

ECS Botanics Holdings Ltd (ASX:ECS)



ASX Announcement

24 July 2023

Replacement Quarterly Report and Cashflow

The attached announcement replaces the announcement lodged on 10 July 2023, titled *Quarterly Activities/Appendix 4C Cash Flow Report* and includes the requirements under ASX Listing Rules 4.7C.1 and 4.7C.3.

-ENDS-

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24 July 2023

ECS Botanics achieves cashflow positive quarter and enters FY24 with strong momentum following major contract wins

ECS Botanics Holdings Ltd (ASX: ECS) ("ECS" or the "Company"), a leading medicinal cannabis company, provides the following update on activities for the quarter ending 30 June 2023 (Q4 FY23).

Financial highlights:

- Positive net operating cashflow for the quarter, recording \$0.70 million of free cashflow
- Unaudited FY23 trading revenue of \$15.63 million, up 131% on prior year
 - Record Q4 FY23 revenue of \$4.97 million, an increase of 105% on the prior corresponding period (pcp) and 33% on the previous quarter (Q3 FY23)
- Remain well funded with \$2.54 million cash at bank as at 30 June 2023 and undrawn NAB facility of \$2.0 million

Operational highlights:

- Continued strong demand for ECS' innovative and organically grown medicinal cannabis oils and dried flower, with further supply agreements signed with Entoura and Precision Pharmaceuticals totalling a minimum of \$11.9 million
- Implemented initiatives to begin building ECS' intellectual property
 - Strategic partnership with Geocann to utilise its leading drug delivery technology to improve the bioavailability and effectiveness of cannabis products
 - Appointment of Technical Director to facilitate company research and development programs
- A 51.5% increase in the production of dried cannabis flower in the 2022/2023 season
- Launched an R&D 'Yield Trial' to extend the growing season and production capacity utilising recently installed solar photovoltaic energy for light and heat
- Recognition through multiple awards at the 2023 Cannabiz Awards

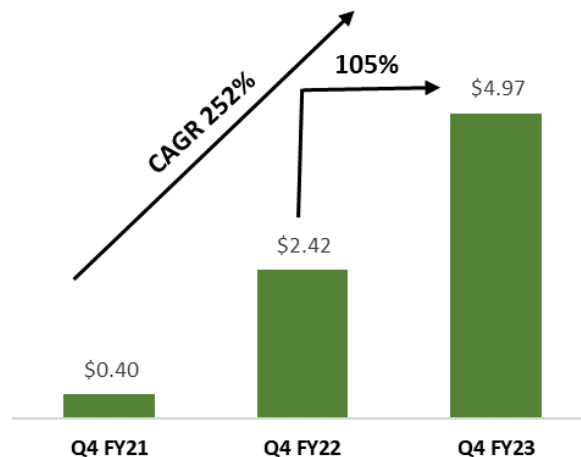
Financial Highlights

Q4 FY23 was another period of major growth for ECS, with strong momentum continuing across all aspects of the business. Receipts from customers of \$5.19 million, representing a 19% increase on the previous quarter (Q3 FY23: \$4.37million) and a 131% increase on pcp (Q4 FY22: \$2.25 million), were driven by continued strong demand for ECS' innovative and organically grown medicinal cannabis oils and dried flower. Pleasingly, the Company expects this momentum to continue into FY24, with new major contracts signed late in the financial year.



Unaudited trading revenue for FY23 was \$15.63 million, which is up 131% on the prior year, with Q4 FY23 revenue generating \$4.97 million, which highlights the momentum heading into the new year.

Q4 Revenue Growth (\$m)



Importantly, the Company achieved positive net operating cashflow for the quarter, reflecting strong demand for ECS' products, and cost-effective cultivation methods. The Company remains well funded, with a cash balance of \$2.50 million as at 30 June 2023, and access to a recently expanded National Australia Bank (NAB) loan facility of \$2 million which remains undrawn.

Operational Update

Major contract agreements signed

ECS signed two binding offtake agreements with Entoura Pty Ltd ("Entoura") and Precision Pharmaceuticals Pty Ltd ("Precision") in June, with the agreements worth a minimum of \$11.9 million to supply medicinal cannabis dried flower. ECS will supply Good Manufacturing Practice (GMP) manufactured, medicinal cannabis dried flower worth \$10.2 million over a three-year period to Melbourne-based medical cannabis company Entoura, and GMP manufactured, medical cannabis dried flower worth \$1.7 million over 12 months to Sydney-based Precision Pharmaceuticals.

These binding offtake agreements demonstrate the scaling benefits of recent capacity upgrades to improve yields, the addition of more outdoor fields and the increased capacity of the protective cropping enclosures.

New initiatives to build intellectual property for ECS

ECS Botanic has entered an exclusive partnership with Geocann, a global industry leader in drug delivery technologies that optimise the performance of phytocannabinoids. The ten-year deal allows ECS the exclusive use of their VESIsorb® patented technology, in medicinal cannabis-based formulation products in Australia, New Zealand and the United Kingdom. The exclusivity extends to Europe for ECS product formulations. VESIsorb® has been clinically proven in peer-reviewed published studies⁽ⁱ⁾ to safely mitigate the extensive first-pass metabolism of cannabinoids and terpenes, thereby delivering higher blood plasma levels with a much lower dose for greater therapeutic benefits.

(i) Article: A Novel Self-Emulsifying Drug Delivery System (SEDDS) Based on VESIsorb® Formulation Technology Improving the Oral Bioavailability of Cannabidiol in Healthy Subjects dated 16 August 2019 - <https://www.mdpi.com/1420-3049/24/16/2967>



A scientific evaluation of VESIsorb® as a delivery system confirms the:

- concentration-time profile is improved by almost two times;
- absorption is over four times better; and
- time to act is three times faster than current methods on the market.

