

ASX ANNOUNCEMENT
ECS Botanics Holdings Ltd (ASX:ECS)
28 January 2022



December 2021 Quarterly Activities Report

- Receipts from customers of \$1,490,000 - 41% increase on last quarter (Q1 FY2022: \$1,059,000) and a 289% rise on the previous corresponding period (PCP) (Q2 FY2021: \$383,000)
- \$1,434,000 in revenue generated, marking a 58% increase on the previous quarter (Q1 FY2022: \$906,000) and 308% growth on the PCP (Q2 FY2021: \$352,000)
- Increase underpinned by customers continuing to order greater than minimum contract order volumes – highlights strong demand across ECS product suite
- Net cash used in activities down 48% to (\$607,000) from (\$1,166,000) – decrease driven by increased sales and reduced payments for operating costs
- Payments for plant and equipment was \$881,000 for the quarter, \$349,000 increase or 66% on prior quarter due to the continued execution of the Company's farm improvement programs to continue to scale up production
- Strong operational progress continued – collaborative supply and toll processing agreement secured with leading global speciality generic pharmaceutical company Sun Pharmaceutical Industries Ltd (Sun Pharma) Agreement has the potential to generate sales between \$6.6m and \$9.8m over the next five years
- Binding supply agreement for cannabis resin executed with medicinal cannabis business Cannvalate Pty Ltd. Agreement will generate \$592,500 in revenue over the next 12 months and over \$4.9m for another three years following commissioning of extraction equipment with Sun Pharma
- Ranging secured with Metcash for ECS hemp seed oil – product to be stocked in 84 stores across Australia's largest independent supermarket chain, Richies Supa IGA
- \$6.5m share placement completed to drive expansion and scale up – provides ECS with financial flexibility to continue growth trajectory
- Increase in production will allow ECS to continue to meet strong local and international demand for cannabis oil and flower products

ECS Botanics Holdings Ltd (ASX: ECS) ("ECS" or the "Company"), a leading medicinal cannabis and hemp business, is pleased to provide an update on activities for the period ended 31 December 2021 (the "quarter").

Company overview:

ECS has continued to rapidly and effectively execute its growth strategy with respect to capturing market share, expanding cultivation and production capacity, implementing technology to improve productivity and partnering with industry leaders to deliver results. All of which has been achieved with a continued strong focus on achieving high pharmaceutical standards, with an A1 rating retained following the expanded scope of the Australian government's Therapeutic Goods Administration (TGA) audit of the Victorian facility in November.



Operational overview:

ECS entered into a collaborative supply and toll processing agreement for cannabis biomass extraction with Sun Pharma, an Australian based subsidiary of multinational pharmaceutical company Sun Pharmaceutical Industries Ltd.

Sun Pharmaceutical Industries Ltd. is the fourth largest specialty generic pharmaceutical company in the world, with revenues topping US\$4.5Bn. The group is supported by over 40 manufacturing facilities and provides high quality and affordable medicines in more than 100 countries.

The agreement provides ECS with a strategic partnership with a leading, global pharmaceutical company and Sun Pharma with the opportunity to enter the medicinal cannabis manufacturing industry with a flagship customer. The agreement ensures Sun Pharma a supply of cost effective GACP grown biomass to accelerate the development of its medicinal cannabis product range.

Under the terms of the agreement, ECS has freed up ~\$1m in capital, previously set aside for the installation of a carbon-dioxide (CO₂) extractor, allowing the Company to divert the investment into cannabis cultivation and dried flower production. Sun Pharma have also agreed to purchase no less than 55% of its annual cannabis biomass requirements, which has the potential to generate revenue between \$6.6m and \$9.8m over the next five years.

Further to the agreement with Sun Pharma, ECS signed a binding agreement to supply resin to leading Australian cannabis company, Cannvalate Pty Ltd ("Cannvalate"). Cannvalate is focused on the later part of the medicinal cannabis value chain and has one of the largest networks of cannabis prescribing doctors. The group also acts on behalf of The Valens Company (TXS: VLNS) in Australia, to manufacture GMP grade medicinal cannabis through Epsilon Health Limited (ASX: EPN).

