



epsilon
HEALTHCARE

Consolidated Financial Report for the Year Ended 31 December 2020

ACN: 614 508 039

Formerly THC Global Group Limited

2020 FINANCIAL REPORT

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CORPORATE INFORMATION

EPSILON HEALTHCARE LIMITED (ASX: EPN)

Directors

Steven Xiaobo Xu (Chairman)
Alan Preston Beasley (Deputy Chairman)
Lou Anthony Cattelan
Gary John Radcliff (resigned 5 March 2021)

Company Secretary

Sonny Didugu
Philip Leighfield

Chief Executive Officer

Jarrold White

Registered Office

Suite 4102, Level 41
264-278 George Street
Sydney NSW 2000

Principal Place of Business

Suite 4102, Level 41
264-278 George Street
Sydney NSW 2000

Share Registry

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001

Stock Exchange Listing

Epsilon Healthcare Limited securities are listed on the Australian Securities Exchange (ASX code: EPN)

Website

epsilonhealthcare.com.au

Telephone

+61 2 8088 4760

Corporate Accountant

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

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 S W,
Calgary, Alberta, Canada

CHAIRMAN'S LETTER

Dear Fellow Shareholders,

I am pleased to present to you the 2020 Annual Report for Epsilon Healthcare Limited (ASX:EPN) (**Epsilon** or the **Company**).

The past year has been a year of significant change within the Company. We began the year strong with the Southport Facility finally being fully licenced and medicinal cannabis medicine manufacture commencing, as well as acquiring the Tetra Health clinic operation. However, as the year progressed, the Board of Directors saw an impending need for a change in strategy and leadership, leading to the commencement of a Strategic and Financial Review to be undertaken by a newly appointed senior executive leadership team and the Board of Directors.

This review resulted in a number of positive outcomes, including:

- The Company suspending further investment in business areas that it did not have a core competitive advantage, including cannabis cultivation;
- Pivoting towards being a toll and contract manufacturer to the cannabis industry rather than seeking to compete as another brand in a highly competitive market;
- Reworking the Company's approach to the market to better take advantage of its primary assets, including the Southport Facility – the largest bio-floral extraction facility in the Southern Hemisphere;
- Commissioning of new equipment and systems at the Southport Facility to enable more automated processes and result in higher volume throughput production across more dosage forms;
- Repositioning the Company as a diversified healthcare and pharmaceuticals company, with significant investments in medicinal cannabis, including changing the Company's name to Epsilon Healthcare Limited; and
- Achieving a ~\$700,000 normalised run rate reduction (to be realised from May 2021);

Now as a much leaner business looking to 2021 and beyond, the Company is well positioned to be a market leading toll and contract TGA and EU GMP manufacturer for the global cannabis industry. With significant inbound local and international interest received in accessing the Company's manufacturing capacity, we're looking forward to releasing further information on the product pipeline over the coming months, towards our goal of bringing the Southport Facility to the forefront of this industry.

Across our other business units, we have continued to grow our operations and remain in strong position into this year. Our Canadian turnkey cultivation solutions business has expanded into new regions, and is operating well even through tough market conditions and global logistics issues restraining access to inventory. Our team, led by Laura Harvey in Vancouver, Canada have been extremely resilient and we thank them for their continued dedication to the Company even through this global pandemic.

Our acquisition of Tetra Health in May last year was well timed, with patient demand for medicinal cannabis in Australia continuing to grow. Tetra remains to be highly regarded in the industry for its product agnostic patient focussed approach and is a clear leader in this market for patients. Our performance in early 2021 – achieving our two best months by revenue and patient numbers in March and January – is a good indicator of what is to come within Tetra over the course of this year, and we hope to report further record results to shareholders in due course.

On behalf of the Board and Management, I thank you for your continued support of the Company and look forward to what's to come in this year.

Yours faithfully,



Steven Xu
Chairman

30 April 2021

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DIRECTORS' REPORT

Your directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as 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 year ended 31 December 2020.

Directors

The following persons were directors of the Company during the financial year and up to the date of this report:

| | |
|-----------------------------|--|
| Steven Xiaobo Xu | Chairman, Non-Executive Director |
| Alan Preston Beasley | Deputy Chairman, Non-Executive Director |
| Lou Anthony Cattelan | Non-Executive Director |
| Gary John Radcliff | Non-Executive Director (resigned effective 5 March 2021) |

Chief Executive Officer

Jarrod White (Appointed 2 September 2020)

Ken Charteris (Removed 2 September 2020)

Chief Financial Officer

Jarrod White

Company Secretary

Sonny Didugu

Philip Leighfield

Information on Directors



Steven Xu

*Chairman (Non-Executive)
Appointed 12 January 2018*

Steven Xu is the Managing Director of Une-Innovation Consulting Australia Pty Ltd and Founding Partner of INP Capital Inc which manages a series of venture capital funds. The venture capital funds invest in companies specialised in Medical/Healthcare, AI, Fintech and Industrial technology and Medical Cannabis across Australia, New Zealand, North America and Israel.

He has strong international connections and over 15 years' experience working at PricewaterhouseCoopers and listed companies in Australia and China. He specialises in financing, IPO and M&A activities in a broad range of sectors. Steven completed a Bachelor of Management.

He is a member of the Institute of Chartered Accountants (Australia and New Zealand) and the Australian Institute of Company Directors.

| | |
|---|--|
| Special responsibilities | Chairman from 15 March 2018 |
| | Chairman of the Audit and Risk Committee (Chairman to 15 March 2019) |
| | Chairman of the Strategy and Management Committee (from 4 June 2019) |
| Other current ASX directorships: | None |
| Former ASX directorships in last 3 years | None |

**Alan Beasley***Deputy Chairman (Non-Executive)**Appointed 29 August 2016*

Alan Beasley has worked in the Investment Banking and Investment Management industries for over 30 years with Bankers Trust Australia, Goldman Sachs Asset Management, and BNP Paribas Asset Management Ltd. The last two positions as Managing Director and Australian Country Head. Alan is a director and former director of several listed and unlisted public and private companies including two public charities.

Alan has a passion for and experience in assisting to bring innovative and new technology companies to market, especially in the Health and Life Sciences sectors. Alan graduated with a Bachelor of Economics, (UNE) and completed an Advanced Management Program in International Investment Management from the Graduate Business School, Stanford University, USA.

Alan is a Certified Practising Accountant, (CPA) Fellow of the Governance Institute of Australia, (FGIA) and Fellow of the Australian Institute of Company Directors. (FAICD).

He is currently Managing Director of Hudson Investment Group Ltd (ASX.HGL) and Non-Executive Chairman of AFT Corporation Limited (ASX.AFT). He is a former Non-Executive Chairman of E3SIXTY Limited (ASX.E3S).

| | |
|---|--|
| Special responsibilities | Deputy Chairman from 15 March 2018 |
| | Chairman of Audit and Risk Committee (appointed Chairman 15 March 2019) |
| | Member of the Strategy and Management Committee (from 4 June 2019) |
| Other current ASX directorships: | Hudson Investment Group Limited (ASX.HGL) AFT Corporation Limited (ASX.AFT) |
| Former ASX directorships in last 3 years | E3SIXTY Limited (ASX.E3S) Raffles Capital Limited (ASX.RAF) |

**Lou Cattelan***Non-Executive Director**Appointed 15 March 2018*

Lou is a specialist in the pharmaceutical, nutraceutical, complementary healthcare, and allied health industry sectors with over 30 years' experience across a broad range of operational and strategic areas including, quality assurance, supply chain management, new product development, TGA and FDA regulatory compliance, sales and marketing, business development, and special projects. Lou has sat on the Consumer Healthcare Products Australia (formerly ASMI, the peak industry body for the Australian Consumer Health Industry) Committee for Complementary Medicines as a key liaison between TGA and significant industry stakeholders.

Lou has now retired as Head of Sales and Marketing of Contract Pharmaceutical Services of Australia (CPSA). In this role over the past 19 years, he has consulted with all major Pharma companies including Pfizer, MSD, Mylan and GSK to take innovative concepts through to compliant finished products. He has also worked in senior hands-on positions with Ella Bache, Milpharma, Sunspot Products, Bayer Pharma and Blackmores.

Lou is a member of the Australian Institute of Company Directors (MAICD) and has a Bachelor of Applied Science.

| | |
|---------------------------------|------------------------------------|
| Special responsibilities | Member of Audit and Risk Committee |
|---------------------------------|------------------------------------|

| | |
|---|------|
| Other current ASX directorships: | None |
|---|------|

| | |
|---|------|
| Former ASX directorships in last 3 years | None |
|---|------|

**Gary Radcliff***Non-Executive Director**Appointed 15 March 2018**Resigned 5 March 2021*

Mr Radcliff is a practicing Barrister, having been first called to the Bar in 1984 and is the President of the Gold Coast Bar Association. Mr Radcliff is also a specialist adjudicator in relation to Dispute Resolution recognised by the Office of the Commissioner for Body Corporate and Community Management (Queensland, Australia).

Mr Radcliff provides a wealth of experience in corporate governance and compliance matters both in Australia and overseas. In addition to practicing law, Mr Radcliff has significant experience in project management, corporate advisory and company directorship in a wide range of sectors, most notably, pharmaceuticals, financial services and technology.

| | |
|---------------------------------|------|
| Special responsibilities | None |
|---------------------------------|------|

| | |
|---|------|
| Other current ASX directorships: | None |
|---|------|

| | |
|---|------|
| Former ASX directorships in last 3 years | None |
|---|------|

Information on Key Management Personnel



Jarrod White

Chief Executive Officer

Chief Financial Officer

Appointed as CEO 2 September 2020

Mr. White is a Chartered Accountant and founding Director of Traverse Accountants Pty Ltd, a Corporate Advisory and Chartered Accounting Firm. In conjunction with his Corporate Advisory roles at Traverse Mr. White has been appointed Company Secretary and Chief Financial Officer of several other listed entities on the Australian Securities Exchange and has a sound knowledge of corporate governance and compliance. Jarrod has also been an advisor to a wide range of capital raisings, IPO's and reverse takeover transactions and has a focus on working with growing companies in the exploration, technology and biotech space.



Sonny Didugu

Chief Operating Officer

Joint Company Secretary

Appointed as COO 2 September 2020

Mr Didugu has significant corporate advisory, equity capital markets transactions, and listed entity compliance experience across a broad range of industry sectors including property development, gaming, fin-tech, esports, and cannabis. His past experience includes advisory roles within private equity houses, working within in-house counsel groups, and consulting to corporate advisory firms. Mr Didugu has previously acted for a wide range of listed and unlisted entities providing investor relations support, equity market transactions advice, and general corporate and governance advisory services. Mr Didugu holds a Bachelor of Laws (Honours) and is a Member of the Australian Institute of Company Directors.

Meetings of Directors (incorporating Remuneration Committee)

| Director | Meetings | |
|---------------|----------|--------------------|
| | Attended | Eligible to Attend |
| Steven Xu | 8 | 8 |
| Lou Cattelan | 8 | 8 |
| Gary Radcliff | 8 | 8 |
| Alan Beasley | 8 | 8 |

Audit and Risk Committee Meetings

| Director | Meetings | |
|--------------|----------|--------------------|
| | Attended | Eligible to Attend |
| Steven Xu | 6 | 6 |
| Alan Beasley | 6 | 6 |
| Lou Cattelan | 6 | 6 |

Review of Operations and Financial Results

The net loss after tax for the year was \$10,535,050 (2019 loss: \$11,703,510).

