

ECS Botanics Holdings Ltd (ASX:ECS)



ASX Announcement

29 April 2024

ECS Botanics preparing for expansion after strong growing season and successful capital raise

ECS Botanics Holdings Ltd (ASX: ECS) ("ECS" or the "Company"), a leading medicinal cannabis company, provides an update on activities for the quarter ending 31 March 2024 (Q3 FY24).

Q3 FY24 Highlights:

- Revenue of \$4.0 million, up 10% on prior corresponding period (PCP)
- Strong growing season, on track for record annual production
- Commenced facility upgrades (heat and light) and new PCE construction to improve efficiencies and extend growing season
- Global deregulation continues as cannabis removed from Germany's Narcotics List whilst new regulations still require medical pathway
- B2C preparations finalised with experienced sales team recruited and own brand (VESIsorb®) CBD soft-gel capsules production underway
- Sale of white-label THC vapes commenced with strong initial sales building on increasing demand for pastilles
- Available liquidity of \$6.7million following successful \$4 million capital raise to accelerate expansion projects and support international and B2C sales growth

Financial Update

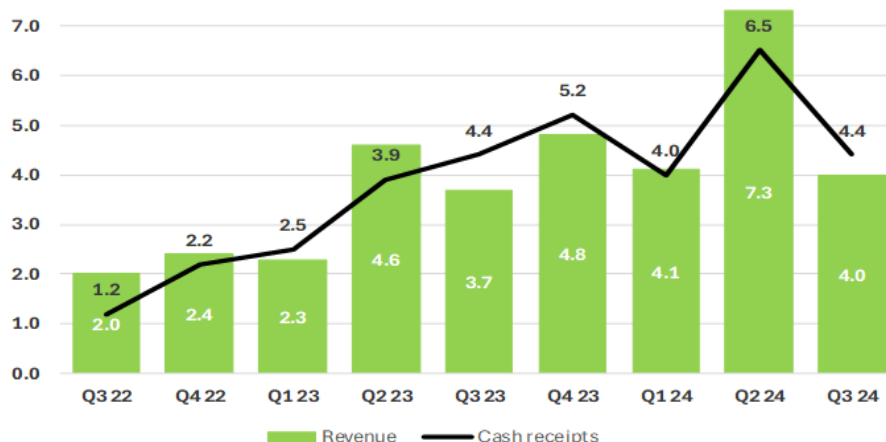
ECS delivered Q3 FY24 revenue of \$4.0 million, a 10% increase on PCP (Q3 FY23: \$3.7 million), driven by an expanded customer base. Sales were lower than the record achieved in Q2 FY24 due to numerous orders being brought forward prior to year-end.

While there has been an increase in lower priced (non GMP) imported products entering Australia, ECS remains well positioned for growth due to a strong order book and a pipeline of new export and local opportunities for the Company's competitively priced EU-GMP flower, oils, pastilles, vapes and capsules. ECS continues to focus on quality in the production of its organic dried flower product as it expands its production facilities to meet the continuing strong demand for premium grade flower.

Quarterly cash receipts from customers of \$4.4 million were flat on PCP.



Revenue and Cash Receipts (\$A millions)



Operating cash outflow for Q3 FY24 was \$1 million, reflecting increased production costs associated with the larger crop. In addition, ECS invested in a new mechanical trimmer to enhance post-harvest processing efficiency, which will generate production cost savings.

Further investments included deposits for new PCEs and lighting, installation of a gas tank and ancillary equipment, as well as the PCE heating systems. A new building to store organic fertigation chemicals and growing equipment, was procured and is set to be completed in April.

In February, ECS strengthened its cash position following a successful equity raise. The placement raised \$4 million and is being utilised to undertake expansion projects and support sales through international and B2C channels.

ECS remains well funded as at 31 March 2024, with a cash balance of \$4.7 million, along with a NAB facility of 2.0 million, which remains undrawn.

Operational Update

Harvest underway, record yield anticipated.

During the quarter, ECS commenced its largest harvest ever, with an anticipated 50% increase on prior year. The large crop has utilised substantially more resources to support both harvesting and processing stages. This year's harvest, enhanced by new growing expertise and improvements in soil quality, is on track to conclude by May and is expected to surpass all previous years in both quality and quantity. This record harvest positions ECS well for growth, enabling increased production and fulfillment of more customer orders.

PCE's in early stages of construction

Material sourcing and initial stages of construction of nine new PCEs commenced during the quarter, with all new PCEs to incorporate features from the findings from ECS' recent R&D trials. Once operating at full capacity, the PCE's are expected to increase production of premium dried flower by over 200%. This investment is critical to support export demand and the rapidly growing Australian market.