The supply agreement will generate circa \$592,500 in revenue for ECS over the next 12 months, after which there is a minimum obligation of \$4,906,000 over the remaining term and upon the commissioning of ECS' extraction unit with Sun Pharma.

The partnership reinforces the quality and sustainability of ECS's long-term cultivation strategy and highlights the increasing demand for Australian sourced medicinal cannabis products for local and export markets.

Coinciding with the annual TGA GMP audit, in November ECS increased the scope of its GMP licence to include export of dried flower. The audit returned an A1 rating. ECS has subsequently successfully listed a number of oil and dried flower products on the Australian Register of Therapeutic Goods (ARTG), thus facilitating exports which will commence in the January quarter.

Corporate developments:

The Company significantly strengthened its cash balance, raising \$6.6m (before costs) through the issue of 198.5 million fully paid ordinary shares at a price of \$0.033 per share to institutional, professional, and sophisticated investors (the "placement"). The placement included a one for two free attaching option with an exercise price of \$0.08 each, with an expiry of two years from the date of issue.

Funds from the placement will be utilised to expedite ECS' growth trajectory, allowing the Company to continue supplying the accelerating demand for its medicinal cannabis products. ECS will deploy capital to progress the purchase and installation of additional protected cropping enclosures and post-harvest production facilities, which will allow the Company to significantly increase sales and gross margin.



ECS is also using funds to increase investment into its organic cannabis and ESG focused regenerative farming strategy, to complement its push towards net zero. While ECS already uses 55 times less energy in its unique production model than typical indoor grow operations, the Company plans to pursue additional initiatives including supply chain measuring and tracking, full plant utilisation to decrease carbon footprint and a transition to 100% renewable energy usage.

The assets of Tasmanian Agricultural Producers ("Tap Agrico") which ECS owns a 28.4% stake were sold and settled on 23 December 2021. The Company expects the sale proceeds will be distributed to ECS and the other Tap Agrico shareholders over the next three months. The capital return is expected to be less than the investment value (\$750,000), however greater than the carrying value of \$500,000. The hemp industry in Tasmania has matured reducing the need for ECS to own infrastructure, furthermore ECS is working closely with cultivation and processing partners so it can run a lower risk, asset lighter and higher margin hemp food, and wellness business.

Financial overview:

Receipts from customers were \$1,490,000 a 41% increase on the previous quarter (Q1 FY2022: \$1,059,000) and a 289% rise on the previous corresponding period (PCP) (Q2 FY2021: \$383,000).

Revenue also continued to track higher during the quarter to \$1,434,000, marking an increase of 58% on the previous quarter (Q1 FY2022: \$906,000) and 319% on the PCP (Q1 FY2021: \$352,000).

The upward trend in revenue marks another consecutive quarter of growth for the Company, with sales underpinned by the strong demand for ECS' cannabis oil products and dry flower in Australia and other international markets.

The food and wellness business had a strong quarter with revenue of \$564,000, predominantly driven by hemp seed oil sales orders from Coles and Woolworths.

During the quarter, Metcash agreed to provide distribution for ECS hemp seed oil. Through Metcash, ECS is building a direct approach to the IGA network, with Richies Supa IGA, Australia's largest independent supermarket chain (84 stores) agreeing to stock ECS's hemp seed oil. Given the initial stage of this agreement, the Company is not able to forecast revenue from this ranging.

Net cash used in operations was (\$607,000), a 48% decrease on last quarter (\$1,116,000). This is the result of \$431,000 increased sales and \$137,000 reduced payments for operations.

The Company remained well funded to progress growth initiatives, with \$7.1m at bank as of 31 December 2021.