Principal Activities and Strategy

Epsilon Healthcare is a diversified global healthcare and pharmaceuticals company with primary operations in Australia and Canada. Epsilon Healthcare is the first ASX listed entity to fully own and operate end to end commercial medicinal cannabis production facilities under Australia's cannabis regulations. Epsilon Healthcare's Southport Facility in Southport, Australia is one of the largest pharmaceutical GMP cannabis manufacturing facilities in the world. Epsilon Healthcare also owns and operates a fast-growing turnkey cultivation solutions provider, including a hydroponics equipment and supplies wholesaler and retailer servicing the rapidly expanding cannabis sectors in North America and Europe.

Recent Highlights

- Trading revenue for 2020 of \$6.95 million – 45% YoY growth in 2019 audited revenue;
- Strong balance sheet with audited net equity of \$25.32 million;
- Hydroponics equipment sales in Canada experienced 25% year-on-year growth thanks to continued broadening of the product offering and expansion across the Canadian market;
- Sales of medicinal cannabis products were realised for the first time in FY20, resulting in \$1.07m in sales for the six months to 31 December 2020;
- Tetra Health, an entity acquired in May 2020 that facilitates patient cannabis access, generated \$563k in sales on the 7-months to 31 December 2020.

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

Since the end of the reporting period;

- a) On 25 February 2021, the Company announced the formal change of name from THC Global Group Limited to Epsilon Healthcare Limited following shareholder approval on 18 February 2021;
- b) On 5 March 2021, the Company announced the resignation of Non-Executive director Gary Radcliff effective at that date;
- c) On 5 March 2021, the Company announced the issuance of 3,000,000 unlisted options exercisable at a price of \$0.35 with an expiry of 24 months from date of issue, as well as the issuance of 1,000,000 ordinary fully paid shares at a price of \$0.25;
- d) On 11 March 2021, the Company announced the launching of telehealth medicinal cannabis clinic group, Tetra Health, first face to face clinic site in South Yarra, Melbourne;
- e) On 27 April 2021, the Company issued 2,250,000 shares and 4,800,000 Performance Options with the following terms:
 - a. 350,000 Performance Options at nil ex vesting on share price \$0.30 exp 31/12/2022;
 - b. 500,000 Performance Options at nil ex vesting on share price \$0.35 exp 31/12/2022;
 - c. 700,000 Performance Options at nil ex vesting on share price \$0.40 exp 31/12/2022;
 - d. 850,000 Performance Options at nil ex vesting on share price \$0.45 exp 31/12/2022;
 - e. 1,000,000 Performance Options at nil ex vesting on share price \$0.50 exp 31/12/2022;
 - f. 1,400,000 Performance Options at nil ex vesting on EBITDA target achievement exp 31/12/2022.

No other matter or circumstance has arisen since 31 December 2020 that has 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.

Environmental regulation

The Group's operations are not subject to any significant environmental regulation under either Commonwealth or State legislation. The Board considers that adequate systems are in place to manage the Group's obligations and is not aware of any breach of environmental requirements as they relate to the Group.

Dividends

No dividends were paid to members during the financial year (2019: \$Nil).

Indemnification of officers

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

Indemnity and insurance of auditor

The Group has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Group or any related entity against a liability incurred by the auditor.

During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Group or any related entity.

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.

Non-audit services

As disclosed under Note 30, the Group's auditor did not provided any non-audit services during the 2020 financial year (2019: nil).

Officers of the company who are former partners of RSM Australia Partners

There are no officers of the company who are former partners of RSM Australia Partners.

Auditor's independence declaration

A copy of the auditor's independence declaration is set out on page 18.

Auditor

RSM Australia Partners continue in office in accordance with section 327 of the Corporations Act 2001.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of the Group.

Remuneration philosophy

The performance of the Group depends upon the quality of its directors and executives, and the ability of the Group to attract, motivate and retain highly skilled directors and executives.

Remuneration committee

The Remuneration and Nomination Committee of Directors is responsible for determining and reviewing compensation arrangements for the Directors, the Chief Executive Officer and the executive team. The role of the Remuneration and Nomination Committee was undertaken by the full Board.

The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board of Directors recognises that the success of the Group will depend on the quality of its directors and its senior management. For this reason, the Remuneration Committee reviews the remuneration arrangements for all senior employees to ensure that it attracts and keeps motivated, highly skilled and appropriately qualified Directors and executives.

Structure

The Company's Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting of shareholders. An amount not exceeding the amount determined by shareholders in general meeting is then available to be split between the Directors as agreed between them. This determination will be put to shareholders at the next Annual General Meeting.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned between directors will be reviewed annually. The Board takes into account the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company. The Chairman receives a higher fee in recognition of the additional time commitment required of a Chairman.

Non-executive directors are encouraged by the Board to hold shares in the Company (purchased by the directors on market).

Non-executive directors' remuneration is not linked to the performance of the Company.

The remuneration of non-executive directors for the year ending 31 December 2020 is detailed in Table 3 of this report. There is currently a maximum director payment pool of \$500,000.

Senior manager and executive director remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the Remuneration Committee reviews market conditions and the circumstances of the Company to ensure that the remuneration offered is sufficient to attract executives of the highest calibre.

Fixed remuneration

The fixed remuneration of all employees is reviewed by the Remuneration Committee as is considered necessary.

Equity Based Remuneration

The equity-based remuneration of all employees is reviewed by the Remuneration Committee as is considered necessary.

Table 1: Shareholdings of key management personnel

| 2020 | Opening balance | Granted as compensation | Acquired | Disposed | Closing balance |
|---------------|------------------|-------------------------|----------------|----------|----------------------|
| Alan Beasley | 780,000 | - | 100,000 | - | 880,000 |
| Steven Xu | 1,822,302 | - | 8,334 | - | 1,830,636 |
| Lou Cattelan | 244,469 | - | 83,334 | - | 327,803 |
| Gary Radcliff | 162,616 | - | 44,900 | - | 207,516 |
| Ken Charteris | 515,000 | - | - | - | 515,000 ¹ |
| Jarrold White | 249,786 | - | - | - | 249,786 |
| Laura Harvey | - | - | - | - | - |
| Total | 3,774,173 | - | 236,568 | - | 4,010,741 |

*Note these holdings do not include holdings of performance shares that have a separate class of equity

¹ Shareholdings at date of resignation

| 2019 | Opening balance | Granted as compensation | Acquired | Disposed | Closing balance |
|-------------------|-------------------|-------------------------|----------------|--------------------------|------------------|
| Alan Beasley | 500,000 | - | 280,000 | - | 780,000 |
| Steven Xu | 8,777,302 | - | 45,000 | (7,000,000) ¹ | 1,822,302 |
| Lou Cattelan | 188,495 | - | 55,974 | - | 244,469 |
| Gary Radcliff | 147,616 | - | 15,000 | - | 162,616 |
| Ken Charteris | 500,000 | - | 15,000 | - | 515,000 |
| Jarrold White | 118,286 | - | 131,500 | - | 249,786 |
| Jason Colquhoun | 10,200,000 | - | - | (10,200,000) | - |
| Henry Kinstlinger | 2,500,000 | - | - | - | 2,500,000 |
| Laura Harvey | - | - | - | - | - |
| Mark Fortugno | - | - | - | - | - |
| Total | 22,931,699 | - | 542,474 | (17,200,000) | 6,274,173 |

¹ Change due to Mr Xu ceasing KMP relationship with M Y Capital Management Limited

² Share holdings at date of resignation

Table 2: Option holdings of key management personnel

| 2020 | Opening balance | Granted as remuneration | Acquired | Exercised | Lapsed | Closing balance |
|---------------|------------------|-------------------------|----------|-----------|----------|------------------------|
| Ken Charteris | 5,350,000 | - | - | - | - | 5,350,000 ¹ |
| Total | 5,350,000 | - | - | - | - | 5,350,000 |

¹ Option holdings at date of resignation

| 2019 | Opening balance | Granted as remuneration | Acquired | Exercised | Lapsed | Closing balance |
|-----------------|-------------------|-------------------------|---------------|------------------|--------------------|------------------|
| Alan Beasley | 250,000 | - | - | (250,000) | - | - |
| Steven Xu | 2,000,000 | - | 30,000 | (30,000) | (2,000,000) | - |
| Ken Charteris | 4,000,000 | 1,350,000 | - | - | - | 5,350,000 |
| Jason Colquhoun | 6,850,000 | - | - | - | (6,183,335) | 666,665 |
| Total | 13,100,000 | 1,350,000 | 30,000 | (280,000) | (8,183,335) | 6,016,665 |

Employee options

The Company established an Employee Option Plan (EOP) plan that was approved by shareholders at the Extraordinary General Meeting held on 15 November 2018. The EOP is designed to provide long term incentives to senior executives to deliver long-term shareholder returns. Under the plan, employees are granted options which vest if certain criteria are met.

Table 3: Details of remuneration

| | | Salary and fees | Other fees | Post-employment benefits | Share based payments | Total |
|--|-------------|----------------------|----------------------|--------------------------|----------------------|------------------|
| Name | | \$ | \$ | \$ | \$ | \$ |
| Non-Executive Directors | | | | | | |
| Alan Beasley | 2020 | 55,000 | - | - | - | 55,000 |
| | 2019 | 55,000 | - | - | - | 55,000 |
| Steven Xu | 2020 | 144,999 | - | - | - | 144,999 |
| | 2019 | 124,140 | - | 4,193 | - | 128,333 |
| Lou Cattelan | 2020 | 47,831 | - | 2,169 | - | 50,000 |
| | 2019 | 45,662 | - | 4,338 | - | 50,000 |
| Gary Radcliff | 2020 | 41,667 | - | - | - | 41,667 |
| | 2019 | 50,000 | - | - | - | 50,000 |
| Subtotal – Non-Executive Directors | 2020 | 289,497 | - | 2,169 | - | 291,666 |
| | 2019 | 274,802 | - | 8,531 | - | 283,333 |
| Key Management Personnel | | | | | | |
| Ken Charteris – former CEO | 2020 | 395,047 ³ | - | - | 12,837 | 407,884 |
| | 2019 | 394,235 ³ | - | - | 285,215 | 679,450 |
| Jarrod White - CEO | 2020 | 198,750 | - | - | - | 198,750 |
| | 2019 | 82,000 ¹ | 115,983 ⁴ | - | - | 197,983 |
| Sonny Didugu - COO | 2020 | 157,250 ⁵ | - | - | - | 157,250 |
| | 2019 | - | - | - | - | - |
| Diandra Phipps | 2020 | 90,525 | - | - | - | 90,525 |
| | 2019 | - | - | - | - | - |
| Henry Kinstlinger | 2020 | - | - | - | - | - |
| | 2019 | 51,000 | 537,785 ² | - | 50,000 | 638,785 |
| Laura Harvey | 2020 | 232,685 | - | - | - | 232,685 |
| | 2019 | 65,044 | - | 2,980 | - | 68,024 |
| Jason Colquhoun | 2020 | - | - | - | - | - |
| | 2019 | 91,703 | - | 2,736 | - | 94,439 |
| Subtotal – Key Management Personnel | 2020 | 1,074,257 | - | - | 12,837 | 1,087,094 |
| | 2019 | 683,982 | 653,768 | 5,716 | 335,215 | 1,678,681 |
| Total | 2020 | 1,363,754 | - | 2,169 | 12,837 | 1,378,760 |
| | 2019 | 958,784 | 653,768 | 14,247 | 335,215 | 1,962,014 |

Notes:

1. Company Secretarial specific fees and accounting fees paid to Jarrod White and Traverse Accountants Pty Ltd, an entity related to Mr White;
2. Advisory fees paid to MMR Corporate Services Pty Ltd and Henry Kinstlinger & Associates, entities related to Mr Kinstlinger;
3. Consultancy agreement payments to North Trade Associates Pty Ltd for Chief Executive Officer services of which Mr Charteris is a related party.
4. CEO fees paid to Tiger Pty Ltd, an entity related to Mr White;
5. COO fees paid to Henson Advisory Pty Ltd and Akritic Advisory Pty Ltd, entities related to Mr Didugu.

