

ECS Botanics Holdings Limited March 2021 Appendix 4C Commentary

- **ECS acquires Murray Meds – positioning the company to be one of Australia’s largest vertically-integrated medicinal cannabis producers**
- **Supply agreements signed with domestic and international customers**
- **Well-supported capital raise attracts funding for growth and operations**

ECS Botanics Holdings Ltd (ASX: ECS or **Company**), a vertically integrated medicinal cannabis and industrial hemp business, is pleased to provide a report on the Company’s activities for the period ended 31 March 2021.

OPERATIONAL UPDATES

Medicinal Cannabis

In January 2021, ECS announced it had signed a binding Term Sheet, whereby ECS would acquire 100% of the Murray Meds (**MM**) medicinal cannabis business and assets including its farm and medicinal cannabis processing facility in north-western Victoria. The acquisition of MM was approved by shareholders at the general meeting held on 2 March 2021.

MM has a fully licensed medicinal cannabis cultivation and manufacturing facility located on the banks of the Murray River in North Western Victoria. The facility holds a Cultivation, Research and Manufacturing Licence from the Australian Office of Drug Control as well as permits to cultivate and produce 3,500 kilograms of medicinal cannabis per annum. MM also holds a TGA Good Manufacturing Practice manufacture licence for dried flower, oils and tinctures.

During the quarter the following agreements were entered into by the ECS group:

- February 2021:
 - Three-year supply agreement for the sale, export, and distribution of medicinal cannabis oils to London-based pharmaceutical distribution company The Armour Group. Minimum order volumes under the agreement amount to approximately \$500,000 in revenue. However, management anticipates orders to materially exceed the minimum in the first 12 months and increase each year.
- March 2021:
 - Three-year agreement to supply medicinal cannabis dried flower and medicinal cannabis concentrate to Cronos Australia – Operations Pty Ltd (CA), an Australian cannabinoid company. The minimum spend across the life of the agreement is \$750,000.
 - Dried cannabis flower products supply agreement with Melbourne-based Releaf Group. The agreement will generate approximately \$590,000 revenue for ECS over its 18-month term and is the extension of an existing relationship with Releaf.
 - Memorandum of Understanding signed with the subsidiary of a large Australian medicinal cannabis company, which will form the basis of the evaluation and negotiation for a long-term supply agreement.

Hemp Business

During the quarter ECS observed greater demand for wholesale hemp products. The volume of demand for seed, oil and seconds products continues to grow. ECS also grew its sales via Woolworths through its distribution agreement with JFA Brands, who are having ranging discussions with other grocery and retail chains.

Development of a new range of wellness products has been completed and negotiations with specialist distributors targeting the pharmacy and health sectors are advanced.

Wholesale growth into the pet food sector for bulk supply of all hemp food and by-products is increasing steadily. ECS is actively working on new product development with a number of animal food manufacturers to develop speciality products, specifically using ECS Tasmanian produced hemp.

Demand for retail white labelled products, particularly hemp capsules, continues to drive revenues and demand for ECS hemp seed oil. An increased range of white labelled products is being progressed by the Company.

FINANCIALS

During the quarter ECS received cash of \$183,304 from customers. Total revenue for the quarter was \$371,000 which was 5% up on the previous quarter and attributable to the sale of hemp seeds, soups, capsules, oil and hemp biproducts.

As required pursuant to the ASX Listing Rules, the table below illustrates the expenditure comparison against the 'Use of Funds Table' in the Company's IPO Prospectus dated 10 May 2019;

Use of Funds	Maximum Subscription (\$) (\$6.5m) Raised	Actual amount spent (\$) in the quarter ended 31 March 2021	Total Actual amount spent (\$) to date
Purchase hemp from farmer	1,050,000	-	655,773
Processing and Manufacturing	925,000	231,706	1,394,139
Business development and marketing	250,000	40,000	341,129
Farming costs, leasing and commercial farming trials	210,000	14,094	112,022
Seeds – general planting stock	120,000	-	141,207
Infrastructure and storage investment (including purchase of leased property in the event of Maximum Subscription)	1,500,000	362,000	3,819,893
Medical cannabis (feasibility study & consulting)	100,000	1,706	97,225
Administration Costs	1,450,000	448,492	2,522,147

CAPITAL RAISING

ECS raised \$4,000,000 through the placement of 80 million shares to sophisticated and professional investors in March 2021 at an issue price of 5¢ per share. The placement was followed by an entitlement offer giving all shareholders the ability to buy 1 new share for every 17 shares held, also priced at 5¢ per share.

The proceeds from the capital raise to be used primarily fund the purchase of MM as well as plant and equipment.

Appointment of Site & Cultivation Manager

ECS appointed Mr Paul Hanrahan as Site & Cultivation Manager in the quarter. Mr Hanrahan joined ECS from Western Australia-based medicinal cannabis cultivator Little Green Pharma, having relocated to ECS's CBD production base in Tasmania. Mr Hanrahan is a qualified horticulturalist with a diverse and varied agriculture and commercial skillset that spans over 30 years.

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	\$91,173
Rental Office Payments	\$7,920
Company Secretarial, Registered Office and Financial Management Services	\$21,505
Consulting Fees & Other Services	\$5,372

SIGNIFICANT POST QUARTER ACTIVITY

Subsequent to the end of the quarter, ECS announced:

- that it had lodged plans with the Office of Drug Control to significantly expand its cultivation area in Tasmania from 2,500 square metres (sqm) to 320,000 sqm. The planned expansion is a first of its kind in Australia and will continue to expand ECS's footprint as the ASX's largest and lowest cost producer.
- its maiden commercial shipment of medicinal cannabis biomass from its Victorian operations; and
- the closure of its entitlement which raised gross proceeds of \$398,162.05. In accordance with the entitlement offer document, the directors reserve the right to place any shortfall at their discretion.

About ECS Botanics

ECS Botanics is a vertically integrated medicinal cannabis and industrial hemp business. The company owns farms and medicinal cannabis facilities in Tasmania and Victoria for the cultivation, processing, and manufacturing of medicinal cannabis. ECS manufacturers to EU GMP standards and also has the necessary licenses to cultivate and manufacture medicinal cannabis for the wholesale extract, final dose and premium dry flower market. ECS cultivates hemp for the wholesale market and its retail food and wellness brand, while having obtained all the necessary licenses to grow, supply and manufacture. ECS's 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 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 March 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	183	852
1.2 Payments for		
(a) research and development	-	(17)
(b) product manufacturing and operating costs	(246)	(735)
(c) advertising and marketing	(40)	(161)
(d) leased assets	-	-
(e) staff costs	(319)	(724)
(f) administration and corporate costs	(131)	(505)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	(1)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	30	142
1.9 Net cash from / (used in) operating activities	(523)	(1,149)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	(956)	(956)
(c) property, plant and equipment	(362)	(2,304)
(d) investments	-	-
(e) intellectual property	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(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	(200)	(200)
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(1,518)	(3,460)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	4,000	9,350
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	(264)	(560)
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	3,736	8,790

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	4,385	1,899
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(523)	(1,149)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(1,518)	(3,460)

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,736	8,790
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	6,080	6,080

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	6,080	4,385
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)	6,080	4,385

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	(126)
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	\$92,879
	Financial management and Company secretary fee paid to Director related entity	\$21,505
	Equipment hire expense paid to Director related entity	\$3,666
	Office rent paid to Director related entity	\$7,920

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

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
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)	(523)
8.2 Cash and cash equivalents at quarter end (item 4.6)	6,080
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	6,080
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	11.6
<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: 29 April 2021

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.