White-label product update

ECS has commenced sales of its white-label THC distillate vape infused with additional terpenes with positive initial orders. Branded with the iconic, 'Australian Made' certification, the vape cartridges utilise



oil concentrates derived from ECS' pharmaceutical-grade extracts from the company's Australian-grown flowers. The first batch of vapes, which have experienced high demand, were sold through Medicann and ECS's RAP compassionate brand. Demand for pastilles continues to increase, with a backlog of orders, due to a constraint in supply. This bottleneck will be resolved in June following an equipment upgrade by the contract manufacturer.

B2C preparation and sales team appointments

During the quarter, ECS appointed Brendan James as General Manager – Commercial. Brendan brings over 20 years' experience in pharmaceutical sales and business development. He will lead ECS' sales teams by delivering high-quality products and services to B2B clients and introducing the B2C exclusive VESIsorb® product line.

Aiden Zilouff will also join the sales team in mid-April. Aiden brings five years' experience in sales and product management with one of Australia's largest cannabis brands. His strong technical expertise will enhance ECS' B2B channel as well as supporting new product development.

New customer agreements and German export outlook

During the quarter, ECS successfully onboarded two new customers: Tilray, the Australian operation of a leading global cannabis company based in the USA; and Rua Bioscience, based in New Zealand. These new agreements expand ECS's client base and position the company to capitalise on new opportunities in both local and international cannabis markets. The changes in the German Cannabis regulation provide an ideal platform for the model deployed by Ilios Sante' and by extension the supply of ECS' product into Germany. Two batches of trial flower sent to Ilios Santé have been well received with commercial supply to start on Australian export permit approval.

Own Brand Update

A new GMP-certified supplier has been contracted to manufacture ECS's CBD soft-gel capsules containing VESIsorb. This manufacturer will also produce THC capsules once stability trials are completed. Additionally, ECS has invested in stability trials for its AVANI flower, which will be marketed as a premium product.

Outlook

Commenting on the outlook, ECS Managing Director, Nan-Maree Schoerie said:

"We have successfully expanded our outdoor cultivation capacity by 60%, which will boost overall production. During the quarter, we were actively procuring and initiating the construction of the nine new PCE's and introducing new heating and lighting technology. These activities are critical to further scale our operations in response to the projected increase in customer orders.

Our growth projections are founded on two new pathways: our B2C strategy, which includes the upcoming launch of Avani Rapid, medicinal cannabis soft gel capsules and oral liquids; and meeting the demand of our European contracts (UK, Germany, and Poland) which is anticipated to consume a large portion of ECS' supply.

In late April, I will be meeting with our customers in Europe and the UK. Our partner in Germany, Ilios Santé has already indicated the need for additional ECS product beyond its existing contractual commitments due to the recent regulatory changes in Germany which decriminalises cannabis while still requiring prescriptions.

Our products supplied to Curaleaf Laboratories (formerly known as Rokshaw) are gaining popularity, with demand on the rise. Additionally, we are nearing the completion of the Polish regulatory process in



collaboration with our partner, Koyi. These emerging premium dried flower markets necessitate that we intensify our efforts to ramp up production, in accordance with our expansion plans to meet the growing demand in our sales pipeline.”

Corporate

During Q3 FY24, ECS reported a negative operating cash flow of \$1 million. Production and manufacturing costs amounted to \$3.48 million. Payments to related parties (\$176,569) under Section 6.1 of Appendix 4C were made to Director related entities; This included \$139,874 for Director and consulting fees paid to Directors and/or Director-related entities, along with \$19,635 for Company Secretarial and registered office services, and an additional \$17,059 for Pharmaceutical and IT consultancy services.

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

-ENDS-

For further information, please contact:

Investors

Eric Kuret

P: +61 417 311 335

E: eric.kuret@automicgroup.com.au

Media

Tristan Everett

P: +61 403 789 096

E: tristan.everett@automicgroup.com.au

About ECS Botanics Holdings Ltd

ECS Botanics 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.

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 2024

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	4,372	14,936
1.2 Payments for		
(a) research and development	(33)	(67)
(b) product manufacturing and operating costs	(3,477)	(10,065)
(c) advertising and marketing	(37)	(110)
(d) leased assets	-	-
(e) staff costs	(1,945)	(4,691)
(f) administration and corporate costs	(171)	(785)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	9	24
1.5 Interest and other costs of finance paid	(6)	(17)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	290	380
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(998)	(395)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(577)	(1,435)
(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	-	(192)
	(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	(577)	(1,627)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	4,000	4,000
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	(220)	(220)
3.5	Proceeds from borrowings	-	566
3.6	Repayment of borrowings	(67)	(148)
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	3,713	4,198

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,578	2,540
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(998)	(395)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(577)	(1,627)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,713	4,198
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	4,716	4,716

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	4,716	2,578
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)	4,716	2,578

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	(177)
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	\$139,874
	Company secretarial, registered office services	\$19,635
	Pharmaceutical and IT consultancy services fee paid to Director related entities	\$17,059

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	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)	(998)
8.2	Cash and cash equivalents at quarter end (item 4.6)	4,716
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)	6,716
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	6.7
	<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: 26 April 2024

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.