All payments to related parties are on arms' length terms and at rates comparable to the market rate or average for these contracts. All contracts have received Board approval.

Performance of the company and shareholder returns

The application of the Group's executive reward framework has regard to shareholder return indices. Options issued to executives have exercise prices set at significant premiums to the share price at issue dates. Other with nil exercise prices are subject to EPN's share price meeting a number of performance milestones.

Refer to Note 26 Share based payments for details of the valuation of these payments.

On behalf of the Directors,



Alan Beasley
Deputy Chairman &
Chairman of Audit & Risk Committee

30 April 2021

CORPORATE GOVERNANCE STATEMENT

Epsilon Healthcare Limited ('the Company') has adopted the Fourth Edition of the Corporate Governance Principles and Recommendations which became effective for financial years beginning on or after 1 January 2020.

The Company's Corporate Governance Statement for the financial year ending 31 December 2020 is dated as at 30 April 2021 and was approved by the Board on 30 April 2021. The Corporate Governance Statement is available on the Company's website at <https://epsilonhealthcare.com.au/corporate-governance>.

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Epsilon Healthcare Limited (formerly THC Global Limited) for the year ended 31 December 2020, 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

RSM

RSM AUSTRALIA PARTNERS



GNS

GARY N SHERWOOD
Partner

Sydney NSW
Dated: 30 April 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

| | | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------|--------------------------------|--------------------------------|
| | Notes | \$ | \$ |
| Revenue from continuing operations | 3 | 6,953,289 | 4,792,258 |
| Cost of goods sold | | (4,566,970) | (3,652,620) |
| Gross profit | | 2,386,319 | 1,139,638 |
| Other income | 3 | 855,566 | 292,074 |
| Freight and other selling expenses | | (533,091) | (439,810) |
| Professional expenses | | (1,129,614) | (964,039) |
| Corporate and consulting expenses | 4 | (1,305,974) | (2,182,513) |
| Plant and facility costs | | (724,923) | (474,685) |
| Research and development expenses | | (472,257) | (140,297) |
| License and registration fees | | (45,317) | (66,003) |
| Employee benefits expense | | (4,641,752) | (2,370,377) |
| Advertising and promotion expenses | | (298,906) | (231,687) |
| Insurance expenses | | (446,497) | (472,260) |
| Bad debts expense | | (23,530) | (84,183) |
| Depreciation and amortisation expense | 15, 16 | (1,565,935) | (222,099) |
| Impairment expense | 5 | - | (2,537,177) |
| Finance expenses | 6 | (597,745) | (143,699) |
| Office and occupancy expenses | | (497,127) | (368,496) |
| Administration expenses | | (1,489,448) | (1,247,477) |
| Foreign exchange gain/(loss) | | 2,492 | (40,124) |
| Share based payments | 26 | (7,311) | (1,150,296) |
| Loss before income tax | | (10,535,050) | (11,703,510) |
| Income tax expense | 10 | - | - |
| Loss for the year | | (10,535,050) | (11,703,510) |
| Other comprehensive income | | | |
| Items that will be reclassified subsequently to profit or loss when specific conditions are met: | | | |
| Exchange differences on translating foreign operations, net of tax | | (171,144) | 85,645 |
| Total comprehensive loss for the year | | (10,706,194) | (11,617,865) |
| Earnings per share | | | |
| - Basic/diluted losses per share (Cents) | 31 | (6.63) | (8.80) |

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

| | Notes | As at 31 December 2020 \$ | As at 31 December 2019 \$ |
|--------------------------------------|-------|---------------------------------|---------------------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | 11 | 6,967,941 | 3,551,595 |
| Trade and other receivables | 12 | 1,419,381 | 583,467 |
| Inventory | 13 | 2,039,259 | 1,347,557 |
| Other assets | 14 | 578,604 | 647,685 |
| Total Current Assets | | 11,005,185 | 6,130,304 |
| Non-Current Assets | | | |
| Property, plant and equipment | 15 | 18,900,501 | 18,408,506 |
| Right-of-use assets | 16 | 1,172,646 | 611,396 |
| Intangible assets | 17 | 475,526 | - |
| Goodwill | 8 | 5,444,481 | 2,415,140 |
| Other assets | 14 | 264,530 | 248,058 |
| Total Non-Current Assets | | 26,257,684 | 21,683,100 |
| Total Assets | | 37,262,869 | 27,813,404 |
| Liabilities | | | |
| Current Liabilities | | | |
| Trade and other payables | 18 | 2,429,186 | 851,836 |
| Contract liabilities | 19 | 390,585 | - |
| Borrowings | 20 | 3,794,639 | - |
| Employee benefits | 21 | 125,382 | 42,750 |
| Lease liabilities | 16 | 344,414 | - |
| Total Current Liabilities | | 7,084,206 | 894,386 |
| Non-Current Liabilities | | | |
| Deferred tax liability | 22 | 3,886,575 | 3,886,575 |
| Lease liabilities | 16 | 973,023 | 711,263 |
| Total Non-Current Liabilities | | 4,859,598 | 4,597,838 |
| Total Liabilities | | 11,943,804 | 5,492,224 |
| Net Assets | | 25,319,065 | 22,321,180 |
| Equity | | | |
| Contributed equity | 23(a) | 41,801,459 | 28,448,111 |
| Other contributed equity | 23(b) | - | 850,000 |
| Reserves | 24 | 10,594,306 | 11,068,019 |
| Accumulated losses | | (27,076,700) | (18,044,950) |
| Equity | | 25,319,065 | 22,321,180 |

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

| | | Contributed equity | Other contributed equity | Accumulated losses | Reserves | Total |
|--|-------|--------------------|--------------------------|---------------------|--------------------|---------------------|
| | Notes | \$ | \$ | \$ | \$ | \$ |
| At 1 January 2019 | | 23,004,812 | 2,650,000 | (10,998,478) | 13,431,615 | 28,087,949 |
| Loss for the year | | - | - | (11,703,510) | - | (11,703,510) |
| Other comprehensive income | | - | - | - | 85,645 | 85,645 |
| Total comprehensive loss | | - | - | (11,703,510) | 85,645 | (11,617,865) |
| Shares issued in the period | 23(a) | 5,498,104 | - | - | - | 5,498,104 |
| Costs of capital raising | | (54,805) | - | - | - | (54,805) |
| Performance shares cancelled | | - | (1,800,000) | 1,800,000 | - | - |
| Options vesting expense | | - | - | - | 407,797 | 407,797 |
| Options expired/cancelled | | - | - | 2,857,038 | (2,857,038) | - |
| Total transactions with owners | | 5,443,299 | (1,800,000) | 4,657,038 | (2,449,241) | 5,851,096 |
| At 31 December 2019 | | 28,448,111 | 850,000 | (18,044,950) | 11,068,019 | 22,321,180 |
| 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 income | | - | - | - | (171,144) | (171,144) |
| Total comprehensive loss | | - | - | (10,535,050) | (171,144) | (10,706,194) |
| Shares issued in the period | 23(a) | 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 |
| At 31 December 2020 | | 41,801,459 | - | (27,076,700) | 10,594,306 | 25,319,065 |

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

| | | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|-------|--------------------------------|--------------------------------|
| | Notes | \$ | \$ |
| Cash flows from operating activities | | | |
| Receipts from customers | | 7,064,223 | 4,726,704 |
| Payments to suppliers and employees | | (15,612,056) | (12,641,611) |
| Research and development tax incentive received | | 213,536 | 278,363 |
| Interest received | | 24,533 | 20,473 |
| Finance costs | | (384,018) | (143,699) |
| Net cash outflow from operating activities | 27 | (8,693,782) | (7,759,770) |
| Cash flows from investing activities | | | |
| Payments for plant and equipment | | (1,079,489) | (517,351) |
| Payments for land and buildings | | (155,526) | (197,328) |
| Investment in subsidiary | | (496,545) | - |
| Net cash outflow from investing activities | | (1,731,560) | (714,679) |
| Cash flows from financing activities | | | |
| Principal payment of lease liabilities | | (559,048) | (95,675) |
| Proceeds from shares issued net of costs | | 10,001,463 | 2,928,695 |
| Proceeds from conversions of options | | 641,884 | 1,592,104 |
| Proceeds from borrowings | | 3,760,000 | - |
| Loans repaid by related parties | | - | 1,260,613 |
| Net cash inflow from financing activities | | 13,844,299 | 5,685,737 |
| Net decrease in cash and cash equivalents | | 3,418,957 | (2,788,712) |
| Cash and cash equivalents at the beginning of the financial period | | 3,551,595 | 6,333,540 |
| Foreign exchange adjustment to cash balance | | (2,611) | 6,767 |
| Cash and cash equivalents at end of the year | 11 | 6,967,941 | 3,551,595 |

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

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 (formerly THC Global Group Limited, referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the year ended 31 December 2020.

Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are reported below. They have been consistently applied unless stated otherwise. All applicable new accounting standards have been adopted for the year ended 31 December 2020.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Accounting policies

a. Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 36.

b. Principles of Consolidation

A controlled entity is any entity Epsilon Healthcare Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

As at the reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year ended.

All inter-company balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Company.

Where controlled entities have entered or left the Group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the Group, are shown separately within the Equity section of the Consolidated Statement of Financial Position and in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

c. Business Combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of: (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree, and (c) acquisition-date fair value of any existing equity interest in the acquiree, over the

acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

d. 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 discharge of liabilities in the normal course of business.

As disclosed in the financial statements, Epsilon Healthcare Limited ("Epsilon") incurred a loss for the year \$10,535,050 and had net cash outflows from operating activities of \$8,693,782 for the year ended 31 December 2020. In addition the borrowings disclosed in Note 20 are repayable by 31 October 2021. 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 Epsilon will be able to continue as a going concern, after consideration of the following factors:

- Epsilon has cash and cash equivalents of \$6,967,941 as at 31 December 2020. As at that date Epsilon had net current assets of \$3,920,979 and net assets of \$25,319,065.
- The directors are confident that additional share capital can be raised should it be required.
- The directors are of the opinion that the borrowings will either be extended or converted to equity.
- The group has the ability to scale back its operating expenditure and/or sell some of its assets.
- Epsilon is exploring other alternative arrangements to reduce costs and increase revenue.

Accordingly, the Directors believe that Epsilon 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.

e. Foreign currency translation

i. Functional currency

Items included in the financial statements of the Group's operations are measured using the currency of the primary economic environment in which it operates ('the functional currency').

The functional currency of the Company is Australia dollars (AU\$).

The functional currency of CMDV is Canadian dollars (C\$).

The functional currency of the Canndeo Limited is Australian dollars (AU\$).

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting period. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges or where they relate to differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

ii. Presentation currency

The financial statements are presented in Australian dollars, which is the Company's presentation currency.

Functional currency balances are translated into the presentation currency using the exchange rates at the balance sheet date. Value differences arising from movements in the exchange rates are recognised in the Foreign Currency Translation Reserve.

f. Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

g. Revenue recognition

Revenue is recognised when the goods are delivered and have been accepted by customers at their premises.

For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data. In these circumstances, a refund liability and a right to recover returned goods asset are recognised.

