



epsilon
HEALTHCARE

ACN: 614 508 039

**Consolidated Financial Report
for the Half Year Ended
30 June 2021**

Epsilon Healthcare Limited
Consolidated Interim Financial Report
30 June 2021

Table of Contents

	Page
Corporate Directory	2
Directors' Report	3
Auditor's Independence Declaration	6
Consolidated Statement of Profit or Loss and Other Comprehensive Income	7
Consolidated Statement of Financial Position	8
Consolidated Statement of Changes in Equity	9
Consolidated Statement of Cash Flows	10
Notes to the Financial Statements	11
Directors' Declaration	19
Independent Auditor's Review Report	20

Corporate Directory

Directors

Steven Xiaobo Xu (Chairman)
Rob Jenny
Simon Rowe

Joint Company Secretaries

Sonny Didugu
Louisa Ho

Chief Executive Officer

Jarrold White

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

Australian Legal Advisors

Piper Alderman
Level 23, Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Baker McKenzie
Level 46, Tower One
International Towers Sydney
100 Barangaroo Avenue
Barangaroo NSW 2000

Canadian Legal Advisors

Borden Ladner Gervais
Centennial Place, East Tower
1900, 520 3rd Ave SW
Calgary AB T2P 0R3

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 (formerly THC Global Group Limited) (referred to hereafter as the ‘Company’) and the entities it controlled at the end of, or during, the half-year ended 30 June 2021.

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, Non-Executive Director
Rob Jenny	Executive Director, appointed 02/08/2021
Simon Rowe	Non-Executive Director, appointed 02/08/2021
Alan Preston Beasley	Deputy Chairman, Non-Executive Director, ceased 29/07/2021
Lou Anthony Cattelan	Non-Executive Director, ceased 29/07/2021
Gary John Radcliff	Non-Executive Director, ceased 05/03/2021

Review of Operations and Financial Results

The net loss after income tax for the half-year ended 30 June 2021 was \$4,160,969 (2020 loss: \$5,578,924).

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, the Tetra Health clinic group, and the Medimar Platform. EPN additionally operates a turn-key cannabis cultivation solutions provider based in Vancouver, Canada.

Review of Operations

In 1H 2021, and as part of a broader strategic review led by the Company’s senior executive team, the Company was renamed to Epsilon Healthcare Limited (ASX:EPN) from THC Global Group Limited (ASX:THC). This change was part of a broader shift towards operating as a diversified healthcare and pharmaceuticals company with a renewed focus on expanding the Company’s pharmaceutical manufacturing capability and its network of alternative medicine clinics (Tetra Health).

Over 1H 2021, the Company has:

- Achieved revenue increases from the Company’s domestic cannabis operations including the Tetra Health clinic network and the Company’s pharmaceutical manufacturing activity;
- Materially reduced operating expenses across the Group;
- Expanded the Company’s pharmaceutical manufacturing capability with new finished dosage forms and increased batch capacity;
- Appointed a new Divisional Manager of Cannabis Operations – Edward Jones – formerly the General Manager of Canopy Farms (Australia) and Project Lead for Cannvalate’s Valens Australia project; and Commenced supplying the Murdoch Children’s Research Institute with a study drug for a clinical study into severe behavioural problems in youth with intellectual disabilities.

Significant Changes in State of Affairs

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 2021:

- Announcement of Dr Rob Jenny as being appointed as an Executive Director and Mr Simon Rowe as a Non-Executive Director;
- Tetra launching a new face to face clinic in Melbourne;
- Execution of a Binding Heads of Agreement with The Valens Company (TSX:VLNS) – a leading Canadian manufacturer of cannabis products - establishing a long term strategic partnership for collaboration at the Company's pharmaceutical facility which will see Valens fund all operational and capital expenditure at the facility and deliver significant revenues from product sales to Epsilon;
- Execution of a Share Sale Agreement with Cannvalate Pty Ltd for the acquisition of AlternaMed Pty Ltd including three novel cannabinoid therapeutic clinical assets with the potential for Schedule 3 medicine development and access to a Sigma Pharmaceuticals storage facility controlled by Cannvalate.

