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ASX Release

QUINTIS LTD
ABN 97 092 200 854

Chairman's and CEO's Address – 2017 Annual General Meeting

Chairman's Address

Thank you for your attendance at the 2017 Annual General Meeting of Quintis Limited. What I would like to do with my address today is explain the chain of events that saw Quintis start 2017 with so much promise and end with the Company in the midst of recapitalisation negotiations. I will then introduce our new Chief Executive Officer, Julius Matthys, to provide an update of the recapitalisation process that we are undertaking. We will then invite any general questions before proceeding with the formal business of today's meeting.

From the outset I want to acknowledge the frustration and disappointment that shareholders likely feel as a result of the situation we are now in. I can say that the Board shares those emotions and we are doing everything in our power to recover the situation we are now in.

Just over 12 months ago I was standing here explaining how TFS Corporation would be changing its name to Quintis Limited. This change was envisaged to create a unique and global Sandalwood brand to support the Company's strategy of penetrating the diverse and significant markets for Indian Sandalwood. At the AGM shareholders approved the name change, which then came into place in March 2017.

Also at last year's AGM, I outlined how financial year 2017 was anticipated to be a transformational year, as increased sales of Indian Sandalwood and oil products would mark the Company's transition from forestry management to an integrated business of production, distribution and forestry management. These wood and oil sales, produced from the Company's first major annual harvest, were anticipated to deliver a step change to our financial performance, with stronger results for financial year 2017 than what we reported in financial year 2016.

Unfortunately, this did not turn out to be the case, much to the disappointment of the Board, management, staff and shareholders.

On 21 March 2017, in the week of the Company's rebrand to Quintis, a paper published by California-based short seller Glaucus Research Group resulted in a fall in the Company's share price. This prompted queries from the Australian Securities Exchange and a response from Quintis on 27 March 2017 which noted, amongst other things, that the Company's first Chinese customer for its Indian Sandalwood, Shanghai Richer Link, had not yet requested any product shipments in 2017.

On that same day, 27 March 2017, the Company's founder and then Managing Director, Mr Frank Wilson, resigned and indicated that he had received an offer to potentially partner with an international corporation to present a proposed change of control transaction to the Group. Julius Matthys, who at the time was a Non-Executive Director, was subsequently appointed to the position of Chief Executive Officer on 3 April 2017.

In the ensuing weeks our share price recovered almost half of the end of March fall. However, late on the 9th of May 2017, Quintis received a media enquiry about the termination of a supply contract between Santalis Pharmaceuticals, a wholly-owned subsidiary since August 2015, and Galderma.

The internal inquiries this media request stimulated found that Santalis and Galderma had entered into an agreement on 16 December 2016 to terminate the licensing and supply arrangements between Santalis and Galderma, with the termination to take effect from 1 January 2017.

On the 10th of May 2017, Quintis released a statement to the ASX in relation to the termination of the Galderma contract.

Some background is important to note:

- All of the 1200kg of sandalwood oil supplied by Quintis to Galderma was supplied in the 2014 and 2015 calendar years

- In March 2016 Galderma's parent company Nestlé entered into an agreement to acquire a majority stake in Proactiv, the world's leading non-prescription anti-acne brand.

- During 2016 Galderma repackaged its Benzac product to include the TFS logo, and the two companies were in preliminary discussions about prescription products

- Quintis did not supply any EISO to Galderma in FY2017 and EISO sales to Galderma were not factored into the Company's sales forecasts for FY2017.

However, Galderma's importance to Quintis had reduced since being entered into in 2014, the contract had been referred to in our ASX releases, including being listed as an on-going contract in our ASX filings in response to the Glaucus report.

Shortly afterwards, on 15 May 2017, Quintis entered into a trading halt. Two days later, Quintis shares were suspended from official quotation and have remained suspended.

So why is there a need to pursue a recapitalisation?

The Company has liquidity issues primarily because it has failed to achieve its sales targets. Most significantly, no investment products were sold in the fourth quarter of the financial year, the period in which, historically, the majority of such plantation sales have been completed, so cashflow dried up. Secondly, the supply of the Company's wood products to China did not recommence following the cessation of supply to Shanghai Richer Link in December 2016.

Essentially, Quintis' balance sheet was placed under significant pressure. On the cash side, our balance fell from $89.8 million at 31 December 2016 to $36.2 million at 31 March 2017, which in part reflected Quintis' stated strategy at the time of making investments to develop our end markets for Indian sandalwood to maximise returns from our increased harvest volumes from 2022. Then, with no investment products sold in the fourth quarter of the calendar year, the Company's cash balance did not increase in the final three months of financial year 2017, standing at $25.4 million at the end of June. Meanwhile, our access to the equity markets was shut off. We were, however, able to sell 2.85 tonnes of the Company's Sandalwood Album oil for US$8.55 million on 30 June 2017 to Young Living, the largest essential oil company in the world. This sale, at US$3,000 per kilogram in an accelerated sales program, crystallised the value of Quintis' sandalwood oil inventory and provided a demonstration of the demand for the Company's Sandalwood Album oil.

On the other side of the ledger, our debt balance had increased following the issuance of US$250 million of Senior Secured Notes in July 2016. These Notes have a coupon rate of 8.75% paid bi-annually and are due in 2023.