Favourable regulatory shifts:

ECS welcomes the recent announcement from the German coalition government, which states that it would allow the controlled sale of cannabis to adults for recreational purposes in licensed shops over the coming years. While Australia currently does not allow the export of recreational use cannabis, this regulatory shift highlights the growing demand across Germany and Europe more broadly.

Outlook:

ECS remains well positioned to capitalise on the significant demand for its products and to continue to increase sales and revenue. ECS continues to streamline its production and manufacturing, increasing speed to market, improving quality, systems, and unit cost. As we grow our business so do our economies of scale.



Discussions with several potential customers both locally and overseas are ongoing, with multiple agreements pending. ECS will continue to provide updates as these contracts and orders materialise.

Management commentary:

Managing Director, Alex Keach said: *"ECS has achieved a significant amount during the quarter, which has laid a strong foundation for the remainder of the financial year and beyond. We have considerably grown our revenue, while keeping a careful eye on operating costs. We expect to continue this trend through the recently secured agreements with both Sun Pharma and Cannvalate, as well as other pending orders from local and international customers."*

"Importantly our customers are ordering greater than the minimum order value in contracts, this is a strong sign of the market demand and we anticipate robust growth from the long term strategic agreements we signed this quarter"

"Our business model with spans from seed to GMP product for the B2B market and continues to resonate very well with a growing base of customers. It provides us with a large addressable market both locally and overseas which continue to grow strongly."

The following table sets out the information as required by ASX Listing Rule 4.7C.3 regarding payments to related parties of the entity and their associates:

Payments to Related Parties & their Associates	Total Amount
Director Fees and Superannuation	\$129,945
Rental Office Payments	\$7,920
Company Secretarial, Registered Office and Financial Management Services	\$55,935
Consulting Fees & Other Services	\$85,741

-ENDS-

About ECS BotaniCS Holdings Ltd

ECS BotaniCS Holdings Ltd is a leading medicinal cannabis and hemp business. The Company owns farms and medicinal cannabis facilities in Tasmania and Victoria for the cultivation, processing, and manufacturing of medicinal cannabis. ECS manufactures to EU GMP standards and also has the necessary licences and partnerships to cultivate and manufacture a range medicinal cannabis oil and dry flower products. ECS has a hemp food and wellness business, supplying both the wholesale and retail market across Australia. ECS' core focus is scale and low-cost production, without compromising quality.

For further information, please contact:

Alexander Keach, Managing Director

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Authorised on behalf of ECS by Alex Keach, Managing Director

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

ECS Botanics Holdings Limited

ABN

98 009 805 298

Quarter ended ("current quarter")

31 December 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,490	2,549
1.2 Payments for		
(a) research and development	(1)	(66)
(b) product manufacturing and operating costs	(952)	(2,074)
(c) advertising and marketing	(33)	(98)
(d) leased assets	-	-
(e) staff costs	(863)	(1,504)
(f) administration and corporate costs	(248)	(591)
1.3 Dividends received (see note 3)		-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	10
1.9 Net cash from / (used in) operating activities	(607)	(1,773)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(881)	(1,413)
(d) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(881)	(1,413)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	6,548	6,548
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(432)	(432)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	6,116	6,116

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,518	4,215
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(607)	(1,772)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(881)	(1,413)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	6,116	6,116
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	7,146	7,146

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	7,146	2,518
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	7,146	2,518

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(280)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		
6.1	Director and consulting fees paid to Directors and/or Director related entities	\$215,686
	Financial management and Company secretary fee paid to Director related entity	\$55,935
	Office rent paid to Director related entity	\$7,920

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	-	-
7.5	Unused financing facilities available at quarter end		-
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
	N/A		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(607)
8.2	Cash and cash equivalents at quarter end (item 4.6)	7,146
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	7,146
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	11.8
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: N/A	
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer: N/A	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: N/A	
	<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 28 January 2022

Authorised by: The Board of ECS Botanics Holdings Limited
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.