	-	352,142	(270,133)	82,009
Impairment of property plant and equipment		-	-	-	(1,609,951)	(1,609,951)
Total transactions with owners		533,325	-	352,142	(1,817,084)	(931,617)
At 30 June 2022		45,350,944	-	(44,030,649)	9,240,596	10,560,891
At 1 January 2021		41,801,459	-	(27,076,700)	10,594,306	25,319,065
Loss for the period		-	-	(4,160,969)	-	(4,160,969)
Other comprehensive income		-	-	-	84,444	84,444
Total comprehensive (loss)/income		-	-	(4,160,969)	84,444	(4,076,525)
Shares issued in the period		812,500	-	-	-	812,500
Costs of capital raising		(254,766)	-	-	-	(254,766)
Equity settled acquisitions		-	100,000	-	-	100,000
Options vesting expense		-	-	-	212,773	212,773
Options lapsed		-	-	-	-	-
Total transactions with owners		557,734	100,000	-	212,773	870,507
At 30 June 2021		42,359,193	100,000	(31,237,669)	10,891,523	22,113,047

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Epsilon Healthcare Limited
Consolidated Statement of Cash Flows
For the Half-Year Ended 30 June 2022

	30 June 2022 \$	30 June 2021 \$
Cash flows from operating activities		
Receipts from customers	1,723,198	3,106,082
Payments to suppliers and employees	(3,380,920)	(6,946,193)
Other income	451	119,577
Finance costs	(221,554)	(305,693)
Government grants received	1,107,848	1,205,344
Net cash outflow from operating activities	(770,977)	(2,820,883)
Cash flows from investing activities		
Payments for plant and equipment	(158,491)	(595,128)
Payments for intangible assets	-	(39,879)
Receipts from sale of plant and equipment	-	50,000
Net cash outflow from investing activities	(158,491)	(585,007)
Cash flows from financing activities		
Proceeds from shares issued net of issue costs	600,000	-
Options converted	-	-
Proceeds from borrowings	-	-
Repayment of borrowings	(1,036,430)	(477,159)
Net cash inflow from financing activities	(436,430)	(477,159)
Net (decrease)/increase in cash and cash equivalents	(1,365,898)	(3,883,049)
Cash and cash equivalents at the beginning of the financial period	2,335,569	6,967,941
Foreign exchange adjustment to cash balance	(4,319)	16,750
Cash and cash equivalents at end of the period	965,352	3,101,642

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Epsilon Healthcare Limited
Notes to the Financial Statements
For the Half-Year ended 30 June 2022

1 Summary of significant accounting policies

These consolidated financial statements and notes represent those of the consolidated entity (referred to hereafter as the 'Group') consisting of Epsilon Healthcare Limited (referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the half-year ended 30 June 2022.

Basis of preparation

These general purpose interim financial statements have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The financial statements have been prepared on an accruals basis and are based on historical costs unless otherwise stated in the notes. The accounting policies that have been adopted in the preparation of the statements are as follows:

Accounting policies

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted in the Group's 2021 annual financial report for the financial year ended 31 December 2021.

Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the discharge of liabilities in the normal course of business.

The Group incurred a loss before tax of \$8,078,964 and had net cash outflows from operating activities of \$770,977 for the half year ended 30 June 2022. As at that date the Group had net current liabilities of \$1,886,624, total assets of \$19,761,435 as well as cash and cash equivalents of \$965,352 as at 30 June 2022. The ability of the consolidated entity to continue as a going concern and realise its' assets is dependent on a number of factors, the most significant of which is the ability to raise additional capital, source alternative funding, or increase its revenue and generate profits.

These factors indicate a material uncertainty which may cast significant doubt as to whether Epsilon will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The Directors believe that there are reasonable grounds to believe that the Group will be able to continue as a going concern, after consideration of the following factors:

- The Group has cash and cash equivalents of \$965,352 as at 30 June 2022.
- At the date of this report, the Group is in discussions to raise additional capital, primarily through issue of new equity securities;
- The Group has secured a material number of purchase orders for products from its Southport facility;
- The Group has the ability to scale back a significant portion of its development activities if required.

Epsilon Healthcare Limited
Notes to the Financial Statements
For the Half-Year ended 30 June 2022

Accordingly, the Directors believe that the Group will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if Epsilon does not continue as a going concern.