The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The refund liability is included in other payables and the right to recover returned goods is included in inventory. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

Interest income is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rates which is the rate that

exactly discounts the estimated future cash receipts over the expected future life of the financial asset.

When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

h. Income tax

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or are recognised directly in equity or in other comprehensive income. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of profit or loss when the tax relates to items that are credited or charged directly to equity.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, deferred tax assets and liabilities are not recognised where the timing of the

reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

i. Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows. There is provision made in the Statement of Cash Flows to disclose the applicable GST refunds/payments that have been remitted to the ATO to accurately show the cash position of Epsilon Healthcare Limited.

j. Leases

The Group had early adopted AASB 16 Leases for the first time in the 2018 financial year.

Under AASB 16, all leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the

case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted in favour of the Group if it is reasonably certain to assess that option;
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is

made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

k. Impairment of assets

At the end of each reporting period the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, the recoverable amount 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. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash generating unit to which the asset belongs.

l. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

m. Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

n. Other receivables

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the

effective interest method, less provision for impairment. Other receivables are generally due for settlement within 30 days.

Collectability of other receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance made for doubtful debts is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Objective evidence of impairment includes financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue).

The amount of the impairment loss is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as 'impairment expenses.' When a trade or other receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Profit or Loss and Other Comprehensive Income.

o. Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the year end and which are unpaid. These amounts are unsecured and are usually payable within 30 days of recognition.

p. Contract liabilities

Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

q. Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

r. Employee benefits

i. Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the end of the reporting period are recognised in other payables in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled.

ii. Retirement benefit obligations

The Group does not maintain a superannuation plan. The Group makes fixed percentage contributions for all Australian resident employees to complying third party superannuation funds and for Canadian resident employees to complying pension funds. The Group's legal or constructive obligation is limited to these contributions.

Contributions to complying third party superannuation funds and pension plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

s. Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

t. Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

u. Contributed equity

Costs directly attributable to the issue of new shares are shown as a deduction from the equity as a deduction proceeds net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

v. Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Land, buildings and improvements

Freehold land and buildings are carried at cost, less accumulated depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised against revaluation surplus directly in equity; all other decreases are recognised in profit or loss.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Freehold land and buildings are carried at cost, less accumulated depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised against revaluation surplus directly in equity; all other decreases are recognised in profit or loss.

Manufacturing facility

Aircraft assets are measured under the revaluation model and accounted for at their fair value, being the amount for which the asset could be exchanged between knowledgeable willing parties in an arm's length transaction, based on periodic valuations by external independent valuers or director valuations, less subsequent depreciation.

Increases in the carrying amount arising on revaluation of aircraft assets are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same assets are charged against fair value reserves directly in equity; all other decreases are charged to the statement of comprehensive income. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use.

Depreciation is calculated over the estimated useful life of the assets as follows:

Plant and equipment – 1 to 10 years

Website development – 3 to 5 years

Land, buildings and improvements – 25 years

Manufacturing facility and related equipment – 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are recognised immediately in profit or loss. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

w. Intangible assets

Patents

Patents have a finite life and is carried at cost less any accumulated amortisation and impairment losses. It has an estimated useful life of 15 years.

Software development costs

Expenditure on the research phase of projects to develop new customised software and/or hardware is recognised as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet the following recognition requirements:

- the development costs can be measured reliably;
- the project is technically and commercially feasible;
- the Group intends to and has sufficient resources to complete the project;
- the Group has the ability to use or sell the software; and
- the software will generate probable future economic benefits.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Costs that are directly attributable include employees' (other than Directors') costs incurred on software and hardware development, along with an appropriate portion of relevant overheads and borrowing costs.

Clinical database

Clinical database acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

x. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

y. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the results attributable to the owners the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

z. Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

aa. Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to

market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum, an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

bb. Research and Development

In FY2018, Canndeo Ltd, a subsidiary of the Group, received a Medicinal Cannabis Licence. The licence provides authorisation for Canndeo to perform research and development of cannabis for medicinal purposes.

Expenditure on the research phase of projects to develop new cannabis strains and products is recognised as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet the following recognition requirements:

- the development costs can be measured reliably
- the project is technically and commercially feasible
- the Group intends to and has sufficient resources to complete the project
- the Group has the ability to use or sell the software
- the developed asset will generate probable future economic benefits.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Directly attributable costs include employee costs incurred on software development along with an

appropriate portion of relevant overheads and borrowing costs.

cc. Comparative information

Comparative information presented is for the Group for the year ended 31 December 2019.

dd. New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the Group:

Conceptual Framework for Financial Reporting (Conceptual Framework)

The Group has adopted the revised Conceptual Framework from 1 January 2020. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it has not had a material impact on the Group's financial statements.

ee. New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2020. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

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.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Refer to note 9 for further information.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

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.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Business combinations

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

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. Refer to Note 32 for assumptions of fair value of assets.

There is significant judgment and estimation uncertainty with regards to the methodology used to revalue assets and determine the estimated revalued amounts.

Management engaged an independent expert to revalue the manufacturing facility in the 2018 financial year. The revaluation was done using a market approach and the depreciated replacement cost approach. The depreciated replacement cost method was used because of the specialised nature of the assets and how infrequent transactions are of a similar nature. Management engaged the same expert to revalue this facility subsequent to year end and the revalued amounts did not differ materially to the carrying values.

3. Revenue and other income

The Group's revenue disaggregated by operating segment is as follows:

| | 31 December 2020 | | | |
|--|---|---------------------------|--------------------|------------------|
| | Hydroponics Equipment, Materials and Nutrients | Medicinal Cannabis | Unallocated | Total |
| | \$ | \$ | \$ | \$ |
| Revenue | | | | |
| Canada | 5,923,151 | - | - | 5,923,151 |
| Australia | - | 1,861,172 | 24,532 | 1,885,704 |
| | 5,923,151 | 1,861,172 | 24,532 | 7,808,855 |
| Goods transferred at a point in time | 5,923,151 | 1,578,795 | - | 7,501,946 |
| Services transferred over time | - | - | - | - |
| Grant/Interest income recognised over time | - | 282,377 | 24,532 | 306,909 |
| | 5,923,151 | 1,861,172 | 24,532 | 7,808,855 |

| | 31 December 2019 | | | |
|--------------------------------------|---|---------------------------|--------------------|------------------|
| | Hydroponics Equipment, Materials and Nutrients | Medicinal Cannabis | Unallocated | Total |
| | \$ | \$ | \$ | \$ |
| Revenue | | | | |
| Canada | 4,742,151 | - | - | 4,742,151 |
| Australia | - | 328,470 | 13,711 | 342,181 |
| | 4,742,151 | 328,470 | 13,711 | 5,084,332 |
| Goods transferred at a point in time | 4,742,151 | 328,470 | - | 5,070,621 |
| Services transferred over time | - | - | - | - |
| Interest income recognised over time | - | - | 13,711 | 13,711 |
| | 4,742,151 | 328,470 | 13,711 | 5,084,332 |

4. Corporate and consulting expenses

| | For the Year Ending 31 December 2020 | For the Year Ending 31 December 2019 |
|-------------------------|---|---|
| Consulting fees | 268,672 | 1,145,210 |
| Corporate services fees | 1,037,302 | 1,037,303 |
| | 1,305,974 | 2,182,513 |

5. Impairment expense

During the year, the Company reviewed the vesting probabilities of Performance Shares issued as part consideration for asset purchases made, in conjunction with the Company's IPO in May 2017.

The evaluation for impairment has been made as an evaluation of the proportion of vesting time past for those Performance Shares when compared to their total vesting period and conditions. As result the following Performance Shares have been cancelled and the resulting assets impaired. More detail around the evaluation of their vesting probability is disclosed at Note 23(b):

| | | |
|--|----------|------------------|
| Class B Performance Shares | - | 900,000 |
| Class C Performance Shares | - | 250,000 |
| Class D Performance Shares | - | 300,000 |
| | - | 1,450,000 |
| Impairment of intangible assets | - | 500,000 |
| Impairment of related party loans receivable | - | 480,632 |
| Impairment of slow-moving inventory | - | 106,545 |
| | - | 1,087,177 |
| | - | 2,537,177 |

6. Finance costs

| | | |
|---------------------------------------|----------------|----------------|
| Interest expense | 418,657 | 143,699 |
| Interest expense on lease liabilities | 179,088 | - |
| | 597,745 | 143,699 |

7. Interests in subsidiaries

| Accounting subsidiaries | Country of Incorporation | Percentage Owned 2020 | Percentage Owned 2019 |
|--|---------------------------------|----------------------------------|----------------------------------|
| Crystal Mountain Products Ltd | Canada | 100% | 100% |
| Dragon Vision Limited | Hong Kong | 100% | 100% |
| 0970203 B.C. Ltd | Canada | 100% | 100% |
| Canndeo Limited | Australia | 100% | 100% |
| Canna Clinics Pty Ltd | Australia | 100% | 100% |
| THC Plant Life Sciences 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 Inc.) | Canada | 100% | 100% |
| 10034622 Canada Inc. | Canada | 100% | 100% |
| Tetra Pty Ltd | Australia | 100% | - |
| Canndeo Fulfillment Inc | Canada | 100% | - |
| Cannmira Inc | Canada | 100% | - |
| Medimar Pty Ltd | Australia | 100% | - |
| Demimar Pty Ltd | Australia | 100% | - |

8. Goodwill

| | For the Year Ending 31 December 2020 | For the Year Ending 31 December 2019 |
|-----------------------------------|---|---|
| | \$ | \$ |
| Balance at beginning of the year | 2,415,140 | 3,315,140 |
| Impairment expense | - | (900,000) |
| Additions (Tetra) (Note 9(c)) | 3,029,341 | - |
| Balance at end of the year | 5,444,481 | 2,415,140 |

9. Business combinations**a. Crystal Mountain and Dragon Vision****As at 31 December 2020**

| | \$ |
|--|------------------|
| <i>Consideration transferred</i> | |
| Shares, options and performance shares issued | 2,944,200 |
| Other costs of acquisition | 174,936 |
| | 3,119,136 |
| Net assets acquired in CMDV at the date of acquisition | (1,451,640) |
| Accumulated impairment | (696,000) |
| Goodwill carried forward | 971,496 |

b. Candeo Limited**As at 31 December 2020**

| | \$ |
|---|------------------|
| <i>Consideration transferred</i> | |
| Shares, options and performance shares issued | 3,363,500 |
| | 3,363,500 |
| Net liabilities acquired in CMDV at the date of acquisition | 276,144 |
| Accumulated impairment | (2,196,000) |
| Goodwill carried forward | 1,443,644 |

c. Tetra Health**As at 31 December 2020**

| | \$ |
|--|------------------|
| <i>Consideration transferred</i> | |
| Shares, options and performance shares issued | 2,843,420 |
| Cash paid on acquisition | 500,000 |
| | 3,343,420 |
| Fair value of net assets acquired in Tetra Health at the date of acquisition | (314,079)) |
| Goodwill carried forward | 3,029,341 |
| Total goodwill carried forward | 5,444,481 |

9. Business combinations (continued)

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. The Group prepared Discounted Cash Flow analysis for both Crystal Mountain as a standalone CGU and the remaining businesses have been integrated into a CGU for the development and delivery of medicinal cannabis.

Key financial inputs into that analysis were:

- Discount rate: 13.5%
- Income tax rate: 27.5%
- Risk free rate: 0.004%
- Term: In the case of Crystal Mountain, 5 years; In the case of the medicinal cannabis CGU, 5 years.