No other matters or circumstances have arisen since 30 June 2021 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 (2020: \$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
Chairman
12 October 2021

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 2021, 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

[Signature]
GNS

Gary Sherwood
Partner

Sydney, NSW

Dated: 12 October 2021

Epsilon Healthcare Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Half-Year Ended 30 June 2021

	Note	30 June 2021 \$	30 June 2020 \$
Revenue from continuing operations	4	3,248,555	3,483,566
Cost of goods sold		(2,114,606)	(2,336,727)
Gross profit		1,133,949	1,146,839
Other income	4	1,911,960	355,938
Other cost of sales		(179,444)	(270,179)
Professional expenses		(593,765)	(597,921)
Consulting and due diligence expenses		(475,258)	(540,073)
Plant and facility costs		(261,449)	(370,407)
Employee benefits expense		(2,577,874)	(2,062,311)
Advertising and promotion expenses		(60,652)	(151,517)
Insurance expenses		(296,218)	(165,097)
License and registration expenses		(80,000)	(38,130)
Depreciation and amortisation expenses		(711,406)	(1,139,313)
Research and development		(233,611)	(217,153)
Finance expenses		(401,629)	(146,247)
Foreign exchange loss		(25,656)	-
Office and occupancy expenses		(264,248)	(264,110)
General and administration expenses		(495,279)	(844,140)
Share based payments		(855,731)	(275,103)
Impairment expense		(72,026)	-
Loss on disposal of fixed assets		(48,339)	-
Loss before income tax		(4,586,676)	(5,578,924)
Income tax revenue		425,707	-
Loss for the period		(4,160,969)	(5,578,924)
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		84,444	(88,858)
Total comprehensive profit/(loss) for the period		(4,076,525)	(5,667,782)
Earnings per share			
<i>From continuing operations</i>			
- Basic/diluted earnings per share (cents)		(2.18)	(3.94)

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 2021

		As at 30 June 2021	As at 31 December 2020
	Note	\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents		3,101,642	6,967,941
Trade and other receivables		1,964,298	1,419,381
Inventory		1,965,531	2,039,259
Other assets		325,197	578,604
Total Current Assets		7,356,668	11,005,185
Non-Current Assets			
Property, plant and equipment		18,449,562	18,900,501
Right-of-use assets		818,523	1,172,646
Intangible assets		515,405	475,526
Goodwill		5,444,481	5,444,481
Other assets		329,540	264,530
Total Non-Current Assets		25,557,511	26,257,684
Total Assets		32,914,179	37,262,869
LIABILITIES			
Current Liabilities			
Trade and other payables		1,986,450	2,429,186
Contract liabilities		644,431	390,585
Borrowings		3,410,572	3,794,639
Employee benefits		378,947	125,382
Lease liabilities		259,836	344,414
Total Current Liabilities		6,680,236	7,084,206
Non-Current Liabilities			
Deferred tax liability		3,460,868	3,886,575
Lease liabilities		660,028	973,023
Total Non-Current Liabilities		4,120,896	4,859,598
Total Liabilities		10,801,132	11,943,804
Net Assets		22,113,047	25,319,065
EQUITY			
Contributed equity	5	42,459,193	41,801,459
Reserves	6	10,891,523	10,594,306
Accumulated losses		(31,237,669)	(27,076,700)
Equity		22,113,047	25,319,065

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 2021

		Contributed equity	Other contributed equity	Accumulated losses	Reserves	Total
	Note	\$	\$	\$	\$	\$
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	6(b/c)	-	-	-	84,444	84,444
Total comprehensive (loss)/income		-	-	(4,160,969)	84,444	(4,076,525)
Shares issued in the period	5(a)	812,500	-	-	-	812,500
Costs of capital raising		(254,766)	-	-	-	(254,766)
Equity settled acquisitions	5(b)	-	100,000	-	-	100,000
Options vesting expense	6(a)	-	-	-	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
At 1 January 2020		28,448,111	850,000	(18,044,950)	11,068,019	22,321,180
Loss for the period		-	-	(5,578,924)	-	(5,578,924)
Other comprehensive income	6(b/c)	-	-	-	(88,858)	(88,858)
Total comprehensive (loss)/income		-	-	(5,578,924)	(88,858)	(5,667,782)
Shares issued in the period	5(a)	8,577,884	-	-	-	8,577,884
Costs of capital raising		(398,023)	-	-	-	(398,023)
Equity settled acquisitions		-	1,375,000	-	343,420	1,718,420
Options vesting expense		-	-	-	275,103	275,103
Options lapsed	5(a)	-	-	12,286	(12,286)	-
Total transactions with owners		8,179,861	1,375,000	12,286	606,237	10,173,384
At 30 June 2020		36,627,972	2,225,000	(23,611,588)	11,585,398	26,826,782

