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ASX Announcement
27 October 2020

ECS Botanics Holdings Limited
September 2020 Appendix 4C Commentary

- **Medicinal cannabis project now under construction in Northern Tasmania – targeting December 2020 completion**
- **In discussions regarding offtake for stage 1 of the medicinal cannabis production**
- **Regulatory changes continue to provide momentum to the medicinal cannabis sector**
- **Cash receipts up 53% quarter on quarter with growth from Woolworths sales of ECS oil and soup products**
- **New hemp seed oil capsule with turmeric to be released and a new soup created**
- **Second successful harvest of hemp now completed with 200,000kg of hemp seed inventory**
- **Two successful imports of hemp genetics – established agreement with Sensible Seeds**

ECS Botanics Holdings Ltd (ASX: ECS or Company) is pleased to provide a report on the Company's activities for the period ended 30 September 2020.

Operational update

Medicinal Cannabis

The Company is executing on its medicinal cannabis development strategy, with the project currently under construction on its farm in Northern Tasmania. The Company is building a large processing facility to accommodate a major scaling in production and setting up the propagation and cultivation. Stage 1 of the project has a CBD focus and is forecast to produce between 1,313 to 2,188kg of dry flower. Under Stage 2 and 3, the growing area would expand from 25,000 square metres to 325,000, with a total production range of 19,500 to 32,500kg of dry flower annually.

The Company is in discussions regarding an offtake agreement for stage 1 of its production.



Figure 1 & 2: Medicinal cannabis facility under construction at ECS owned farm

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The Company and its contractors are pushing toward a target of having the facility built and permitted by December 2020. The Stage 1 capital expenditure is fully funded following the recent Placement and Share Purchase Plan (SPP), discussed below.

In year one, ECS will grow medicinal CBD plants before expanding from year two onwards to grow both CBD and THC plants.

Subject to future regulatory change and capital expenditure, ECS management expects the new facility to become a major extraction and tolling operation for the cannabis industry in Tasmania. Among its capabilities will be the production of extracts and isolates.

Meanwhile, on 9 September 2020, two advisory committees within the Therapeutics Goods Administration (TGA) recommended downgrading CBD products from schedule 4 to schedule 3, meaning they could become available at pharmacies over the counter, without a prescription. A final decision will be announced on 1 February 2021. If approved, the down-scheduling is expected to greatly expand the market of medicinal cannabis users for indications such as anxiety, pain and insomnia.

The New Zealand recreational cannabis referendum was rescheduled from September due to the impacts of the COVID-19 and subsequently took place on 17 October 2020. Legalization of recreational cannabis, if approved, would add further momentum to the sector. Official results are expected to be released on 6th November 2020.

Industrial Hemp

ECS cash receipts were up 53% on the previous quarter, driven by a combination of sales of soup into Woolworths, online sales and wholesale hemp seed oil sales.

Work on the Company's hemp seed farming continues with two successful harvests to date. The Company holds an inventory of approximately 200,000 kilograms of hemp seed for processing, use in its own retail food brand and sales through the wholesale market.

During the quarter the Company had two successful genetic imports and has subsequently secured the exclusive Australian and New Zealand agency for the global seed supplier Sensible Seeds. Sensible Seeds has been a specialist supplier of cannabis seed since 1999 and is the largest online seed retailer. Sensible Seeds stocks nearly 3,000 quality cannabis seed strains sourced from over 160 of the best cannabis seed banks and breeders from around the world. ECS now has the ability to leverage its import expertise with a renowned supplier to provide the Australian market with quality genetics.

ECS's hemp seed oil and hemp soups continue to be sold in Woolworths. During the period the Company developed a new soup variety in conjunction with Flavour Makers and it will be making this soup available, noting that manufacturing is subject to new commercial agreements. The Company has also developed a hemp seed oil capsule (with turmeric), which will feature alongside its existing hemp seed oil capsules. These capsules will be produced specifically for online sales.