10. Income tax expense

a. The components of tax expense comprise:

| | For the Year Ending 31 December 2020 | For the Year Ending 31 December 2019 |
|--------------|--|--|
| | \$ | \$ |
| Current tax | - | - |
| Deferred tax | - | - |
| | - | - |

b. Numerical reconciliation of income tax expense to prima facie tax payable

| | | |
|--|--------------------|--------------------|
| Loss from continuing operations before income tax expense | (10,535,050) | (11,703,510) |
| Tax at the Australian tax rate of 27.5% (2019 – 27.5%) | (2,897,139) | (3,218,465) |
| Add tax effect of: | | |
| - Other non-allowable items | 260,020 | 1,470,571 |
| Less tax effect of: | | |
| - Other non-assessable items: | | |
| Research & Development Grants | (106,425) | - |
| - Other deductible items | (445,201) | (405,186) |
| Carried forward tax benefit not recognized in the current year | 3,188,745 | 2,153,080 |
| Total income tax expense | - | - |

The Group has carried forward tax losses of approximately \$27,466,561 (2019: \$15,871,125). The benefit of these losses will only be recognised where it is probable that future taxable income will be available against which the benefits of the deferred tax asset can be utilised.

11. Cash and cash equivalents

| | | |
|-----------------------------------|------------------|------------------|
| Cash at bank and in hand | 6,967,941 | 3,551,595 |
| Balance at end of the year | 6,967,941 | 3,551,595 |

12. Trade and other receivables

| | For the Year Ending 31 December 2020 | For the Year Ending 31 December 2019 |
|--------------------------------------|---|---|
| | \$ | \$ |
| Current | | |
| Trade receivables | 953,009 | 570,126 |
| Allowance for expected credit losses | (79,296) | (80,966) |
| Other receivables | 545,668 | 94,307 |
| Balance at end of the year | 1,419,381 | 583,467 |

Allowance for expected credit losses

The Group has recognised a loss of \$23,530 in profit or loss in respect of the expected credit losses for the year ended 31 December 2020.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

| | Expected credit loss rate | | Carrying amount | | Allowance for expected credit losses | |
|-----------------------------------|----------------------------------|-------------|------------------------|----------------|---|---------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | % | % | \$ | \$ | \$ | \$ |
| Not overdue | - | - | 641,946 | 227,457 | - | - |
| 0 to 3 months overdue | 12% | 12% | 263,886 | 296,668 | 32,119 | 34,965 |
| 3 to 6 months overdue | 100% | 100% | 29,231 | 13,048 | 29,231 | 13,048 |
| Over 6 months overdue | 100% | 100% | 17,946 | 32,953 | 17,946 | 32,953 |
| Balance at end of the year | 8% | 14% | 953,009 | 570,126 | 79,296 | 80,966 |

Movements in the allowance for expected credit losses are as follows:

| | For the Year Ending 31 December 2020 | For the Year Ending 31 December 2019 |
|--|---|---|
| | \$ | \$ |
| Balance at beginning of the year | 80,966 | 32,309 |
| Additional provisions recognised | 23,530 | 84,183 |
| Receivables written off during the year as uncollectable | (25,200) | (35,526) |
| Unused amounts reversed | - | - |
| Balance at end of the year | 79,296 | 80,966 |

13. Inventory

| | | |
|---|------------------|------------------|
| Finished goods | 2,061,262 | 1,455,041 |
| Less: Provision for slow-moving inventory | (22,003) | (107,484) |
| Balance at end of the year | 2,039,259 | 1,347,557 |

14. Other assets

| | For the Year Ending 31 December 2020 | For the Year Ending 31 December 2019 |
|-----------------------------------|---|---|
| | \$ | \$ |
| Current | | |
| Prepayments | 578,604 | 647,685 |
| | 578,604 | 647,685 |
| Non-current | | |
| Deposits paid | 264,530 | 248,058 |
| | 264,530 | 248,058 |
| Balance at end of the year | 843,134 | 895,743 |

15. Property, plant and equipment

| | | |
|---|-------------------|-------------------|
| Website development – at cost | 370,000 | 370,000 |
| Accumulated depreciation – website development | (163,266) | (109,151) |
| | 206,734 | 260,849 |
| Plant and equipment – at cost | 653,795 | 470,477 |
| Accumulated depreciation – plant and equipment | (218,478) | (112,450) |
| | 435,317 | 358,027 |
| Manufacturing facility and related equipment – at revalued amounts | 15,496,347 | 14,822,478 |
| Accumulated depreciation – manufacturing facility and related equipment | (1,013,589) | - |
| | 14,482,758 | 14,822,478 |
| Land, buildings and improvements – at cost | 3,811,818 | 2,983,867 |
| Accumulated depreciation – buildings and improvements | (36,126) | (16,715) |
| | 3,775,692 | 2,967,152 |
| Balance at end of the year | 18,900,501 | 18,408,506 |

At 31 December 2020, the Group had \$797,808 and \$8,730 of plant and equipment and building and improvements, respectively (2019: \$14,822,478 and \$2,287,290), that were owned but not yet ready for use. The Group had not commenced depreciation of these assets at year end. See Note 2 and Note 32 for significant judgement in relation to the revaluation of the manufacturing facility.

15. Property, plant and equipment (continued)

| | Website development | Plant and equipment | Manufacturing Facility and Equipment | Building and improvements | Total |
|------------------------------------|------------------------|------------------------|--|------------------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 January 2019 | 314,849 | 310,781 | 14,602,111 | 2,499,757 | 17,727,498 |
| Acquisitions in the year | - | 113,901 | 220,367 | 476,855 | 811,123 |
| Depreciation expense | (54,000) | (65,944) | | (9,460) | (129,404) |
| Foreign exchange adjustment | - | (711) | - | - | (711) |
| Balance at 31 December 2019 | 260,849 | 358,027 | 14,822,478 | 2,967,152 | 18,408,506 |
| Acquisitions in the year | - | 183,319 | 673,869 | 827,951 | 1,685,139 |
| Depreciation expense | (54,115) | (106,864) | (1,013,589) | (19,411) | (1,193,979) |
| Foreign exchange adjustment | - | 835 | - | - | 835 |
| Balance at 31 December 2020 | 206,734 | 435,317 | 14,482,758 | 3,775,692 | 18,900,501 |

16. Leases and right-of-use assets

Nature of leasing activities (in the capacity as lessee)

The Group leases a number of properties in the jurisdictions from which it operates. In some jurisdictions it is customary for lease contracts to provide for payments to increase each year by inflation or and in others to be reset periodically to market rental rates. In some jurisdictions property leases the periodic rent is fixed over the lease term.

The percentages in the table below reflect the current proportions of lease payments that are either fixed or variable. The sensitivity reflects the impact on the carrying amount of lease liabilities and right-of-use assets if there was an uplift of 5% on the balance sheet date to lease payments that are variable.

| | Lease Contracts | Fixed Payments | Variable Payments | Sensitivity |
|---|-----------------|----------------|---|---|
| | Number | % | % | \$ |
| Property leases with payments linked to inflation | 6 | - | 100% | +/- 86,171 |
| Property leases with periodic uplifts to market rentals | - | - | - | - |
| Property leases with fixed payments | - | - | - | - |
| | | | For the Year Ending 31 December 2020 | For the Year Ending 31 December 2019 |
| Right-of-Use Assets | | | \$ | \$ |
| <i>Land and buildings</i> | | | | |
| Balance at beginning of the year | | | 611,396 | 384,577 |
| Additions | | | 934,041 | 319,514 |
| Amortisation | | | (372,791) | (92,695) |
| Balance at end of the year | | | 1,172,646 | 611,396 |

16. Leases (continued)

| | For the Year Ending 31 December 2020 | For the Year Ending 31 December 2019 |
|--|---|---|
| | \$ | \$ |
| Lease Liabilities | | |
| <i>Land and buildings</i> | | |
| Balance at beginning of the year | 711,263 | 408,118 |
| Additions | 986,134 | 319,514 |
| Interest expense | 179,088 | 79,306 |
| Lease payments | (559,048) | (95,675) |
| Balance at end of the year | 1,317,437 | 711,263 |
| Short term lease expense | 16,400 | 101,159 |
| Low value lease expense | - | - |
| Expense relating to variable lease payments not included in the measurement of lease liabilities | - | 7,766 |
| 17. Intangible assets | | |
| Intangible assets purchased | 475,526 | 1,400,000 |
| Accumulated impairment | - | (1,400,000) |
| Closing balance | 475,526 | - |
| Balance at beginning of the year | - | 1,050,000 |
| Additions | 475,526 | - |
| Impairment expense | - | (1,050,000) |
| Balance at end of the year | 475,526 | - |
| 18. Trade and other payables | | |
| Current | | |
| Trade payables | 2,157,769 | 585,838 |
| Payroll liabilities | 153,001 | 84,993 |
| Accrued expenses | 118,416 | 180,805 |
| Balance at end of the year | 2,429,186 | 851,636 |

19. Contract liabilities

| | For the Year Ending 31 December 2020 | For the Year Ending 31 December 2019 |
|-----------------------------------|---|---|
| | \$ | \$ |
| Current | | |
| Contract liabilities | 390,585 | - |
| Balance at end of the year | 390,585 | - |

Reconciliation

Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:

| | | |
|---|----------------|---|
| Balance at beginning of the year | - | - |
| Payments received in advance | 390,585 | - |
| Balance at end of the year | 390,585 | - |

20. Borrowings**Current**

| | | |
|-----------------------------------|------------------|---|
| Loans | 3,794,639 | - |
| Balance at end of the year | 3,794,639 | - |

This loan is secured by a general security deed in favour of the lender granted by Canndeo Ltd, Epsilon Healthcare Limited and THC Pharma Pty Ltd. The Loan bears interest at 1.25% per month and is repayable by 31 October 2021.

21. Employee benefits**Current**

| | | |
|-----------------------------------|----------------|---------------|
| Annual leave | 125,382 | 42,750 |
| Balance at end of the year | 125,382 | 42,750 |

22. Deferred tax liabilities

Deferred tax liability comprises temporary differences attributable to:

| | | |
|------------------------------------|-----------|-----------|
| Revaluation of plant and equipment | 3,886,575 | 3,886,575 |
|------------------------------------|-----------|-----------|

23. Contributed equity

a. Share capital

| | As at 31 December 2020 | | As at 31 December 2019 | |
|--|------------------------|-------------------|------------------------|-------------------|
| | No. of Shares | \$ | No. of Shares | \$ |
| At the beginning of the period | 139,164,832 | 28,448,111 | 127,267,572 | 23,004,812 |
| Share placement | 48,687,408 | 13,596,000 | 5,967,000 | 2,983,500 |
| Options converted | 1,604,709 | 641,884 | 3,980,260 | 1,592,104 |
| Shares issued to directors and employees | - | - | 1,350,000 | 667,500 |
| Shares issued to other suppliers | - | - | 600,000 | 255,000 |
| Share issue expenses | - | (884,536) | - | (54,805) |
| Balance at end of the year | 189,456,949 | 41,801,459 | 139,164,832 | 28,448,111 |

Ordinary shares

Each ordinary shareholder maintains, when present in person or by proxy or by attorney at any general meeting of the Company, the right to cast one vote for each ordinary share held.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

b. Performance shares

Performance shares issued and authorised are summarised as follows:

| | No. of Shares | \$ | Class | Probability |
|--|------------------|----------------|---------|-------------|
| Performance shares | | | | |
| Performance shares issued to acquire IP from Pegasus Agriculture | 2,500,000 | 250,000 | C | 0% |
| Performance shares issued to acquire IP from Pegasus Agriculture | 6,000,000 | 600,000 | D | 0% |
| Balance at beginning of the year | 8,500,000 | 850,000 | | |
| Performance shares cancelled | | | | |
| Performance shares cancelled | (8,500,000) | (850,000) | C and D | 0% |
| Balance at end of the year | - | - | | |

The fair value of performance shares was based upon the price of EPN at issue date, adjusted for the probability of their performance milestones being achieved. The value of the performance shares, together with the probability of milestones being achieved, is assessed by the directors at least annually.