2 Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

Share based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation other than the manufacturing entity that was carried at revalued amounts and subsequently impaired. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of property, plant and equipment and land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity.

To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from the property, plant and equipment revaluation surplus to retained earnings.

Epsilon Healthcare Limited
Notes to the Financial Statements
For the Half-Year ended 30 June 2022

As stated in the notes, the group prepared a discounted cash flow analysis to assess whether any of its assets were impaired. There is significant judgement and estimation uncertainty with regards to future cash flow forecasts. Changes in assumptions in relation to these forecasts could have a material impact on the carrying value of assets in the future.

3 Interests in subsidiaries

Name of subsidiary	Country of Incorporation	Proportion of ownership interest and voting power	
		30 June 2022	31 December 2021
Crystal Mountain Products Limited	Canada	-	100%
Dragon Vision Limited	Hong Kong	100%	100%
0970203 B.C. Ltd	Canada	-	100%
Canndeo Pty Ltd	Australia	100%	100%
Canna Clinics Pty Ltd	Australia	100%	100%
THC Pharma Pty Ltd	Australia	100%	100%
THC Pharma (NZ) Limited	New Zealand	-	100%
Canndeo Canada Ltd (formerly Vertical Canna Inc.)	Canada	-	100%
Metra Holdings Pty Ltd	Australia	100%	100%
Tetra Pty Ltd	Australia	100%	100%
Canndeo Fulfillment Inc	Canada	-	100%
Cannmira Therapeutic Clinic Ltd	Canada	-	100%
Medimar Pty Ltd	Australia	100%	100%
Demimar Pty Ltd	Australia	100%	100%

4 Revenue and other income

	Hydroponics Equipment, Materials and Nutrients 30 June 2022 \$	Medicinal Cannabis 30 June 2022 \$	Unallocated 30 June 2022 \$	Total 30 June 2022 \$
Revenue and other income				
Canada	754,466	-	-	754,466
Australia	-	3,423,844	451	3,424,295
	754,466	3,423,844	451	4,178,761
Revenue				
Goods transferred at a point in time	50,235	3,159,992	-	3,210,227
Services transferred over time	-	-	-	-
	50,235	3,159,992	-	3,210,227
Other Income				
Grant	-	263,852	-	263,852
Gain on disposal of subsidiaries	704,231	-	-	704,231
Interest received	-	-	451	451
	704,231	263,852	451	968,534
	754,466	3,423,844	451	4,178,761

Epsilon Healthcare Limited
Notes to the Financial Statements
For the Half-Year ended 30 June 2022

4 Revenue and other income (continued)

	Hydroponics Equipment, Materials and Nutrients 30 June 2021 \$	Medicinal Cannabis 30 June 2021 \$	Unallocated 30 June 2021 \$	Total 30 June 2021 \$
Revenue and other income				
Canada	1,898,624	-	117,926	2,016,550
Australia	-	3,013,068	130,897	3,143,965
	<u>1,898,624</u>	<u>3,013,068</u>	<u>248,823</u>	<u>5,160,515</u>
Revenue				
Goods transferred at a point in time	1,898,624	621,308	-	2,519,932
Services transferred over time	-	728,623	-	728,623
	<u>1,898,624</u>	<u>1,349,931</u>	<u>-</u>	<u>3,248,555</u>
Other Income				
Grant/Interest income recognised over time	-	1,663,137	248,823	1,911,960
	<u>1,898,624</u>	<u>3,013,068</u>	<u>248,823</u>	<u>5,160,515</u>

5 Impairment

	30 June 2022 \$	30 June 2021 \$
Impairment of goodwill	(4,472,985)	-
Inventory impairment	(1,521,623)	(72,026)
	<u>(5,994,608)</u>	<u>(72,026)</u>

The recoverable amount of Goodwill is determined, and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In the current period, the Group prepared Discounted Cash Flow analysis for the development and delivery of medicinal cannabis as a standalone CGU.

Key financial inputs into that analysis were:

- Discount rate: 14.39%
- Income tax rate: 25%
- Risk free rate: 1.6%
- Term: 5 years.

