

# ASX ANNOUNCEMENT

## ECS Botanics Holdings Ltd (ASX:ECS)

26 April 2022



### March 2022 Quarterly Activities Report

- \$2,049,000 in revenue for the quarter, a 43% increase on the previous quarter (Q3 FY22: \$1,434,000) and 452% growth on the PCP (Q2 FY21: \$371,000)
- Receipts from customers of \$1,208,000 – marks 562% rise on the previous corresponding period (PCP) (Q3 FY2021: \$183,304)
- Receipts from customers decreased on last quarter due to the holiday period impacting phasing and payment terms impacting cash collection – expected to increase over remainder of CY2022 and beyond
- Continuing high demand from local and international customers for ECS's high-quality dried flower and cannabis oil products underpinning growth
- Cash at 31 March 2022 of \$4,782,000 – leaves ECS well placed to progress growth initiatives
- Net Cash Used in Activities of (\$1,563,000), a \$210,000 or 12% reduction on Q2 FY2022 (\$1,773,000)
- Net Cash Used in Investing Cash Flows was (\$816,000), in line with the Company's capital expenditure program
- Medicinal Cannabis revenue now accounts for 86% of total group revenue for Q3 FY2022 – highlighting the successful transition to a medicinal cannabis growth focused business
- During the quarter the Company made substantial progress in improving the management and reporting into separate business divisions and product line contribution. Based on the current sales and gross margins, we expect that the medicinal cannabis business to contribute maintainable earnings over the coming year, with ECS Botanics MC Pty Ltd (Victorian facility) having returned a positive EBITDA during the quarter.
- First dried cannabis flower shipments made to the UK – initial deliveries of Lyphe Group's \$500,000 purchase order and ECS' first international export of its dried cannabis flower, subsequent to end of quarter ECS received another order for \$350,000
- Lyphe Group is the UK's largest Patient First Medical Cannabis company – strong demand in the UK an indication of ECS's quality and competitive pricing
- New marketing collateral launched to increase international and local customer awareness
- Experienced cannabis sector professional Mr Jason Overfors appointed as new Post-Harvest Production Manager. Mr Overfors has extensive industry experience most recently in a similar role with one of world's largest cannabis companies, Hexo Corp

**ECS Botanics Holdings Ltd (ASX: ECS) ("ECS" or the "Company")**, a leading medicinal cannabis and hemp business, is pleased to provide the following update on activities for the period ended 31 March 2022 (the 'quarter').

#### **Operational overview:**

ECS secured purchase orders for its dried cannabis flower from Lyphe Group totalling \$500,000. The first two shipments were successfully completed and marked the first international exports of ECS's



Australian grown dried cannabis flower. Subsequent to the end of the period, ECS received another purchase order from Lyphe valued at approximately \$350,000.

Lyphe Group is the UK's largest patient first medical cannabis company and has emerged as a leader in patient care, overseeing approximately 60% of the medical cannabis patients in the country. Its patient doctor-access ecosystem across the UK provides clinics, pharmacies and dispensing, import infrastructure, and vital educational services to patients, doctors and other health care professionals.

To further extend ECS's international and local reach, the Company completed the filming of new marketing and promotional videos highlighting the Company's established medicinal cannabis cultivation farms and GMP manufacturing operations, product benefits and management team.

ECS began to distribute the promotional materials during the quarter to existing customers as well as to prospective business leads in order to further build upon its existing sales pipeline. Undertaken in conjunction with the new marketing material, the Company refreshed its corporate website. The new website and promotional videos can be accessed via the following link: <https://www.ecs-botanics.com/our-story/>.

Medicinal cannabis revenue growth in both dried flower and oil products, substantially outpaced food and wellness revenue growth, becoming a substantially larger share of sales. During the same period last year, ECS generated 100% of its revenue from food and wellness sales, this quarter the business division accounted for 14% of group revenue. This reflects the Company's strategy to capitalise on the substantial growth trajectory, increased margins and long-term value for shareholders that a transition to a medicinal cannabis dominant business realises.

#### **Financial overview:**

Revenue for the quarter totalled \$2,049,000 which highlights a 43% rise on the previous quarter (Q2 FY22: \$1,434,000) and a 452% surge on the PCP (Q3 FY21: \$371,000). Receipts from customers were \$1,208,000, a 562% increase on the PCP (Q3 FY2021: \$183,304) and a slight decrease on the last quarter due to the impact of order phasing due to the holiday period and payment terms. Receipts from customers are expected to increase over the next quarter and beyond. Medicinal cannabis sales increased significantly, accounting for 86% of group revenue for the period.

The Company reduced its net cash used in operating activities by \$210,000 or 12% to (\$1,563,000), highlighting ECS' ongoing focus on cost management. Further, net cash used in investing outflows was (\$816,000), in line with the capital expenditure for drying cannabis and will underpin further expansion of dry flower cultivation. The net cash in investment activities included a \$564,000 receipt from Tasmanian Agricultural Producers Pty Ltd (TapAgrico) which was the result of a return of capital to shareholders.

During the quarter the company paid \$500,000 for the property that formed part of the Murray Meds acquisition. In addition, a further \$1,000,000 deferred settlement was paid in April. This was the final payment to be made and settles the acquisition.

ECS maintained a cash balance of \$4,782,000 at the end of the quarter, leaving the Company well placed to execute on a number of growth objectives in the coming months.



### **Management expertise strengthened further:**

ECS appointed Jason Overfors as Post-Harvest Production Manager at its Victorian Facilities to assist and oversee the optimising of scale, quality, and cost management. Mr Overfors has extensive expertise in the cannabis industry, having previously undertaken the role as Harvest Manager with one of Canada's largest cannabis companies, Hexo Corp (NASDAQ: HEXO, TSX: HEXO).