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 2021

	30 June 2021 \$	30 June 2020 \$
Cash flows from operating activities		
Receipts from customers	3,106,082	3,202,378
Payments to suppliers and employees	(6,946,193)	(7,943,961)
Other income	119,577	3,186
Finance costs	(305,693)	(73,928)
Government grants received	1,205,344	336,999
Net cash outflow from operating activities	(2,820,883)	(4,475,326)
Cash flows from investing activities		
Payments for plant and equipment	(595,128)	(393,109)
Payments for land and buildings	-	(250,000)
Cash in subsidiary	-	3,455
Payments for intangible assets	(39,879)	-
Receipts from sale of plant and equipment	50,000	-
Net cash outflow from investing activities	(585,007)	(639,654)
Cash flows from financing activities		
Proceeds from shares issued net of issue costs	-	6,202,976
Options converted	-	641,884
Proceeds from borrowings	-	3,760,000
Repayment of borrowings	(477,159)	-
Net cash inflow from financing activities	(477,159)	10,604,860
Net (decrease)/increase in cash and cash equivalents	(3,883,049)	5,489,880
Cash and cash equivalents at the beginning of the financial period	6,967,941	3,551,595
Foreign exchange adjustment to cash balance	16,751	(2,127)
Cash and cash equivalents at end of the period	3,101,642	9,039,348

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 2021

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 2021.

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 2020 annual financial report for the financial year ended 31 December 2020.

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 after tax of \$4,160,969 (2020: loss after tax of \$5,578,924) and had net cash outflows from operating activities of \$2,820,883 for the half year ended 30 June 2021. As at that date the Group had net current assets of \$676,432, total assets of \$32,914,179 as well as cash and cash equivalents of \$3,101,642 as at 30 June 2021.

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 \$3,101,642 as at 30 June 2021. As at that date the Group had net current assets of \$676,432 and total assets of \$32,914,179;
- If required, the Group has the ability to continue to raise additional funds on a timely basis; and
- The Group has the ability to scale back a significant portion of its development activities if required.

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.

Epsilon Healthcare Limited
Notes to the Financial Statements
For the Half-Year ended 30 June 2021

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.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The Group remained in a development phase during the period and consequently there is some uncertainty surrounding the availability of future taxable amounts to utilise tax losses. Management considers it prudent not to raise any deferred tax assets at this point in time.

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. 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 2021

3 Interests in subsidiaries

Name of subsidiary	Country of Incorporation	Proportion of ownership interest and voting power	
		30 June 2021	31 December 2020
Crystal Mountain Products Limited	Canada	100%	100%
Dragon Vision Limited	Hong Kong	100%	100%
0970203 B.C. Ltd	Canada	100%	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%	100%
Canndeo Canada Inc (formerly Vertical Canna)	Canada	100%	100%
Metra Pty Ltd	Australia	100%	100%
Tetra Pty Ltd	Australia	100%	100%
Canndeo Fulfillment Inc	Canada	100%	100%
Cannmira Inc	Canada	100%	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 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>

Epsilon Healthcare Limited
Notes to the Financial Statements
For the Half-Year ended 30 June 2021