Based on the above, the carrying amount of the CGU exceeded the recoverable amount by \$6,082,936, resulting in a full impairment of the remaining goodwill of \$4,472,985, as well as a further \$2,146,601 downwards fair value adjustment (less deferred tax liability reduction of \$536,650) of property plant and equipment taken up against the asset revaluation reserve. The decline in recoverable value was due to a general decline in market conditions including extended order fulfilment times and material increases in direct input costs, labour and overheads.

The Company notes that notwithstanding impairment on balance sheet, the insured replacement value of the Southport Facility alone exceeds \$20 million.

The impairment of carried inventory was due to a transition to toll manufacturing. This inventory remains on hand, but unutilised. Management is currently assessing its option to realise the value of this idle stock.

Epsilon Healthcare Limited
Notes to the Financial Statements
For the Half-Year ended 30 June 2022

6 Contributed equity

Shares issued and authorised are summarised as follows:

	As at 30 June 2022		As at 31 December 2021	
	No. of Shares	\$	No. of Shares	\$
At the beginning of the period	222,706,949	44,817,619	189,456,949	41,801,459
Share placement	17,647,059	600,000	30,000,000	2,700,000
Shares issued to directors, employees and advisors	-	-	3,250,000	812,500
Capital Raising Cost	-	(66,675)	-	(496,340)
Balance at end of the period	240,354,008	45,350,944	222,706,949	44,817,619

	As at 30 June 2022	As at 31 December 2021
	\$	\$
Options reserve (a)	482,709	689,842
Foreign currency translation reserve (b)	47,988	47,928
Asset revaluation reserve (c)	8,709,899	10,319,850
	9,240,596	11,057,620

7 Reserves

(a) Options reserve

	As at 30 June 2022		As at 31 December 2021	
	No. of Options	\$	No. of Options	\$
At the beginning of the period	13,400,000	689,842	8,300,000	368,560
Free attaching options issued to share placement subscribers	15,000,000	-	-	-
Options issued to KMP's	-	-	4,800,000	169,541
Options issued to advisors ⁽¹⁾	15,000,000	63,000	3,000,000	167,522
Options lapsed	(5,600,000)	(352,778)	(2,700,000)	(15,781)
Options vesting expense	-	82,645	-	-
	37,800,000	482,709	13,400,000	689,842

- 1) During the period, the Company issued 15,000,000 Options for services related to the share placement completed in December 2021.

Epsilon Healthcare Limited
Notes to the Financial Statements
For the Half-Year ended 30 June 2022

7 Reserves (continued)

For options granted during the current financial period, the Black-Scholes method of options valuation inputs used to determine the fair value at the grant date are as follows:

Grant Date	Expiry Date	Share Price at Grant Date	Exercise Price	Performance Vesting Share Price/Target	Expected Volatility	Dividend Yield	Risk-free Interest Rate	Fair Value per Option
24/06/2022	24/06/2025	\$0.034	\$0.150	-	76%	-	2.89%	\$0.0042

	As at 30 June 2022 \$	As at 31 December 2021 \$
(b) Foreign currency translation reserve		
Balance at beginning of the period	47,928	(20,679)
Movement	60	68,607
Balance at end of the period	47,988	47,928
(c) Asset revaluation reserve		
Balance at beginning of the period	10,319,850	10,246,425
Impairment of property plant and equipment	(1,609,951)	73,425
Balance at end of the period	8,709,899	10,319,850

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

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 half-year ended 30 June 2022 is from the development and delivery of medicinal cannabis, as the hydroponics equipment, materials and nutrients operations have been discontinued. The revenues and profit generated by each of the Group's operating segments and segment assets are summarised as follows:

Epsilon Healthcare Limited
Notes to the Financial Statements
For the Half-Year ended 30 June 2022

8 Segment information (continued)

Segment performance

	Hydroponics Equipment, Materials and Nutrients	Medicinal Cannabis	Unallocated	Total
	30 June 2022	30 June 2022	30 June 2022	30 June 2022
	\$	\$	\$	\$
Revenue				
External sales	50,235	3,159,992	-	3,210,227
Other income	704,231	263,852	451	968,534
Total segment revenue and other income	754,466	3,423,844	451	4,178,761
Segment operating result	1,239,112	(1,913,236)	(7,404,570)	(8,078,694)