23. Contributed equity (continued)

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 31 December 2019 Annual Report.

24. Reserves

| | As at 31 December 2020 | As at 31 December 2019 |
|--------------------------------------|---------------------------|---------------------------|
| | \$ | \$ |
| Options reserve | 368,560 | 671,129 |
| Foreign currency translation reserve | (20,679) | 150,465 |
| Asset revaluation reserve | 10,246,425 | 10,246,425 |
| Balance at end of the year | 10,594,306 | 11,068,019 |

a. Options reserve

| | As at 31 December 2020 | | As at 31 December 2019 | |
|---|------------------------|----------------|------------------------|----------------|
| | No. of Options | \$ | No. of Options | \$ |
| At the beginning of the year | 10,516,665 | 671,129 | 64,673,024 | 3,120,370 |
| Options issued to employees and directors | - | - | 5,850,000 | 160,746 |
| Options issued for business acquisition | 5,000,000 | 343,420 | - | - |
| Vesting expense on issued options | - | 7,311 | - | 247,051 |
| Options lapsed | (7,216,665) | (653,300) | (56,026,099) | (2,857,038) |
| Options converted | - | - | (3,980,260) | - |
| Balance at end of the year | 8,300,000 | 368,560 | 10,516,665 | 671,129 |

Options reserve

The reserve records the cumulative value of employee service received for the issue of share options. When the option is exercised the amount in the share option reserve is transferred to share capital.

24. Reserves (continued)**b. Foreign currency translation reserve**

| | As at 31 December 2020 | As at 31 December 2019 |
|-------------------------------------|---------------------------|---------------------------|
| | \$ | \$ |
| Balance beginning of financial year | 150,465 | 64,820 |
| Movement in the financial year | (171,144) | 85,645 |
| Balance at end of the year | (20,679) | 150,465 |

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

c. Asset revaluation reserve

| | | |
|-------------------------------------|-------------------|-------------------|
| Balance beginning of financial year | 10,246,425 | 10,246,425 |
| Movement in the financial year | - | - |
| Balance at end of the year | 10,246,425 | 10,246,425 |

Revaluation surplus reserve

The reserve is used to recognise increments and decrements in the fair value of the manufacturing facility.

25. 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.

Intersegment transactions

Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Major customers

The main source of revenue for these operating segments in the year to 31 December 2020 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:

25. Segment information (continued)

Segment performance

| | 31 December 2020 | | | |
|---|---|---------------------------|--------------------|---------------------|
| | Hydroponics Equipment, Materials and Nutrients | Medicinal Cannabis | Unallocated | Total |
| | \$ | \$ | \$ | \$ |
| Revenue | | | | |
| External sales | 5,923,151 | 1,030,138 | - | 6,953,289 |
| Other (R&D tax incentive and interest income) | - | 831,034 | 24,532 | 855,566 |
| Total segment revenue | 5,923,151 | 1,861,172 | 24,532 | 7,808,855 |
| EBIDTA | (181,812) | (3,901,850) | (4,287,708) | (8,371,370) |
| Depreciation and amortisation | (113,026) | (1,230,174) | (222,735) | (1,565,935) |
| Finance costs | (48,651) | (513,693) | (35,401) | (597,745) |
| Profit before income tax expense | (343,489) | (5,645,717) | (4,545,844) | (10,535,050) |
| Income tax expense | - | - | - | - |
| Profit after income tax expense | (343,489) | (5,645,717) | (4,545,844) | (10,535,050) |
| 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 |
| Liabilities | | | | |
| 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 |

25. Segment information (continued)

| | 31 December 2019 | | | |
|---|--|--------------------|--------------------|---------------------|
| | Hydroponics Equipment, Materials and Nutrients | Medicinal Cannabis | Unallocated | Total |
| | \$ | \$ | \$ | \$ |
| Revenue | | | | |
| External sales | 4,742,151 | 50,107 | - | 4,792,258 |
| Other (R&D tax incentive and interest income) | - | 278,363 | 13,711 | 292,074 |
| Total segment revenue | 4,742,151 | 328,470 | 13,711 | 5,084,332 |
| EBIDTA | | | | |
| Depreciation and amortisation | (110,996) | (18,192) | (92,911) | (222,099) |
| Finance costs | (68,156) | (50,404) | (25,139) | (143,699) |
| Profit before income tax expense | 133,313 | (3,922,438) | (7,914,385) | (11,703,510) |
| Income tax expense | - | - | - | - |
| Profit after income tax expense | 133,313 | (3,922,438) | (7,914,385) | (11,703,510) |
| Assets | | | | |
| Current assets | 2,136,105 | 352,139 | 3,642,060 | 6,130,304 |
| Non-current assets | 117,930 | 18,419,676 | 730,354 | 19,267,960 |
| Goodwill | 971,496 | 1,443,644 | - | 2,415,140 |
| Total assets | 3,225,531 | 20,215,459 | 4,372,414 | 27,813,404 |
| Liabilities | | | | |
| Current liabilities | 220,596 | 244,834 | 428,956 | 894,386 |
| Non-current liabilities | - | 380,451 | 330,812 | 711,263 |
| Deferred tax liabilities | - | 3,886,575 | - | 3,886,575 |
| Total liabilities | 220,596 | 4,511,860 | 759,768 | 5,492,224 |

25. Segment information (continued)

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

| | For the Year Ending 31 December 2020 | For the Year Ending 31 December 2019 |
|--|--|--|
| | \$ | \$ |
| Total reporting segment operating profit | (5,989,206) | (3,789,126) |
| Share-based payment expenses | (7,311) | (1,150,296) |
| Employee benefit expenses | (1,024,529) | (352,610) |
| Other income not allocated | 23,020 | 13,479 |
| Other expenses not allocated | (3,537,024) | (6,424,957) |
| Group operating profit | (10,535,050) | (11,703,510) |

26. Share based payments

The Group made the below share-based payments in the financial year:

| Description | Shares \$ | Options \$ | Total \$ |
|--|--------------|---------------|--------------|
| Periodic vesting expense on previously issued securities | - | 7,311 | 7,311 |
| | - | 7,311 | 7,311 |

Employee options

The Company established an Employee Option Plan (EOP) plan that was approved by shareholders at the Extraordinary General Meeting held on 15 November 2018. The EOP is designed to provide long term incentives to senior executives to deliver long-term shareholder returns. Under the plan, employees are granted options which vest if certain criteria are met.

Set out below are summaries of options granted under the proposed plan thus far:

| | 31 December 2020 | | 31 December 2019 | |
|-----------------------------------|--------------------------------------|------------------|--------------------------------------|-------------------|
| | Average exercise price per option | No. of Options | Average exercise price per option | No. of Options |
| At the beginning of the year | 0.75 | 10,516,665 | 0.62 | 9,620,000 |
| Granted during the year | 0.40 | 5,000,000 | 0.59 | 5,850,000 |
| Lapsed during the year | 0.76 | (9,916,665) | 0.32 | (4,953,335) |
| Balance at end of the year | 0.42 | 5,600,000 | 0.75 | 10,516,665 |
| Vested and exercisable | 0.42 | 5,600,000 | 0.75 | 5,216,665 |

For options granted during the current financial period, the Black-Scholes 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 | Expected Volatility | Dividend Yield | Risk-free Interest Rate | Fair Value per Option |
|------------|-------------|-------------------------------|----------------|------------------------|-------------------|----------------------------|--------------------------|
| 01/06/20 | 31/5/22 | \$0.30 | \$0.40 | 58% | - | 0.24% | \$0.0687 |

27. Reconciliation of loss after income tax to net cash outflow from operating activities

| | For the Year Ending 31 December 2020 | For the Year Ending 31 December 2019 |
|---|--|--|
| | \$ | \$ |
| Loss for the year | (10,535,050) | (11,703,510) |
| Depreciation expense | 1,565,935 | 222,099 |
| Impairment expense | - | 2,537,177 |
| Share-based payments | 7,311 | 1,150,296 |
| Lease expenses allocated to financing activities | 559,048 | 95,675 |
| Effects of foreign exchange | (171,144) | 85,646 |
| Change in operating assets and liabilities | | |
| Increase in trade and other receivables | (1,077,241) | (668,898) |
| Increase in trade and other payables | 1,343,497 | 528,000 |
| Increase in inventories | (386,138) | (6,255) |
| Net cash outflow from operating activities | (8,693,782) | (7,759,770) |

28. Changes in liabilities arising from financing activities

| | Loans | Lease liabilities | Total |
|--|------------------|-------------------|------------------|
| | \$ | \$ | \$ |
| Balance at 1 January 2019 | - | 408,118 | 408,118 |
| Net cash from/(used in) financing activities | - | (95,675) | (95,675) |
| Acquisition of leases | - | 319,514 | 319,514 |
| Interest accrued | - | 79,306 | 79,306 |
| Balance at 31 December 2019 | - | 711,263 | 711,263 |
| Net cash from/(used in) financing activities | 3,760,000 | (559,048) | 3,200,952 |
| Acquisition of leases | - | 986,134 | 986,134 |
| Interest accrued | 34,639 | 179,088 | 213,727 |
| Balance at 31 December 2020 | 3,794,639 | 1,317,437 | 5,112,076 |

29. Financial risk management**a. Financial risk management**

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and inter-entity loans. The directors' overall risk management strategy seeks to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

29. Financial risk management (continued)**Credit risk**

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The receivable balances are monitored on an ongoing basis. The group's exposure to bad debts is not significant.

There is considerable concentration of credit risk within the Group as it only has a limited number of customers at this stage of its development.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised third parties, there is no requirement for collateral security.

The maximum exposure to credit risk at balance date is as follows:

| | As at 31 December 2020 | As at 31 December 2019 |
|-----------------------------|-----------------------------------|-----------------------------------|
| | \$ | \$ |
| Cash and cash equivalents | 6,967,941 | 3,551,595 |
| Trade and other receivables | 1,419,381 | 583,467 |

Liquidity risk

The Group's policy is to maintain a comfortable level of liquidity through the continual monitoring of cash reserves and the raising of additional capital as required.

Market risk**Foreign exchange risk**

Most of the Group's transactions that occur in Canada are predominantly denominated in CAD and USD. Cash and cash equivalents used to fund working capital are mainly held in Canadian and US bank accounts.

The Group is exposed to foreign exchange risk when capital is raised in AUD and then transferred to the Canadian subsidiary. The Group closely monitors foreign currency movements at such times but does not use hedging instruments to manage such risk.

Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those reported to key management translated into \$AUD at the closing rate:

| | Short Term Exposure | Long Term Exposure |
|-------------------------|----------------------------|---------------------------|
| | \$ | \$ |
| 31 December 2020 | | |
| Financial assets | 666,481 | 17,765 |
| Financial liabilities | 1,500,916 | |
| 31 December 2019 | | |
| Financial assets | 498,715 | 22,731 |
| Financial liabilities | 245,167 | |

29. Financial risk management (continued)

The following table illustrates the sensitivity of profit or loss and equity in regards to the Group's financial assets and financial liabilities and the CAD/AUD and NZD/AUD exchange rate 'all other things being equal'. It assumes a +/- 10% change of the CAD/AUD and NZD/AUD exchange rate for the year. This percentage has been determined based on the average market volatility in exchange rate in the previous twelve (12) months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date and also takes into account forward exchange contracts that offset effects from changes in currency exchange rates.