The partnership with Geocann will allow ECS to utilise the VESIsorb® technology in its products, to further position the Company's products as market-leading. In addition, both ECS and Geocann have agreed to collaborate on further innovative product development.

As part of the process to build out ECS' intellectual property, the Company has appointed Jesus Diaz as Technical Director. Mr Diaz is an Agricultural Engineer with over 10 years' experience in the field of medicinal cannabis. He will be responsible for driving increases in cannabis quality, yields, assay and terpene levels by leveraging his expertise in medicinal cannabis agronomy and plant genetic selection and development.

A successful 22/23 production season; yield improvement trials underway

Over the past 12 months, ECS produced 4.25 tons of dried cannabis flower, all of which is scheduled to be sold into the medicinal market in Australia or overseas, an increase of 51.5% on the previous year.

The significant increase in production is due to the successful implementation of six additional protective cropping enclosures (PCE), which are now fully operational and bring the total to 17 PCEs. Additionally, the existing outdoor fields also increased production, even allowing for a prolonged, wet spring which affected outdoor yields.

ECS is conducting a trial within one of its newly established PCEs to extend the growing season and production capacity utilising recently installed additional 75kW of solar photovoltaic for light and heat. The trial aims to assess the commercial and quality implications of incorporating supplemental lighting and heating, thereby enabling the addition of more crop cycles. If successful, this initiative will provide significant yield advantages.

Recognition through multiple awards at the 2023 Cannabiz Awards

At the inaugural Cannabiz Awards held on 8 June 2023, ECS secured multiple accolades, including the highly coveted titles of Best Place to Work, Cultivator / Manufacturer of the Year, and Business Leader of the Year.

Outlook: entering FY24 with major momentum

Commenting on the outlook, ECS Managing Director, Nan-Maree Schoerie said: "ECS continues to make significant strides in the medicinal cannabis industry, with this progress being reflected in the financial results we have reported. Even more pleasing is the fact that we enter FY24 off the back of two major supply agreements and are well positioned to continue to grow revenue and profit.

"Whilst I look forward to continuing to deliver increased production and sales, I am really excited about the potential to further differentiate ECS from its peers through greater innovation and technology. Innovation has always been at the core of how ECS operates, and the recent partnership with Geocann, which allows ECS to utilise their VESIsorb® technology, has the potential to markedly improve the effectiveness of our cannabis products, providing optimal therapeutic benefits to consumers in Australia and several overseas markets.

"We have built really strong foundations for ECS to be a sustainable growth company, and I look forward to building on those foundations in FY24 and beyond to deliver value to our loyal shareholders."



Corporate

During Jun 23 Quarter, ECS recorded a positive operating cash inflow of \$0.70 million with \$3.04 million incurred in production and manufacturing costs. Costs primarily included \$1.37 million for medicinal cannabis flower and oil products, \$0.99 million for contract manufacturing and \$0.22 million for freight expenses.

ECS received \$0.35 million from government grants and subsidies: \$0.21 million was from a R&D grant and \$0.14 million from a government flood recovery grant.

Payments to related parties (\$125K) under the Section 6.1 of Appendix 4C were made to Director related entities: \$92,361 was for Director and consulting fees paid to Directors and/or Director related entities, \$25,673 for Company secretarial, registered office services and a further \$7,221 for Pharmaceutical and IT consultancy services.

Authorised on behalf of ECS Botanic Holding Ltd by Nan-Maree Schoerie, Managing Director.

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About ECS Botanic Holdings Ltd

ECS Botanic Holdings Ltd is an Australian medicinal cannabis cultivator and manufacturer located in Northwest Victoria. ECS utilises progressive and innovative cultivation methodologies to produce quality medicine in a sustainable way, adopting regenerative and organic horticultural practices and renewable energy sources. Licenced by the Australian Therapeutic Goods Administration to manufacture GMP (equivalent to PIC/S, EU agencies are all PIC/S members) certified products, ECS has become a leading provider of high quality, affordable medicinal cannabis.

For further information, please contact: info@ecs-botanics.com

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")

30 June 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	5,194	15,973
1.2 Payments for		
(a) research and development	(22)	(83)
(b) product manufacturing and operating costs	(3,043)	(10,079)
(c) advertising and marketing	(15)	(40)
(d) leased assets	-	-
(e) staff costs	(1,509)	(5,248)
(f) administration and corporate costs	(254)	(1,197)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	10	10
1.5 Interest and other costs of finance paid	(6)	(63)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	348	671
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	703	(56)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(371)	(2,759)
(d) investments	-	-
(e) intellectual property	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	3,250
(c) property, plant and equipment	35	35
(d) investments	46	46
(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	2
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(288)	574

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	-	-
3.5 Proceeds from borrowings	31	199
3.6 Repayment of borrowings	(20)	(42)
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	11	157

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	2,114	2,947
4.2 Net cash from / (used in) operating activities (item 1.9 above)	703	233

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(288)	(803)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	11	163
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,540	2,540

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	2,540	2,114
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)	2,540	2,114

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	(125)
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	\$92,361
	Company secretarial, registered office services	\$25,673
	Pharmaceutical and IT consultancy services fee paid to Director related entities	\$7,221

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	2,000	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	2,000	-
7.5 Unused financing facilities available at quarter end		2,000
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.		
NAB has approved an increase in the company's loan from \$800K to \$2 million. The loan is structured with a 12-month interest-only period, followed by an amortization schedule that gradually reduces the balance to \$850K over the subsequent 4 years.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	703
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,540
8.3 Unused finance facilities available at quarter end (item 7.5)	2,000
8.4 Total available funding (item 8.2 + item 8.3)	4,540
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A
<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: 10 July 2023

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.