	Hydroponics Equipment, Materials and Nutrients	Medicinal Cannabis	Unallocated	Total
	30 June 2021	30 June 2021	30 June 2021	30 June 2021
	\$	\$	\$	\$
Revenue				
External sales	1,898,624	1,349,931	-	3,248,555
Other income	-	1,663,137	248,823	1,911,960
Total segment revenue and other income	1,898,624	3,013,068	248,823	5,160,515
Segment operating result	(477,435)	(494,068)	(3,189,466)	(4,160,969)

	30 June 2022	30 June 2022	30 June 2022	30 June 2022
	\$	\$	\$	\$
Assets				
Current assets	-	4,126,156	253,096	4,379,252
Non-current assets	-	14,734,901	647,282	15,382,183
Goodwill	-	-	-	-
Total assets	-	18,861,057	900,378	19,761,435
Current liabilities	-	6,066,867	199,009	6,265,876
Non-current liabilities	-	285,958	-	285,958
Deferred tax liabilities	-	2,648,710	-	2,648,710
Total liabilities	-	9,001,535	199,009	9,200,544

Epsilon Healthcare Limited
Notes to the Financial Statements
For the Half-Year ended 30 June 2022

8 Segment information (continued)

	31 December 2021	31 December 2021	31 December 2021	31 December 2021
	\$	\$	\$	\$
Assets				
Current assets	720,415	4,485,119	2,605,275	7,810,809
Non-current assets	18,866	17,541,031	708,430	18,268,327
Goodwill	-	4,472,985	-	4,472,985
Total assets	739,281	26,499,135	3,313,705	30,552,121
Current liabilities	1,120,334	5,965,500	49,757	7,135,591
Non-current liabilities	280,889	379,139	-	660,028
Deferred tax liabilities	-	3,185,360	-	3,185,360
Total liabilities	1,401,223	9,529,999	49,757	10,980,979

The Group's segment operating loss reconciles to the Group's profit after tax as presented in its financial statements as follows:

	30 June 2022	30 June 2021
	\$	\$
Total reporting segment operating profit	(674,124)	(971,503)
Share-based payment expenses	(82,645)	(855,731)
Employee benefit expenses	(251,230)	(812,661)
Other income not allocated	451	80,733
Other expenses not allocated	(7,071,146)	(1,601,807)
Group operating loss	(8,078,694)	(4,160,969)

9 Events occurring after the balance sheet date

The following matters happened subsequent to 30 June 2022:

- Appointment of Mr Steven Xu as Executive Chairman (previously non-exec Chairman), and appointment of Mr Patrick Xu as Executive Director (previously non-exec Director);
- Resignation of the Chief Executive Officer, Jarrod White;
- Resignation of Dr Rob Jenny as an Executive Director.

No other matters or circumstances have arisen since 30 June 2022 which significantly affected, or may significantly affect:

- d) The Group's operations in future financial years; or
- e) The results of those operations in future financial years; or
- f) The Group's state of affairs in future financial years.

Epsilon Healthcare Limited
Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 7 to 18 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Group as at 30 June 2022 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date;
 - (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that Epsilon Healthcare Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



Steven Xu
Executive Chairman
31 August 2022

RSM Australia Partners

Level 13, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001

T +61(0) 2 8226 4500
F +61(0) 2 8226 4501

www.rsm.com.au

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF

Epsilon Healthcare Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Epsilon Healthcare Limited which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors and those charged with governance determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2022 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Epsilon Healthcare Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Epsilon Healthcare Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the half-year financial report, which indicates that the Group incurred a loss before tax of \$8,078,694 and had net cash outflows from operating activities of \$770,977 for the half year ended 30 June 2022. As at that date the Group had net current liabilities of \$1,886,624, total assets of \$ 19,761,435 as well as cash and cash equivalents of \$965,352 as at 30 June 2022. The ability of the consolidated entity to continue as a going concern and realise its' assets is dependent on a number of factors, the most significant of which is the ability to raise additional capital or source alternative funding. These events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as going concern. Our conclusion is not modified in respect of this matter.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Epsilon Healthcare Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2022 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

RSM

RSM AUSTRALIA PARTNERS



Gary Sherwood
Partner

Sydney, NSW
Dated: 31 August 2022