

ECS Botanics Holdings Limited

December 2020 Appendix 4C Commentary

- Acquisition of fully licensed and permitted cannabis cultivator Murray Meds
- Fit out continues on medicinal cannabis facility in Tasmania, set to become a major production hub in Australia
- Equipment technology transfer and medicinal cannabis supply Term Sheet signed with MediPharm Labs Australia
- Positive regulatory changes will enable ECS to scale production significantly more than initially forecast
- Hemp business continues positive momentum with favourable growing season expected in Tasmania
- Cash receipts up 33% for the quarter

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 2020.

OPERATIONAL UPDATES

Medicinal Cannabis

Subsequent to the end of the quarter, ECS announced it had signed a binding Term Sheet with Flowerday Holdings Pty Ltd, whereby ECS would acquire 100% of the issued capital in Murray Meds Pty Ltd and Flowerday Farms Pty Ltd.

Murray Meds has a fully licensed medicinal cannabis cultivation and manufacturing facility located on the Murray River in North Western Victoria. The facility holds a Cultivation, Research and Manufacturing Licence from the Australian Office of Drug Control as well as permits to cultivate and produce 3,500 kilograms of medicinal cannabis. Murray Meds also holds a TGA Good Manufacturing Practice manufacture licence for dried flower, oils and tinctures.

In this growing season, Murray Meds has already successfully harvested and packed 350kg of medicinal cannabis dried flower, positioning it as one of the largest producers of medicinal cannabis in Australia today.

The acquisition is extremely complementary to ECS with both parties sharing the same values and vision in pursuit of becoming the largest and most geographically diversified cannabis producer in Australia.

Experienced medicinal cannabis industry figure Nan-Maree Schoerie will join the board of ECS as an Executive Director as part of the acquisition.

Key terms for the acquisition of 100% of the issued capital by ECS includes:

- (i) at Completion, ECS to pay AUD\$1 million;

- (ii) at Completion, issue 100 million fully paid ordinary shares (at a deemed issue price of \$0.05 per share) which will be issued subject to ECS obtaining shareholder approval pursuant to Listing Rule 7.1; and
- (iii) no later than 12 months from Completion, ECS to pay AUD\$1.5 million (subject to completion of the associated property purchase within this period).

During the period work continued on the ECS medicinal cannabis facility in Tasmania, which is set to become a major production hub in Australia. The main processing shed has been constructed, the internal fit-out is advanced while additional plumbing and connections included in preparation for the arrival of the companies CO2 extraction unit.

The impending/current grow season will/is being utilised to conduct a 'pilot plant' grow and processing run as the facility is completed, before embarking on a major commercial grow next season.

In December, ECS signed a binding equipment technology transfer and medicinal cannabis supply Term Sheet with MediPharm Labs Australia Pty Ltd, a subsidiary of global leader in pharma-quality, cannabinoid-based products MediPharm Labs Inc. Full terms of the agreement are outlined in *ASX Announcement 24 December 2020*. The agreement supports ECS' maiden medicinal cannabis harvest and large-scale production of commercial grade cannabis products.

Positive regulatory changes during the quarter will enable ECS to scale production significantly more than initially forecasted, with guidance from the Office of Drug Control (ODC) indicating the framework for low THC medicinal cannabis (hemp containing CBD) has been downgraded, now referring to sate hemp licences for cultivation security requirements. These changes enable the Australian industry to better compete on a global scale with the cost of production being significantly reduced.

The Therapeutic Goods Administration (TGA) announced its final decision to down schedule CBD preparations from Schedule 4 (prescription medicine) to Schedule 3 (Pharmacist only medicine), and increased the maximum proposed daily dose from 60 to 150 mg per day. The decision will support both the awareness and demand for CBD in Australia and is a major vote for its safety.

The United Nations Commission on Narcotic Drugs also accepted a World Health Organisation recommendation to remove the classification of cannabis alongside highly addictive opioids like heroin, another major advancement in the perception of cannabis around the globe, further enabling nations to more easily establish medicinal cannabis frameworks.

Hemp business

Hemp food sales continued to increase during the quarter. ECS is seeing increased demand for hemp seed oil value added products such as the Company's hemp seed oil capsule range, with the hemp seed oil capsules containing turmeric only launched late in the September quarter. ECS continues to innovate and looks forward to updating the market shortly with its new hemp wellness range, aligned with its strategy of delivering high value hemp products alongside its existing range of staples.