4 Revenue and other income (continued)

	Hydroponics Equipment, Materials and Nutrients	Medicinal Cannabis	Unallocated	Total
	30 June 2020	30 June 2020	30 June 2020	30 June 2020
	\$	\$	\$	\$
Revenue and other income				
Canada	3,414,297	-	15,752	3,430,049
Australia	-	324,390	85,065	409,455
	3,414,297	324,390	100,817	3,839,504
Revenue				
Goods transferred at a point in time	3,414,297	19,703	-	3,434,000
Services transferred over time	-	51,497	-	51,497
	3,414,297	71,200	-	3,485,497
Other income				
Grant/Interest income recognised over time	-	253,190	100,817	354,007
	3,414,297	324,390	100,817	3,839,504

5 Contributed equity

(a) Ordinary shares

Shares issued and authorised are summarised as follows:

	As at 30 June 2021		As at 31 December 2020	
	No. of Shares	\$	No. of Shares	\$
At the beginning of the period	189,456,949	41,801,459	139,164,832	28,448,111
Share placement	3,250,000	812,500	48,687,408	13,596,000
Options converted	-	-	1,604,709	641,884
Share issue expenses	-	(254,766)	-	(884,536)
Balance at end of the period	192,706,949	42,359,193	189,456,949	41,801,459

(b) Other contributed equity

Other contributed equity comprise of performance shares issued and unissued ordinary shares, summarised as follows:

	As at 30 June 2021		As at 31 December 2020	
	No. of Shares	\$	No. of Shares	\$
<i>Other contributed equity</i>				
At the beginning of the period	-	-	8,500,000	850,000
Performance shares lapsed without meeting vesting conditions	-	-	(8,500,000)	(850,000)
Share applications received but not issued	-	100,000	-	-
Balance at end of the period	-	100,000	-	-

Epsilon Healthcare Limited
Notes to the Financial Statements
For the Half-Year ended 30 June 2021

	As at 30 June 2021 \$	As at 31 December 2020 \$
6 Reserves		
Options reserve (a)	581,332	368,560
Foreign currency translation reserve (b)	63,766	(20,679)
Asset revaluation reserve (c)	10,246,425	10,246,425
	10,891,523	10,594,306

(a) Options reserve

	As at 30 June 2021		As at 31 December 2020	
	No. of Options	\$	No. of Options	\$
At the beginning of the period	8,300,000	368,560	10,516,665	671,129
Options issued to vendors	3,000,000	169,541		
Options issued to acquire Tetra Health	-	-	5,000,000	343,420
Vesting expense for the period	4,800,000 ¹	43,231	-	7,311
Options lapsed	(2,700,000)	-	(7,216,665)	(653,300)
Options converted	-	-	-	-
	13,400,000	581,332	8,300,000	368,560

1) During the period, the Company issued 4,800,000 performance options to Key Management Personnel under the Employee Option Plan.

For options granted during the current financial period, the Hull-White ESO valuation model 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
27/04/21	31/12/22	\$0.1950	-	\$0.30	63%	-	0.07%	\$0.1441
27/04/21	31/12/22	\$0.1950	-	\$0.35	63%	-	0.07%	\$0.1241
27/04/21	31/12/22	\$0.1950	-	\$0.40	63%	-	0.07%	\$0.1069
27/04/21	31/12/22	\$0.1950	-	\$0.45	63%	-	0.07%	\$0.0924
27/04/21	31/12/22	\$0.1950	-	\$0.50	63%	-	0.07%	\$0.0800
27/04/21	31/12/22	\$0.1950	-	Positive 6-month EBITDA	63%	-	0.07%	\$0.0488

Epsilon Healthcare Limited
Notes to the Financial Statements
For the Half-Year ended 30 June 2021

6 Reserves (continued)

	As at 30 June 2021 \$	As at 31 December 2020 \$
(b) Foreign currency translation reserve		
Balance at beginning of the period	(20,679)	150,465
Movement	84,445	(171,144)
Balance at end of the period	63,766	(20,679)
(c) Asset revaluation reserve		
Balance at beginning of the period	10,246,425	10,246,425
Revaluation of property plant and equipment	-	-
Balance at end of the period	10,246,425	10,246,425

7 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 2021 is from distribution of hydroponics equipment, materials and nutrients. The revenues and profit generated by each of the Group's operating segments and segment assets are summarised as follows:

Segment performance

	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)

Epsilon Healthcare Limited
Notes to the Financial Statements
For the Half-Year ended 30 June 2021