Mr Overfors was responsible for leading a team of over 100 employees and managed all aspects of the groups harvest progression, including field harvest, bucking, trimming, and processing of cannabis flower. In his new role with ECS, he will assist with increasing production at scale, and ensuring the Company's high-quality standards are maintained. Mr Overfors will also support ECS' ongoing cost management initiatives, implementation of automated technology and efficient work practices. The appointment coincided with the additional drying room capacity being completed ahead of the next large outdoor harvest.

### **Favourable regulatory shifts:**

ECS is encouraged by the advancement of the Marijuana Reinvestment and Expungement (MORE) Act which was passed by the US house of representatives and is expected to be filed in the senate within the next two months. The Act aims to decriminalise cannabis on a federal level by removing it from the list of controlled substances. Passing of this bill would be significant and draws similarities to the US Farm Bill in December 2018, which removed hemp from the list of controlled substances and set off a boom in hemp and CBD.

ECS is also heartened by the development of both the European medicinal cannabis and recreational cannabis markets. Small countries such as Malta and Luxembourg have decriminalised cannabis. Germany, a strong influencer in EU policy setting is on a path to full legalisation. It is expected that Germany will dispense adult use cannabis through pharmacies and meet the same quality standards as medicinal cannabis, which will be advantageous for the ECS business model and Australian cannabis companies who manufacture to EU GMP standards. ECS is currently in advanced discussion with European clients regarding servicing this opportunity. The size of the German recreational cannabis market is expected to be twice that of Canada, with populations of eighty million and forty million respectively.

### **Outlook:**

Near-term growth is expected to continue through to the end of the financial year. It is anticipated that recent appointments to assist in ECS' postproduction process and with harvests underway, we are in a position to continue to grow revenues strongly.

ECS expects that the UK and Europe will become a significant market for the Company during 2022 and 2023, as demand increases for its high quality and competitively priced GMP certified products. The Company expects to obtain registration for its oils into Germany in the fourth quarter.



**Management commentary:**

**Managing Director, Alex Keach said:** “The level of demand for our dry flower products and our medicinal oils is very encouraging. Our strategy, quality and cost of production is on point, and we expect will help us differentiate from the competition as we continually build sales locally and into Europe.

**Executive General Manager Medicinal Cannabis, Nan-Maree Schoerie said:** “The most rewarding part of leading the medicinal cannabis business is the fact that our customers cannot seem to get enough of our products. This speaks volumes for not only the quality of our products but also the high level of engagement our team have with our customers. The ongoing challenge for the supply side of the business is to keep meeting this ever increasing organic and new business demand.”

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 & Consulting Fees and Superannuation	\$124,800
Rental Office Payments	\$7,920
Company Secretarial, Registered Office and Financial Management Services	\$51,945

**-ENDS-**

**About ECS Botanic Holdings Ltd**

*ECS Botanic Holdings Ltd is a leading medicinal cannabis and hemp business. The Company owns farms and medicinal cannabis facilities in Tasmania and Victoria for the cultivation, processing, and manufacturing of medicinal cannabis. ECS manufactures to EU GMP standards and also has the necessary licences and partnerships to cultivate and manufacture a range medicinal cannabis oil and dry flower products. ECS’ core focus is scale and low-cost production, without compromising quality.*

For further information, please contact:

Alexander Keach, Managing Director

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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 2022

<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	1,208	3,757
1.2 Payments for		
(a) research and development	(30)	(96)
(b) product manufacturing and operating costs	(1,213)	(3,287)
(c) advertising and marketing	(46)	(144)
(d) leased assets	-	-
(e) staff costs	(1,104)	(2,608)
(f) administration and corporate costs	(378)	(969)
1.3 Dividends received (see note 3)		-
1.4 Interest received	-	-
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)	-	10
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,563)</b>	<b>(3,337)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1,380)	(2,793)
(d) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(e) intellectual property	-	-
(f) other non-current assets	-	-
<b>2.2</b> Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	564	564
(e) intellectual property	-	-
(f) other non-current assets	-	-
<b>2.3</b> Cash flows from loans to other entities	-	-
<b>2.4</b> Dividends received (see note 3)	-	-
<b>2.5</b> Other (provide details if material)	-	-
<b>2.6</b> <b>Net cash from / (used in) investing activities</b>	<b>(816)</b>	<b>(2,229)</b>

<b>3.</b> <b>Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	50	6,598
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	-	(432)
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)	(1)	(1)
<b>3.10</b> <b>Net cash from / (used in) financing activities</b>	<b>49</b>	<b>6,165</b>

## 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
<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	7,146	4,215
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,563)	(3,336)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(816)	(2,229)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	49	6,165
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>4,815</b>	<b>4,815</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	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	4,815	7,146
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>4,815</b>	<b>7,146</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(185)
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	\$124,800
	Financial management and Company secretary fee paid to Director related entity	\$51,945
	Office rent paid to Director related entity	\$7,920

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

<b>7. Financing facilities</b>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
<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>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
<b>7.4 Total financing facilities</b>	-	-
<b>7.5 Unused financing facilities available at quarter end</b>		-
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		

<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)	(1,563)
8.2 Cash and cash equivalents at quarter end (item 4.6)	4,815
8.3 Unused finance facilities available at quarter end (item 7.5)	-
<b>8.4 Total available funding (item 8.2 + item 8.3)</b>	<b>4,815</b>
<b>8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	<b>3.1</b>
<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 2022

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.