

ASX ANNOUNCEMENT

ECS Botanics Holdings Ltd (ASX:ECS)

14 June 2022



ECS introduces a strategy to focus business and maximise growth

- ECS Board to implement a strategy to reduce operating expenses and focus on high growth and profit opportunities as a pure-play medicinal cannabis company
- Board's new strategy expected to deliver:
 - Focus on pure-play medicinal cannabis production at its Victorian operations
 - Sale of Tasmanian property and hard assets
 - Divestment of industrial hemp Food and Wellness business division
 - Anticipated reduction of ~\$1.3m in operating expenditure per annum
- Implementation of these initiatives will streamline the business, fast track organic growth and path to profitability
- Associated realignment of leadership team

ECS Botanics Holdings Ltd (ASX: ECS) ("ECS" or the "Company"), a leading medicinal cannabis company, is pleased to advise the implementation of a revised strategy designed to optimise the Company's businesses and assets and drive revenue growth and near-term profitability.

As part of the Company's new strategy, ECS will seek to divest its Tasmanian operation and focus on growth through its Victorian facilities, which cater to the rapidly growing medicinal cannabis market. ECS is confident that this will deliver streamlined operations and expedited sales growth. The Company will also implement a realignment of its Board and management to underpin the transition.

Strategic rationale – Positioning ECS for growth:

In recent years the cannabis market has evolved considerably. The number of medicinal cannabis registered doctors across Australia has increased significantly and with premium, prescription dry flower becoming a high-demand product, the market in Australia and overseas is growing rapidly. These initiatives support the ongoing focus on the medicinal cannabis (MC) division, with MC sales representing 86% of group revenue during the last quarter and growing.

Proposed optimisation of Victorian site and divestment of Tasmanian operations:

Since its acquisition, the Victorian operation has grown to become the flagship asset of the Company. ECS' Victorian operations are focused on successfully cloning, cultivating, and manufacturing dry flower into euGMP licensed finished products for a range of customers. The Victorian facility also produces euGMP licensed medicinal cannabis oils from the biomass produced on-site by leveraging arrangements with contract manufacturers.

Following the acquisition of the Victorian operation, ECS has shifted its strategy away from extraction in Tasmania and entered a cannabis supply and tolling agreement with Sun Pharma (refer to ASX announcement: 23 November 2021), the fourth largest specialty generic pharmaceutical company in the world.

Given the increasing demand profile of medicinal cannabis dry flower, ECS' Board and management have concluded that the Company should focus on growing the Victorian operation and increasing dry flower cultivation and manufacturing on-site. The reduction in planned cultivation from Tasmania will be replaced by increasing cultivation at the Victorian facility. To



advance this strategy, ECS has lodged an application with the Office of Drug Control to double the size of the cultivation footprint at the Victorian site and expects to expand into this area in the coming season.

To progress the sale of Tasmanian assets and consolidate operations, ECS has begun the process of marketing its Tasmanian assets to potential buyers and has mandated CBRE to do so. The potential sale of the Tasmanian operations will provide ECS with additional cash and allow the Company to reduce operational expenditure.

Hemp Food and Wellness division:

As part of the Company's revised strategy, ECS has commenced plans to divest its Hemp Food and Wellness, business division. This provides the opportunity to focus the business on core operations with the strongest growth trajectory and gross margins. The Board and management expect the revised strategy to create the greatest value for shareholders over the immediate and long term.

Potential impact on financial outlook:

Assuming that the above divestments are fully implemented, the Company expects to save approximately \$1.3m per annum in operating expenses, primarily attributable to operating a single facility with one set of regulatory expenses and the rationalisation of resources.

At this stage, ECS is not anticipating any material impact on top-line sales, and the Company expects quarterly revenue growth and margin improvement to continue.

The Company recognises the substantial value in investing for growth using non-dilutive funding sources. In addition to increasing cash reserves through the divestment of its low-profit assets, ECS has applied for debt funding through a major Australian bank.

Leadership Changes:

As part of this transition to a pure-play medicinal cannabis company, Executive General Manager of medicinal cannabis, Nan-Maree Schoerie, will undertake the role of Managing Director from Alex Keach. Existing Non-Executive Director Jeremy King will replace David McCredie as Non-Executive Chairman, and David McCredie will step down. David McCredie has been Chairman since 2018 and has been extremely generous with his time. The Company thanks him for his contribution to the Company and wishes him well for his future endeavours.

Mr. Keach will transition into the role of Head of Corporate Relations, leading corporate strategy, investor relations, and strategic partnerships, and will remain on the Board as an Executive Director. These changes will enable Ms. Schoerie and Mr. Keach to focus on their core competencies to maintain fast growth and maximise value for shareholders.

Ms. Schoerie lives on-site at the Victorian facility and has run the Victorian business since its inception. Having held Australian business leader positions for large organisations such as GE, ThermoFisher, and Ventia, she has the necessary skills and experience ECS requires as it grows into a much larger cannabis pharmaceutical business.

Additionally, the Company is pleased to welcome Arthur Sun to the company as Financial Controller. Mr. Sun has 20 years experience in financial management including five years as CFO



for Agricultural and Forestry businesses. Arthur is based in Melbourne and will report directly to Ms. Schoerie.

Commentary:

Managing Director, Alex Keach said: *"Nan and I have a strong friendship and business relationship, as the largest individual shareholders we are motivated to realise the value in the Company which is representative of our efforts. I am looking forward to spending more time selling, promoting, and uncovering corporate and strategic opportunities for ECS both locally and overseas."*

Executive General Manager, Nan-Maree Schoerie said: *"It is never easy to divest business assets however as we are in the enviable position of having demand for our medicinal cannabis products substantially exceed our capacity to supply, the strategy is well-founded and will provide ECS with the opportunity to capitalise on a major market opportunity and position the Company as a leader in medicinal cannabis cultivation and supply."*

"We expect tailwinds over the next three years and focussing the business will cement the Company's position and allow us to capitalise on these exciting opportunities. As we enter our third year of operations, processes have become embedded and our teams more expert, affording me more time to work with Alex, Arthur, and the board as we continue to demonstrate the therapeutic benefits of growing high-quality cannabis using organic and regenerative practices."

-ENDS-

About ECS Botanics Holdings Ltd

ECS Botanics Holdings Ltd is a rapidly growing Australian cannabis company. 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 has the necessary licenses to cultivate and manufacture medicinal cannabis for the wholesale extract, final dose, and premium dry flower market. ECS has a B2B and B2C hemp food and wellness business. ECS' core focus is scale and low-cost production, without compromising quality.

For further information, please contact:

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Authorised on behalf of ECS by Alex Keach, Managing Director



Appendix – Managing Director Remuneration

Key terms of Mrs Nan-Maree Schoerie's employment contract are detailed in the table below:

Position	Managing Director
Commencement Date	14 June 2022
Base Salary	\$195,000pa (incl superannuation)
Executive's notice period	3 months
Employer's Notice period	3 months