



ECS Botanics December 2019 Appendix 4C Commentary

Highlights

- **Hemp crops sown in Tasmania at ECS property & with contract growers**
- **First shipment of ECS Hemp Oil to Woolworths supply chain partner**
- **Distribution deal with Woolworths also secured for ECS' soup products**
- **Manufacture and Cultivation licences granted for proposed Tasmanian medicinal cannabis facility**
- **Licensing approvals allows ECS to progress its medicinal cannabis plans**

ECS Botanics Holdings Ltd (ASX: ECS or Company) is pleased to provide a report on the Company's activities for the period ended 31 December 2019.

Operational update

During the quarter the Company has successfully sown its crops, both on the ECS owned farm and via contract growers, and these irrigated crops have germinated successfully.

As announced on 31 October 2019, ECS signed an exclusive three-year distribution agreement with Just Foods Australia Pty Ltd (JFA).

In November, ECS then announced JFA had secured the distribution of ECS Botanics' 250ml Hemp Oil product into 850 Woolworths stores.

ECS first hemp oil order for Woolworths stores has been manufactured and dispatched to its supply chain logistics provider on 17 January 2020, and the product is now entering stores nationally.

Following this, in January, ECS announced JFA had secured distribution into Woolworths for ECS Botanics Mexican Spiced Bean Soup with Hemp and Indian Masala Lentil Soup with Hemp.

The ECS soup products are positioned for people seeking a convenient, great tasting and healthy meal option. They consist of high quality and majority plant-based ingredients, developed by an experienced team of chefs and nutritionists.

First cash receipts from JFA, for Woolworths stocked product, are expected in the current quarter.

Woolworths is Australia's largest supermarket chain with 995 stores across Australia and 115,000 employees.

Licensing approvals

In November, ECS was granted a Manufacture Licence by the Australian Federal Government's Department of Health Office of Drug Control (ODC) for medicinal cannabis operations at its site in Tasmania.

The licence, in addition to subsequent permits, allows ECS to undertake authorised activities for specified drugs (extracts and tinctures of cannabis and cannabis resin) upon development of its proposed medicinal cannabis facility at the site.

This licence authorises ECS to undertake the following activities in specified areas of its licensed premises as provided for in the site plan lodged with the application:

- a) the manufacture of a drug in accordance with one or more manufacture permits;
- b) activities relating to such manufacture, including but not limited to the following (as applicable):
 - i. the supply of the drug;
 - ii. the packaging, transport, storage, possession and control of the drug;
 - iii. the disposal or destruction of the drug.

The licence is valid from 8 November 2019 to 8 November 2020.

The Company was subsequently granted a Cultivation Licence by the ODC in December, which allows ECS to undertake the following activities in specified areas of the licensed premises as provided for in the site plan that was lodged with the licence application:

- a) the cultivation of cannabis plants, in accordance with one or more medicinal cannabis permits, for the purpose of producing cannabis or cannabis resin for medicinal purposes
- b) the production of cannabis or cannabis resin for medicinal purposes, in accordance with one or more medicinal cannabis permits
- c) activities relating to such obtaining, cultivation or production, including but not limited to the following:
 - i. the obtaining of cannabis plants for the purpose of cultivation;
 - ii. the packaging, transport, storage, possession, testing and control of cannabis plants, cannabis or cannabis resin;
 - iii. the supply of cannabis plants, cannabis or cannabis resin.

The licence period is valid from 13 December 2019 to 13 December 2020.

Based on dialogue with the ODC, ECS expects to be able to extend the Manufacture Licence and the Cultivation Licence beyond these initial terms.

As earlier announced, ECS engaged leading medicinal cannabis consultancy group PharmOut as it pursues development of the proposed medicinal cannabis facility in Tasmania.

CORPORATE

Financials

Cash receipts during the period totalled \$82,000. Total sales revenue for the period was ~\$235,000 as the company commences production and delivery on orders from JFA for product to be stocked in Woolworths stores, wholesale sales and online sales.

In a pivotal quarter for the future growth of the Company, expenditure included \$1.5m on the purchase of the ECS farm, production runs of ECS Hemp Oil to fulfil supply to Woolworths, initial production runs for ECS soups and sauces, purchase of additional hemp seed to fulfil upcoming orders prior to harvest and the purchase of sowing seed for ECS cultivation activities.

The Company held a cash balance of \$3.002m as at 31 December 2019.

The table below illustrates the expenditure comparison against the 'use of funds table' in the Prospectus dated 10 May 2019.

Use of Funds	Maximum Subscription (\$) (\$6.5m) Raised	Actual amount spent (\$) in the quarter ended 31 Dec 2019	Actual amount spent (\$) year to date
Purchase hemp from farmers ³	1,050,000	202,500	202,500
Processing and Manufacturing ⁴	925,000	290,000	428,000
Business development and marketing	250,000	46,000	99,000
Farming costs, leasing and commercial farming trials	210,000	27,364	57,379
Seeds – general planting stock	120,000	0	121,680
Infrastructure and storage investment (including purchase of leased property in the event of Maximum Subscription) ⁵	1,500,000	1,516,000	1,516,000
Medical cannabis (feasibility study & consulting) ⁶	100,000	25,391	43,794
Administration Costs	1,450,000	286,000	926,000

Results of AGM

At ECS' Annual General Meeting of shareholders on 20 November 2019, the following resolutions were carried unanimously on a show of hands:

- Resolution 1 - Non-Binding Resolution to Adopt Remuneration Report;
- Resolution 2 – Re-election of Director – Jeremy King;
- Resolution 3 - Approval of 10% Placement Capacity; and
- Resolution 4 - Change to Company's Constitution.

About ECS Botanics

ECS Botanics is an agribusiness and hemp food company, cultivating (own and contract growers) and processing hemp for the wholesale market and its own retail food brand. The company's main operations are conducted in Tasmania, Australia. ECS has the necessary licences to cultivate, supply and manufacture industrial hemp in Tasmania as well as a grower licence in Queensland. ECS holds import and export licences with the Office of Drug Control (ODC) as well as having been granted licences for the cultivation and manufacture of medicinal cannabis. ECS owns a farm in Tasmania for commercial cultivation of hemp, research and as the proposed site of a medicinal cannabis facility. ECS owns a strategic stake in TapAgrico for the logistics, drying and storage of hemp seed.

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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 2019

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	82	96
1.2 Payments for		
(a) research and development	-	(26)
(b) product manufacturing and operating costs	(520)	(810)
(c) advertising and marketing	(46)	(73)
(d) leased assets	-	-
(e) staff costs	(199)	(354)
(f) administration and corporate costs	(112)	(616)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	1
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)	-	-
1.9 Net cash from / (used in) operating activities	(793)	(1,782)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1,516)	(1,516)
(d) investments	-	(696)
(e) intellectual property	-	-

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	952
2.6	Net cash from / (used in) investing activities	(1,516)	(1,260)
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	-	(526)
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)	-	(2)
3.10	Net cash from / (used in) financing activities	(528)	(528)
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	5,311	6,572
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(793)	(1,782)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,516)	(1,260)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	(528)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	3,002	3,002

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	3,002	5,311
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)	3,002	5,311

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
(405)
-

Director fees paid to a Director related entity \$59,096

Financial Management and Company Secretary fees paid to a Director related entity \$39,325

Tasmanian farm lease rental fees paid to a Director related entity \$400

Tasmanian farm purchase paid to a Director related entity \$301,305

Office lease rental fees paid to a Director related entity \$4000

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

7. Financing facilities

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.

	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.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(793)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	3,002
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	3,002
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	4

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

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:

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:

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:

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: 30 January 2020

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.