7 Segment information (continued)

	Hydroponics Equipment, Materials and Nutrients 30 June 2020 \$	Medicinal Cannabis 30 June 2020 \$	Unallocated 30 June 2020 \$	Total 30 June 2020 \$
Revenue				
External sales	3,428,003	55,563	-	3,483,566
Other income	-	253,644	102,294	355,938
Total segment revenue and other income	3,428,003	309,207	102,294	3,893,504
Segment operating result	238,194	(3,219,998)	(2,597,120)	(5,578,924)
	30 June 2021 \$	30 June 2021 \$	30 June 2021 \$	30 June 2021 \$
Assets				
Current assets	1,038,907	5,021,258	1,296,503	7,356,668
Non-current assets	1,263,635	18,120,287	729,108	20,113,030
Goodwill	971,496	4,472,985	-	5,444,481
Total assets	3,274,038	27,614,530	2,025,611	32,914,179
Current liabilities	847,458	4,585,131	1,247,647	6,680,236
Non-current liabilities	324,523	289,745	45,760	660,028
Deferred tax liabilities	-	3,460,868	-	3,460,868
Total liabilities	1,171,981	8,335,744	1,293,407	10,801,132
	31 December 2020 \$	31 December 2020 \$	31 December 2020 \$	31 December 2020 \$
Assets				
Current assets	1,947,327	4,025,223	5,032,635	11,005,185
Non-current assets	1,250,595	18,607,420	955,188	20,813,203
Goodwill	971,496	4,472,985	-	5,444,481
Total assets	4,169,418	27,105,628	5,987,823	37,262,869
Current liabilities	1,362,137	4,609,419	1,112,650	7,084,206
Non-current liabilities	346,771	484,686	141,566	973,023
Deferred tax liabilities	-	3,886,575	-	3,886,575
Total liabilities	1,708,908	8,980,680	1,254,216	11,943,804

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

	30 June 2021 \$	30 June 2020 \$
Total reporting segment operating profit	(971,503)	(2,981,804)
Share-based payment expenses	(855,731)	(275,103)
Employee benefit expenses	(812,661)	(488,780)
Other income not allocated	80,733	1,710
Other expenses not allocated	(1,601,807)	(1,834,947)
Group operating loss	(4,160,969)	(5,578,924)

Epsilon Healthcare Limited
Notes to the Financial Statements
For the Half-Year ended 30 June 2021

8 Events occurring after the balance sheet date

The following matters happened subsequent to 30 June 2021:

- Announcement of Dr Rob Jenny as being appointed as an Executive Director and Mr Simon Rowe as a Non-Executive Director;
- Tetra launching a new face to face clinic in Melbourne;
- Execution of a Binding Heads of Agreement with The Valens Company (TSX:VLNS) – a leading Canadian manufacturer of cannabis products - establishing a long term strategic partnership for collaboration at the Company's pharmaceutical facility which will see Valens fund all operational and capital expenditure at the facility and deliver significant revenues from product sales to Epsilon;
- Execution of a Share Sale Agreement with Cannvalate Pty Ltd for the acquisition of AlternaMed Pty Ltd including three novel cannabinoid therapeutic clinical assets with the potential for Schedule 3 medicine development and access to a Sigma Pharmaceuticals storage facility controlled by Cannvalate.

No other matters or circumstances have arisen since 30 June 2021 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 2021 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
Chairman
12 October 2021

RSM 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 2021, 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 2021 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.

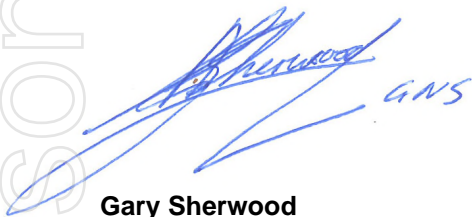
Conclusion

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 2021 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*.

A handwritten signature in blue ink that reads 'RSM'.

RSM AUSTRALIA PARTNERS

A handwritten signature in blue ink, appearing to read 'GNS'.

Gary Sherwood
Partner

Sydney, NSW
Dated: 12 October 2021