If the AUD had strengthened/weakened against the CAD and NZD by 10% then this would have had the following impact:

| | Loss for the Year | | Equity | |
|------------------|-------------------|-----------|-----------|---------|
| | + 10% | -10% | + 10% | -10% |
| 31 December 2020 | 247,954 | (77,264) | (168,103) | 205,459 |
| 31 December 2019 | 106,990 | (130,833) | (227,373) | 277,901 |

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

b. Financial instrument composition and maturity analysis

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity as well as management's expectations of the settlement period of all other financial instruments. As such, the amounts may not reconcile to the Statement of Financial Position.

| | Weighted average interest rate | Non-interest bearing | Floating interest rate | Fixed interest rate maturing within 1 year | Total |
|------------------------------------|--------------------------------------|-------------------------|---------------------------|--|------------------|
| 2020 | % | \$ | \$ | \$ | \$ |
| Financial Assets | | | | | |
| Cash and cash equivalents | 0.03 | - | 6,967,941 | - | 6,967,941 |
| Trade and other receivables | - | 1,419,381 | - | - | 1,419,381 |
| Total financial assets | | 1,419,381 | 6,967,941 | - | 8,387,322 |
| Financial Liabilities | | | | | |
| Trade and other payables | - | 2,429,186 | - | - | 2,429,186 |
| Loans | 15% | - | - | 3,794,639 | 3,794,639 |
| Lease liabilities | 12% | - | - | 1,317,437 | 1,317,437 |
| Total financial liabilities | | 2,429,186 | - | 5,112,076 | 7,541,262 |

29. Financial risk management (continued)

| | Weighted average interest rate | Non-interest bearing | Floating interest rate | Fixed interest rate maturing within 1 year | Total |
|-------------------------------|--------------------------------------|-------------------------|---------------------------|--|------------------|
| 2019 | % | \$ | \$ | \$ | \$ |
| Financial Assets | | | | | |
| Cash and cash equivalents | 0.18 | - | 3,551,595 | - | 3,551,595 |
| Trade and other receivables | - | 583,467 | - | - | 583,467 |
| Total financial assets | | 583,467 | 3,551,595 | - | 4,135,062 |

| | | | | | |
|------------------------------------|-----|----------------|----------|----------------|------------------|
| Financial Liabilities | | | | | |
| Trade and other payables | - | 851,836 | - | - | 851,836 |
| Lease liabilities | 13% | - | - | 711,263 | 711,263 |
| Total financial liabilities | | 851,836 | - | 711,263 | 1,563,099 |

| | Carrying amount | Contractual cash flow due 1 to 3 months | Contractual cash flow due 3 months to 1 year | Contractual cash flow due 1 to 5 years |
|-------------------------------|------------------|--|---|---|
| 2020 | \$ | \$ | \$ | \$ |
| Financial Assets | | | | |
| Trade and other receivables | 1,419,381 | 1,419,381 | - | - |
| Total financial assets | 1,419,381 | 1,419,381 | - | - |

| | | | | |
|------------------------------------|------------------|------------------|------------------|----------------|
| Financial Liabilities | | | | |
| Trade and other payables | 2,429,186 | 2,429,186 | - | - |
| Loans | 3,794,639 | - | 3,794,639 | - |
| Lease liabilities | 1,317,437 | 92,350 | 268,619 | 956,468 |
| Total financial liabilities | 7,541,262 | 2,521,536 | 4,063,258 | 956,468 |

| | | | | |
|-------------------------------|----------------|----------------|----------|----------|
| 2019 | | | | |
| Financial Assets | | | | |
| Trade and other receivables | 583,467 | 583,467 | - | - |
| Total financial assets | 583,467 | 583,467 | - | - |

| | | | | |
|------------------------------------|------------------|----------------|----------------|----------------|
| Financial Liabilities | | | | |
| Trade and other payables | 851,836 | 851,836 | - | - |
| Lease liabilities | 711,263 | 52,457 | 150,202 | 508,604 |
| Total financial liabilities | 1,563,099 | 904,293 | 150,202 | 508,604 |

29. Financial risk management (continued)**c. Net fair values**

The net fair value of assets and liabilities approximates their carrying value. No financial assets and liabilities are readily traded on organised markets in standardised form.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the Statement of Financial Position and notes to the financial statements.

d. Sensitivity Analysis

The Company has performed a sensitivity analysis relating to its exposure to foreign currency risk at balance date. The effect on profit or loss and equity as a result of changes in the value of the Australian Dollar to the US Dollar and Canadian Dollar with all other variables remaining constant, is not expected to be significant.

30. Auditor's remuneration

| | For the Year Ending 31 December 2020 | For the Year Ending 31 December 2019 |
|------------------------------------|---|---|
| | \$ | \$ |
| RSM Australia Partners | | |
| - Audit of the financial statement | 65,000 | - |
| - Other services | - | - |
| KS Black & Co | | |
| - Audit of the financial statement | 89,745 | 70,300 |
| - Other services | - | - |

31. Earnings per share

| | For the Year Ending 31 December 2020 | For the Year Ending 31 December 2019 |
|----------------------------|---|---|
| | Cents | Cents |
| Basic earnings per share | (6.63) | (8.80) |
| Diluted earnings per share | (6.63) | (8.80) |

Weighted average number of shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:

| | | |
|------------------------------|-------------|-------------|
| - Basic earnings per share | 158,915,935 | 133,040,637 |
| - Diluted earnings per share | 158,915,935 | 133,040,637 |

The loss used to calculate earnings per share was \$10,535,050 (2019: loss of \$11,703,510).

32. Fair Value Measurement

The Group measures and recognises specialised plant and equipment assets at fair value on a recurring basis after initial recognition.

The Group does not subsequently measure any liabilities at fair value on a non-recurring basis.

a. Fair value hierarchy

AASB 13: Fair Value Measurement requires the disclosure of fair value information by level of fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorized into as follows:

| Level 1 | Level 2 | Level 3 |
|--|--|---|
| Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. | Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. | Measurements based on unobservable inputs for the asset or liability. |

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation Techniques

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- Market approach: valuation techniques that use prices and other relevant information generated by market transaction for identical or similar assets or liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risk. When selecting a valuation technique, the Group gives priority to those techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data are not available and therefore are developed using the best information available about such assumptions are considered unobservable.

The following tables provide the fair values of the Group’s assets and liabilities measured and recognized on a recurring basis after initial recognition and their categorization within the fair value hierarchy.

32. Fair Value Measurement (continued)*Recurring fair value measurements***31 December 2020**

| | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
|--|---------------|---------------|-------------------|-------------------|
| Total non-financial assets recognized at fair value on a recurring basis | - | - | 15,496,347 | 15,496,347 |
| Total non-financial assets recognised at fair value | - | - | 15,496,347 | 15,496,347 |

a. Valuation techniques and inputs used to measure Level 3 fair values

| Description Non-financial assets | Fair value (\$) at 31 Dec 2020 | Valuation technique | Inputs used |
|----------------------------------|--------------------------------|------------------------------------|---|
| Manufacturing facility | 15,496,347 | Market approach and cost approach. | Gross replacement cost, depreciation asset useful life, asset prices of identical or similar assets and various other inputs and factors. |
| | 15,496,347 | | |

33. Related party transactions**a. Key management personnel**

Disclosures relating to key management personnel are set out in the Remuneration Report.

b. Transactions with other related parties

There were no related party transactions aside from those listed in the Remuneration Report.

34. Contingent assets and liabilities

The Group did not have any contingent assets or liabilities at 31 December 2020 (31 December 2019: Nil).

35. Events occurring after the balance sheet date

Since the end of the reporting period;

- (i) On 25 February 2021 the Company announced the formal change of name from THC Global Group Limited to Epsilon Healthcare Limited following shareholder approval on 18 February 2021;
- (ii) On 5 March 2021 the Company announced the resignation of Non-Executive director Gary Radcliff effective at that date;
- (iii) On 5 March 2021 the Company announced the issuance of 3,000,000 unlisted options exercisable at a price of \$0.35 with an expiry of 24 months from date of issue, as well as the issuance of 1,000,000 ordinary fully paid shares at a price of \$0.25;
- (iv) On 11 March 2021 the Company announced the launching of telehealth medicinal cannabis clinic group, Tetra Health's first face to face clinic site in South Yarra, Melbourne;

35. Events occurring after the balance sheet date (continued)

- (v) On 27 April 2021, the Company issued 2,250,000 shares and 4,800,000 Performance Options with the following terms:
- 350,000 Performance Options at nil ex vesting on share price \$0.30 exp 31/12/2022;
 - 500,000 Performance Options at nil ex vesting on share price \$0.35 exp 31/12/2022;
 - 700,000 Performance Options at nil ex vesting on share price \$0.40 exp 31/12/2022;
 - 850,000 Performance Options at nil ex vesting on share price \$0.45 exp 31/12/2022;
 - 1,000,000 Performance Options at nil ex vesting on share price \$0.50 exp 31/12/2022;
 - 1,400,000 Performance Options at nil ex vesting on EBITDA target achievement exp 31/12/2022.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect:

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

36. Annual report differences from lodged Appendix 4E

Adjustments have been made to the 2020 financial statements subsequent to the lodgement of the Appendix 4E on 26 February 2021. The below is a summary of the differences between the financial statements contained in the Annual Report and the lodged Appendix 4E.

| | Annual Report | Appendix 4E | Variance |
|-----------------------|----------------------|--------------------|------------------|
| | \$ | \$ | \$ |
| Loss after income tax | (10,535,050) | (10,947,661) | 412,611 |
| Net assets | 25,319,065 | 25,510,048 | (190,983) |
| Total equity | 25,319,065 | 25,510,048 | (190,983) |
| Operating cash flows | (8,693,782) | (9,445,693) | 751,911 |

Material adjustments were made in the course of the audit of the FY2020 financial statements for changes in accounting estimates for contract liabilities and non-vesting of share-based payments.