Tasmanian hemp crops are 50% through their growing season, crops have been receiving plenty of warm days and rain, with yield potential looking very favourable.

ECS food revenues were being driven through a combination of retail and wholesale sales. As the hemp industry grows and evolves and companies find new ways to incorporate hemp, ECS is selling more of the bi-products produced during manufacturing. These bi-products can be incorporated into

pet food or cosmetics and allow ECS to not only earn revenue but lower the Company's average cost and become price leaders in the market.

ECS's production hub and farmer network in Tasmania continues to be strategically important to the business, bringing significant experience and passion in growing high value crops including hemp. Over the past couple of years ECS' farmers have increased their yields and as a result the Company has signed contracts to pay farmers a lower price per kilogram for the hemp seed they produce. Once again this enables ECS to protect its margins and maintain price leadership while producing high quality products.

FINANCIALS

During the quarter ECS collected cash receipts of \$383,000 from customers, predominantly attributable to settlement from Just Foods Australia for its soups and oil products, in addition to wholesale sales of seeds and the sale of capsule products. Total revenue for the quarter was \$352,000 which was derived from a combination of hemp seeds, capsules and oil products.

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 December 2020	Total Actual amount spent (\$) to date
Purchase hemp from farmer	1,050,000	80,951	655,773
Processing and Manufacturing	925,000	62,440	1,162,432
Business development and marketing	250,000	81,000	301,129
Farming costs, leasing and commercial farming trials	210,000	6,609	97,928
Seeds – general planting stock	120,000	0	141,207
Infrastructure and storage investment (including purchase of leased property in the event of Maximum Subscription)	1,500,000	1,680,000	3,457,893
Medical cannabis (feasibility study & consulting)	100,000	17,169	95,519
Administration Costs	1,450,000	449,721	2,073,655

CAPITAL RAISING

ECS received firm commitments to raise \$4,000,000 through the placement of ~88.8 million shares at an issue price of 4.5c per share to sophisticated and professional investors in December. The raise has strengthened the Company's balance sheet and gives it a clear path to production at the medicinal cannabis facility in Tasmania.

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	72,000
Rental Office Payments	7,000
Company Secretarial, Registered Office and Financial Management Services	45,000

VIRTUAL INVESTOR CONFERENCE

Managing Director Alex Keach presented at the NWR Virtual Investor Conference during the quarter. A replay of the event is available via the ECS website.

CORPORATE

Appointment of Director of Medicinal Cannabis Production

Damian Wood joined the company as Director of Medicinal Cannabis Production after spending 2.5 years at Little Green Pharma as Head of Quality, then Head of Production. Mr Wood has twenty years' experience in GMP pharmaceutical manufacturing and GMP auditing with a proven capability of executing successful cannabis production and manufacturing strategies, including advising on cultivation, product development, post-harvest production and manufacturing methods, new site construction and obtaining TGA GMP licences for medicinal cannabis manufacture.

Annual General Meeting

The Company held its Annual General Meeting on 19 November 2020, all resolutions put to shareholders were conducted by a poll and were carried.

About ECS Botanics

ECS Botanics is a medicinal cannabis and industrial hemp 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.

For further information, please contact:

Alexander Keach
Managing Director
alex@ecsbotanics.com.au
+61 419 323 059

Jason Hine
Chief Operations Officer
jason@ecsbotanics.com.au
+61 419 922 259

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 2020

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	383	669
1.2 Payments for		
(a) research and development	(17)	(17)
(b) product manufacturing and operating costs	(150)	(489)
(c) advertising and marketing	(81)	(121)
(d) leased assets	-	-
(e) staff costs	(259)	(405)
(f) administration and corporate costs	(190)	(374)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(1)	(1)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	62	112
1.9 Net cash from / (used in) operating activities	(253)	(626)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1,680)	(1,942)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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	(1,680)	(1,942)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	4,000	5,350
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	(256)	(296)
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	3,744	5,054

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,574	1,899
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(253)	(626)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,680)	(1,942)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,744	5,054
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	4,385	4,385

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	4,385	2,574
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)	4,385	2,574

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	(124)
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>		

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	-	-
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)	(253)
8.2 Cash and cash equivalents at quarter end (item 4.6)	4,385
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	4,385
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	17
<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: 28 January 2021

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.