

## ECS Botanics Holdings Limited

### Quarter Ended 31 March 2020 Appendix 4C Commentary

#### Highlights

- ECS Hemp Seed Oil on shelves in Woolworths
- First shipment of ECS soups dispatched to Woolworths
- ECS banks first cash receipts for Woolworths stocked products
- ECS commences major hemp harvest in Tasmania
- Cost-cutting measures implemented in light of COVID-19 pandemic, will not affect forecast sales
- Tasmanian State Government grants ECS Industrial Hemp Special Research License

ECS Botanics Holdings Ltd (ASX: ECS or Company) is pleased to provide a report on the Company's activities for the period ended 31 March 2020.

#### Financials

During the quarter ECS banked cash receipts totaling \$202k, while total sales revenue for the period grew to \$272k as momentum continued on orders from Just Foods Australia (JFA) for product to be stocked in Woolworths stores, in addition to wholesale and online sales.

The company held a cash balance of \$2.53m as at 31 March 2020.

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 March 2020	Actual amount spent (\$) year to date
Purchase hemp from farmer	1,050,000	-	202,500
Processing and Manufacturing	925,000	252,549	680,549
Business development and marketing	250,000	30,826	129,826
Farming costs, leasing and commercial farming trials	210,000	11,934	69,313
Seeds – general planting stock	120,000	-	121,680
Infrastructure and storage investment (including purchase of leased property in the event of Maximum Subscription)	1,500,000	-	1,516,000
Medical cannabis (feasibility study & consulting)	100,000	21,250	65,044
Administration Costs	1,450,000	367,865	1,293,865

## Operational update

As announced in March, ECS Hemp Seed Oil was on shelves in Woolworths stores across Australia following a deal signed through JFA.

This followed a January announcement that JFA secured distribution into Woolworths for ECS's Mexican Spiced Bean Soup with Hemp and Indian Masala Lentil Soup with Hemp. In March ECS had its first shipment of ECS soup delivered to Woolworths' supply chain partner, with both now on shelf.

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.

ECS is preparing for the next manufacturing runs of oils and soups due to the expectation of rolling orders from Woolworths. ECS is also working with its manufacturing partner, Flavour Makers, to expand its range of soups with several new flavours in development.

In March, ECS announced contract growers had begun to harvest its hemp crop in Tasmania.

The company also announced its supply chain has not been affected by COVID-19, and management is not anticipating any impact on the harvest, with farmers, harvesters and TapAgrico not experiencing any disruptions that flow through to ECS.

Due to the share market turmoil and lack of visibility on how long COVID-19 related lockdowns may run, ECS implemented non-essential cost cutting measures to ensure the business remains in a strong cash position in 12 months' time, enabling a maintained focus on key business drivers to emerge in a stronger position.

## Licensing

In March ECS announced the Tasmanian Government's Department of Primary Industries, Parks, Water and Environment granted ECS an Industrial Hemp Special Research License for its Tasmanian farm. The license is issued under section 14 of the Tasmanian Industrial Hemp Act 2015.

Under the key terms of the license ECS can:

- Cultivate, supply and manufacture hemp that has a concentration of up to 2% delta-9 tetrahydrocannabinol for scientific research, analysis, instruction or study.
- Grow up to 100 plants at any one time and hold a maximum of one kilogram of hemp seed.

The license will allow ECS to trial, develop and test genetics with respect to cultivation methods, cannabinoid expression and more. The license is valid from 6 March 2020 to 3 April 2023.

ECS Managing Director Alex Keach said:

*"This quarter has been significant for our company with our first major hemp harvest underway in Tasmania. ECS's supply chain is yet to be affected by COVID-19, and management does not anticipate any impact on this important harvest, with farmers, harvesters and TapAgrico not experiencing any disruptions that flow through to ECS."*

*"We're very proud to see ECS products on Woolworths' shelves. This is a testament to our distribution partnership with JFA, which since being announced in late October has already delivered outstanding results. We are already working with our manufacturing partner Flavour Makers to expand our range of soups and expect to see sales increase as we move into winter."*

*“The granting of the Industrial Hemp Special Research License in addition to the licenses we already have been granted will also allow us more flexibility in research programs and we look forward to updating the market on our innovative low cost large scale medicinal cannabis plans.*

*“We are keen to pursue opportunities in the sector that arise during times of crisis, and at the moment we are actively investigating a number of them.”*

### **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 licenses to cultivate, supply and manufacture industrial hemp in Tasmania as well as a grower license in Queensland. ECS holds import and export license with the Office of Drug Control (ODC) as well as having been granted licenses 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 March 2020

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	202	298
1.2 Payments for		
(a) research and development	-	(26)
(b) product manufacturing and operating costs	(264)	(1,074)
(c) advertising and marketing	(31)	(104)
(d) leased assets	-	-
(e) staff costs	(177)	(531)
(f) administration and corporate costs	(212)	(828)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	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)	11	11
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(472)</b>	<b>(2,254)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	(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 (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	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	952
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	-	<b>(1,260)</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
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)
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	-	<b>(528)</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	3,002	6,572
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(472)	(2,254)

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(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	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>2,530</b>	<b>2,530</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	2,530	3,002
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>2,530</b>	<b>3,002</b>

**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

<b>Current quarter \$A'000</b>
(112)
-

Director fees paid to a Director related entity \$75,800

Financial Management and Company Secretary fees paid to a Director related entity \$29,325

Office lease rental fees paid to a Director related entity \$7,200

## 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 <b>Total financing facilities</b>	-	-

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.

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (Item 1.9)	(472)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	2,530
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	2,530
8.5 <b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	5

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: 16 April 2020

Authorised by: The Board of ECS Botanics Holdings Limited

## 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.