The Australian pet industry is beginning to increase its demand for hemp, as a result ECS is experiencing increasing demand for its hemp seed oil and seconds – byproducts which are produced during the processing and manufacturing of hemp seed oil and hearts.

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The Company is now planning for the upcoming hemp seed planting season. Due to increased grower yields ECS has been able to reduce the price it pays for hemp seed, which is set to benefit margins and in time will likely reduce the volumes of imported hemp and thus increasing the demand for Tasmanian grown material. ECS will be planting conventional and organic hemp crops.



Figure 3: New Product – Hemp seed oil (with Tumeric)



Figure 4: ECS's existing hemp seed oil capsules

FINANCE

During the quarter ECS received $286,000 in cash receipts from customers, largely due to the sale of soups in the previous quarter. Total sales revenue for the quarter was $146,000, mainly attributable to the sale of Hemp Seed Oil for distribution in Woolworths stores.

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 30 September 2020	Total Actual amount spent ($) to date
Purchase hemp from farmer	1,050,000	61,176	574,822
Processing and Manufacturing	925,000	228,295	1,099,992
Business development and marketing	250,000	40,356	220,129
Farming costs, leasing and commercial farming trials	210,000	16,651	91,319
Seeds – general planting stock	120,000	19,527	141,207
Infrastructure and storage investment (including purchase of leased property in the event of Maximum Subscription)	1,500,000	261,893	1,777,893
Medical cannabis (feasibility study & consulting)	100,000	13,306	78,350
Administration Costs	1,450,000	330,068	1,623,933

- Note actual spend above includes amounts spent from revenue generated since listing as well as additional capital raise in July and August 2020

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CAPITAL RAISING

In July and August ECS received strong support from both retail and sophisticated and professional investors with a Placement that raised $600,000 and SPP that raised $750,000. ECS will use the proceeds of the Placement and the SPP to commercialise and accelerate its retail and wholesale hemp food business, develop new products, accelerate its medicinal cannabis strategy and provide working capital to support the growth of the Company.

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 Fees and Superannuation	76,655
Rental Office Payments	7,200
Company Secretarial, Registered Office and Financial Management Services	29,325

INVESTOR PRESENTATION

ECS lodged a new investor presentation on 18 September with an update on the business for shareholders and interested parties. It can be downloaded at: https://asx.api.markitdigital.com/asx-research/1.0/file/2924-02282377-6A996516?access_token=83ff96335c2d45a094df02a206a39ff4

CORPORATE

Release from Escrow

ECS advised that 70,438,570 fully paid ordinary shares were released from escrow on 11 July 2020, pursuant to Listing Rule 3.10A.

About ECS Botanics

ECS Botanics is an industrial hemp and medicinal cannabis business, 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 site of its next generation approach to medicinal cannabis, which is currently under construction. 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

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Name of entity

ECS Botanics Holdings Limited

ABN	**Quarter ended ("current quarter")**
98 009 805 298	30 September 2020

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	286	286
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	(339)	(339)
	(c) advertising and marketing	(40)	(40)
	(d) leased assets	-	-
	(e) staff costs	(146)	(146)
	(f) administration and corporate costs	(184)	(184)
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)	50	50
1.9	**Net cash from / (used in) operating activities**	**(374)**	**(374)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(262)	(262)
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
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)	-	-
2.6	**Net cash from / (used in) investing activities**	**(262)**	**(262)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	1,350	1,350
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	(40)	(40)
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)	-	-
3.10	**Net cash from / (used in) financing activities**	**1,311**	**1,311**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	1,899	1,899
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(374)	(374)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(262)	(262)

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,311	1,311
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**2,574**	**2,574**

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	2,574	1,899
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)**	2,574	1,899

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	(113)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Director fees paid to a Director related entity $76,655
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

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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)	(374)
8.2	Cash and cash equivalents at quarter end (item 4.6)	2,574
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	2,574
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	7

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.

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:

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:

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:

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.

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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: 27 October 2020

Authorised by: Board of ECS.

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.

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