37. Parent entity disclosures

| | For the Year Ending 31 December 2020 | For the Year Ending 31 December 2019 |
|-----------------------------------|--|--|
| | \$ | \$ |
| Epsilon Healthcare Limited | | |
| Financial position | | |
| Assets | | |
| Total current assets | 5,056,246 | 3,627,873 |
| Total non-current assets | 23,860,541 | 16,078,207 |
| Total assets | 28,916,787 | 19,706,080 |
| Liabilities | | |
| Total current liabilities | 767,691 | 428,410 |
| Total non-current liabilities | 141,566 | 330,812 |
| Total liabilities | 909,257 | 759,222 |
| Equity | | |
| Contributed equity | 41,801,459 | 28,448,111 |
| Other contributed equity | - | - |
| Reserves | 514,796 | 671,129 |
| Accumulated losses | (14,308,725) | (10,172,382) |
| Total equity | 28,007,530 | 18,946,858 |
| Financial performance | | |
| Loss for the year | (4,545,164) | (7,075,147) |
| Other comprehensive income | - | - |
| Total comprehensive loss | (4,545,164) | (7,075,147) |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity and some of its subsidiaries are party to a deed of cross guarantee under which each company guarantees the debts of the others. No deficiencies of assets exist in any of these subsidiaries.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2020 and 31 December 2019.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2020 and 31 December 2019.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

DECLARATION BY DIRECTORS

The directors of the Company declare that, in the opinion of the directors:

- a. the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including
 - i. giving a true and fair view of the financial position and performance of the Company and the Group; and
 - ii. complying with Australian Accounting Standards, including the Interpretations, and the Corporations Regulations 2001;
- b. the financial statements and notes thereto also comply with International Financial Reporting Standards, as disclosed in Note 1; and
- c. there are reasonable grounds to believe that the Company and the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors:



Alan Beasley
Deputy Chairman &
Chairman of Audit & Risk Committee

30 April 2021

INDEPENDENT AUDITOR'S REPORTLevel 13, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001

To the Members of Epsilon Healthcare Limited

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Opinion

We have audited the financial report of Epsilon Healthcare Limited (formerly THC Global Limited) ('Epsilon', 'the Company') and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a loss for the year \$10,535,050 and had net cash outflows from operating activities of \$8,693,872 for the year ended 31 December 2020. The ability of the consolidated entity to continue as a going concern and realise its' assets is dependent on a number of factors. 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 opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Key Audit Matter | How our audit addressed this matter |
|--|---|
| <p>Asset Valuations (PPE)</p> <p>Refer to Note 15, Note 2, and Note 32 in the financial statements</p> | |
| <p>Included within property, plant and equipment is a manufacturing facility carried at \$14,482,758 which was revalued in the 2018 financial year. This represents a substantial portion of the Groups total assets.</p> <p>There is significant judgment and estimation uncertainty with regards to the methodology used to revalue assets and determine the estimated revalued amounts.</p> <p>Management engaged an independent expert to revalue the manufacturing facility in the 2018 financial year. The revaluation was done using a combination of the market approach and the depreciated replacement cost approach. The depreciated replacement cost method was used because of the specialised nature of the assets and how infrequent transactions are of a similar nature. Management engaged the same expert to revalue this facility subsequent to year end and the revalued amounts did not differ materially to the carrying values as at 31 December 2020.</p> <p>Because of the subjectivity and complexity involved in such valuations, we have considered the valuation of PPE held under the revaluation model to be a Key Audit Matter.</p> | <p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • Attended a site visit to physically verify the existence and condition of the manufacturing facility having consideration of the independent valuation report. Obtained an understanding on the specialised nature of the facility and the history in relation to its construction and previous use. • Obtained both the 2018 and 2021 asset valuation reports and inspected the following: <ul style="list-style-type: none"> ○ Obtained and understanding of the work conducted by the valuer including the purpose of the valuation to determine whether the work performed was considered to be appropriate audit evidence relevant to supporting the carrying value of the manufacturing facility. ○ The revalued amounts in the financial statements in 2018 agreed to the valuation report. ○ The carrying value of the manufacturing facility as at 31 December 2020 did not differ materially to the valuation report conducted subsequent to the 2020 financial year end. ○ Inspected that the valuation was conducted in accordance with the International Valuation Standards 2013. ○ Inspected that the valuation techniques applied were one of the three acceptable techniques allowed in terms of AASB 13, Fair Value Measurement. |

| Key Audit Matter | How our audit addressed this matter |
|--|---|
| | <ul style="list-style-type: none"> ○ Reviewed the valuation report more generally including the assumptions for compliance with the requirements of AASB 13, Fair Value Measurement. ○ Evaluated the experience and expertise of the company performing the valuation. ○ Evaluated the professional qualifications of the individual performing the valuation. ○ Considered the independence and objectivity of the company and the individual performing the valuation. ● Considered the market capitalisation of the company relative to the total assets of the company. ● Considered the going concern assumption and related discounted cashflows performed in relation to the goodwill impairment assessments to obtain assurance that the assumptions supported the carrying value of the assets. ● Inspected the disclosures in the financial statements were consistent with the requirement of the Australian Accounting Standards. ● Reviewed other documentation that supported the carrying value of the facility. |
| <p><i>Goodwill Assets and Potential Impairment</i></p> <p>Refer to Note 8, Note 1 and Note 2 in the financial statements</p> | |
| <p>At 31 December 2020, the Group showed goodwill with a carrying amount of \$5.4m, which represents approximately 15% of the Group's total assets.</p> <p>As required under AASB 136, management has tested goodwill for impairment. As goodwill does not generate cashflows that are largely independent from other assets, its recoverable amount was determined by calculating the recoverable amount of the cash generating unit ('CGU') to which it belongs. This recoverable amount was then compared to the CGU's carrying amount. In this instance, the</p> | <p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> ● Testing the acquisition accounting in relation to the acquisition of Tetra Pty Limited to obtain assurance that the goodwill was correctly quantified having consideration that the Group has reported provisional amounts in this regard; ● Obtaining an understanding of management's annual impairment testing process; ● Holding discussions with senior management, reviewing the Group's ASX announcement and reading minutes of the directors' meetings to gather sufficient information regarding the |

| Key Audit Matter | How our audit addressed this matter |
|---|---|
| <p>recoverable amount was determined to be its value in use.</p> <p>We determined the impairment review of goodwill to be a Key Audit Matter because of the materiality of the Goodwill balance, and because of the significant management judgements and assumptions used to determine the value in use of the CGU which contains it.</p> <p>Namely, the calculation of the recoverable amount of the CGU involves judgements about the future underlying cashflows of the CGU, estimated growth rates for the CGU for the next five years as well as in perpetuity, and judgements of an appropriate discount rate to apply to the estimated cashflows.</p> | <p>operations of the current reporting period, as well as the expectations going forward;</p> <ul style="list-style-type: none"> • Assessing the reasonableness of management's determination that the goodwill should be allocated to two CGU's in accordance with AASB 136 <i>Impairment of Assets</i>, based on the nature of the Group's business; • Assessing the valuation methodology used to determine the recoverable amount of the Goodwill; • Evaluating the methods and assumptions used to estimate the present value of future cash inflows of the Group including and challenging the reasonableness of the following: <ul style="list-style-type: none"> ○ Future growth rates ○ Discount rates ○ Terminal value methodology ○ The nature and quantum of cashflows included in the model; • Checking the mathematical accuracy of the cashflow model and reconciling input data to supporting evidence, such as approved budgets, and considering the reasonableness of the evidence (such as budgets); and; • Reviewing the completeness and accuracy of the disclosures included in the financial report to ensure compliance with Australian Accounting Standards. |
| <p>Revenue Recognition</p> <p>Refer to Note 3 in the financial statements</p> | |
| <p>Revenue for the year ended 31 December 2020 is reflected in Note 3. The primary revenue streams are:</p> <ul style="list-style-type: none"> • Sales of Hydroponics Equipment, Materials and Nutrients • Sales of Medicinal Cannabis <p>Revenue is considered to be a Key Audit Matter because:</p> | <p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • Assessing whether the Group's revenue recognition policies were in compliance with Australian Accounting Standards • Performing tests of detail on each revenue stream on a sample basis to test the existence and accuracy of revenue. The detailed testing included: agreeing transactions to sales invoices and to the delivery of goods to delivery dockets. |

| Key Audit Matter | How our audit addressed this matter |
|---|--|
| <p>The Group has experienced significant growth in revenue in the year under review.</p> <p>The application of AASB 15 <i>Revenue from Contracts with Customers</i> requires a significant number of assessments, judgements and estimates by management.</p> <p>In addition, the nature of the business for the sales processes in Crystal Mountain Products Pty Limited can result in a significant delay between the date of the sales order and related payment, and the date of delivery of these goods.</p> | <ul style="list-style-type: none"> • Performing specific targeted cut-off testing over transactions recorded either side of the period end, to ensure that revenues were recorded in the appropriate period. • Assessing the appropriateness of the disclosures in the financial report • We also performed specific procedures on the completeness of contract liabilities to ensure that all revenue transaction that had not been delivered were correctly recorded as contract liabilities. |

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2020, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 16 of the directors' report for the year ended 31 December 2020.

In our opinion, the Remuneration Report of Epsilon Healthcare Limited for the year ended 31 December 2020, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

RSM

RSM Australia Partners


GNS

Gary N Sherwood

Partner

Sydney, NSW dated 30 April 2021

SHAREHOLDER INFORMATION

ASX additional information

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 26 April 2021.

a. Spread of Shareholders

At 26 April 2021, there were 9,471 holders of Shares. The shareholders were entitled to one vote for each Share held.

| Spread of Holdings | No. of Holders | No. of Units | % Issued Capital |
|--------------------|----------------|--------------------|------------------|
| 1 – 1000 | 1,216 | 839,367 | 0.44 |
| 1,001 – 5,000 | 4,409 | 11,508,441 | 6.04 |
| 5,001 - 10,000 | 1,407 | 11,092,168 | 5.82 |
| 10,001 - 100,000 | 2,153 | 63,662,051 | 33.43 |
| 100,001 and over | 286 | 103,354,922 | 54.27 |
| Total | 9,471 | 190,456,949 | 100.00 |

There were 3,895 shareholders holding less than a marketable parcel of 2,631 shares as at 26 April 2021 (\$0.190).

b. Top 20 Shareholders

| | Holder Name | Share Holding | % Issued Capital |
|----|--|---------------|------------------|
| 1 | BARCOO HOLDINGS PTY LTD <WYAN FAMILY INVESTMENTS> | 3,528,046 | 1.85 |
| 2 | BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP> | 3,304,319 | 1.73 |
| 3 | META GROWTH CORP | 2,942,489 | 1.54 |
| 4 | HEALTH360 INVESTMENT MANAGEMENT INC | 2,698,334 | 1.42 |
| 5 | BARCOO HOLDINGS PTY LTD <MAPLE VENTURES> | 2,438,341 | 1.28 |
| 6 | MARCUS KELLY PROPERTY DEVELOPMENTS PTY LTD | 2,356,926 | 1.24 |
| 7 | MR GEORGE DAABOUL | 2,000,000 | 1.05 |
| 8 | MCANN INVESTMENTS PTY LTD | 2,000,000 | 1.05 |
| 9 | CITICORP NOMINEES PTY LIMITED | 1,990,856 | 1.05 |
| 10 | MRS KATJA GORDON | 1,865,000 | 0.98 |
| 11 | AGRI FIBRE INDUSTRIES PTY LTD | 1,777,512 | 0.93 |
| 12 | UNE-INNOVATION CONSULTING AUSTRALIA PTY LTD | 1,587,302 | 0.83 |
| 13 | PEARS DAISLEY PTY LTD <DAISLEY PEARS A/C> | 1,500,000 | 0.79 |
| 14 | MR NICHOLAS CHARLES DEVERELL POWNALL | 1,450,000 | 0.76 |
| 15 | SAWFAM PTY LTD <SAWYER SUPER FUND A/C> | 1,409,751 | 0.74 |
| 16 | BELL PRO INVESTMENTS PTY LIMITED | 1,205,273 | 0.63 |
| 17 | MADONNA ANDREWS <ANDREWS FAMILY A/C> | 1,023,810 | 0.54 |
| 18 | MR BRIAN THOMAS CLAYTON + MRS JANET CLAYTON | 1,000,000 | 0.53 |

| | Holder Name | Share Holding | % Issued Capital |
|----|---|----------------------|-------------------------|
| 19 | SUPERHERO NOMINEES PTY LTD | 962,124 | 0.51 |
| 20 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 925,800 | 0.49 |
| | Total | 37,965,883 | 19.93 |

c. Substantial Shareholders

The Company's register of shareholders had no substantial shareholders as at 26 April 2021.

d. Voting Rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

e. Statement of Restricted Securities

The Company has no securities which are Restricted Securities as at 26 April 2021.

f. Utilisation of Cash for Business Objectives

The Company confirms that it has used cash and cash equivalents held at the time of listing in a way consistent with stated business objectives.