Quintis did not publish quarterly financial reports as required under the Company's Notes by 30 May 2017. This triggered an Event of Default. We worked hard to obtain a waiver on 8 July 2017, which was required within 30 days of receiving notice of the Event of Default, meaning no Repurchase Event was triggered and Quintis retained the unconditional right to defer principal payment on the Notes.

On 1 August 2017, our bi-annual interest payment on the Notes of US$10.938 million was due. Quintis did not make this payment and entered into a Forbearance Agreement with the requisite majority of the Noteholders on 30 August 2017. Under this Agreement, the Noteholders agreed to refrain from taking enforcement action in relation to the default arising from the non-payment of this interest payment. The Forbearance Agreement will continue until 1 March 2018, subject to a number of termination events, including the event whereby Quintis does not successfully execute a recapitalisation plan within a timeframe set by the Noteholders.

This brings me to the recapitalisation plan we have been focused on. It is a complex plan in that it involves a combination of a capital injection, amendments to existing debt facilities, and the provision of working capital facilities that are expected to provide the Company with the liquidity required to support its continued operation prior to and post the implementation of the recapitalisation. Last month Quintis entered into a new financing facility for up to US$20.0 million through a Note Agreement and Guaranty with a majority of the existing holders of Quintis' Senior Secured notes. This has provided Quintis with additional flexibility to work through the recapitalisation process and on behalf of the Board I would like to thank these Noteholders for their ongoing support. However, as we have been updating the market, there is no guarantee that this proposal, or any other recapitalisation proposal, will proceed and the current proposal remains an incomplete proposal which if finalised would be subject to approval of the Noteholders, shareholder approval and the relevant regulatory approvals.

Quintis is also facing two class actions, brought in September 2017 and November 2017 respectively. The first alleges that Quintis breached continuous disclosure provisions of the Corporations Act and the ASX Listing Rules in relation to the termination of the Galderma contract I mentioned earlier in my speech. The second includes very similar allegations, while also alleging that the Company breached continuous disclosure obligations or engaged in misleading conduct in relation to announcements around sales and earnings forecasts in 2016 and 2017. Frank Wilson is also named as a defendant in the second class action. Unfortunately, with these class actions afoot it is going to inhibit the amount of detail we can provide about some issues today. This is far from ideal but it is necessary to protect the Company's legal position, and therefore its commercial position.

What I can say is that the class action proceedings are being defended. It is also important to note that these class actions add further complexity to the recapitalisation process, in that the proceedings create additional uncertainty. As such, developments in the class actions are being carefully considered by the parties we are in negotiations with.

It is critical for the Company's survival that the recapitalisation comes to fruition. If a recapitalisation plan is implemented, as noted previously, it will be subject to all necessary shareholder, creditor and regulatory approvals, due diligence and other conditions precedent. Julius will provide a more detailed update on how this recapitalisation plan is progressing in his address.

Let me say how disappointed the Board and senior management team has been with what has transpired this year.

As Chairman of the Company, and on behalf of the board, I acknowledge and share your frustration for the situation we are now in. The chain of events that took place were unprecedented and we have been working tirelessly to find a path forward that will ensure the Company's survival. This process has taken longer than we and shareholders would have liked due to the complexities and multi-party negotiations involved. What I can assure you though is that the Board and management team are treating this situation with the gravity that it warrants. I would like to thank shareholders for their patience in this regard.

I'll now hand over to our CEO Julius to provide some additional detail on the recapitalisation process.

CEO Address

As Dalton indicated I'm going to provide a brief update on what is happening with respect to the recapitalisation of our Company.

It will be brief, due to the fact that we are subject to strict confidentiality requirements and that the recapitalisation remains a work in progress. Unfortunately, there is quite a lot of detail that I simply cannot provide publicly at this stage.

Quintis provided information to the ASX and its investors on 23 May 2017 that it had received non-binding correspondence concerning potential debt and equity transactions from more than one party and that the Company was advancing discussions with each party with the aim of formulating a transaction.

Those discussions are continuing. They're not continuing as quickly as I would like, but they are continuing.

There is no guarantee that any recapitalisation proposal will proceed and a failure to negotiate and complete a recapitalisation transaction, given the Company's current liquidity issues, would be critical to the Company's continued financial viability.

Quintis has a number of outcomes that it needs from a recapitalisation of the Company.

First and foremost Quintis needs a cash injection. It is clear from the collapse in revenues generated from new plantation sales and associated establishment fees in the last quarter of FY17 that we need to rebuild plantation owner confidence in our continued viability before we can even begin to count on regaining some of the revenues on which the Company previously relied.

We therefore need cash reserves to get us through to our first big harvest in 2023 when we will start generating significant product sales revenues and can become self sustaining.

Our debt levels are too high given the situation we are in, so this cash injection has to come, most logically, from equity, and given the size of the requirement, new equity.

Potential new equity providers, along with our Noteholders, have conducted significant due diligence of our accounts, our sales prospects and our sandalwood plantations. We are continuing to progress negotiations with a view of securing a deal that balances the requirements of the Company, the Noteholders, existing and new equity, as well as the growers. However, as noted above, there is no guarantee the recapitalisation will proceed in the current form or another form.

In the interests of fairness it is the Board's current intention that any successful recapitalisation proposal would provide the opportunity for existing shareholders to apply for additional equity proportionate to their existing shareholding up to the limits of any entitlement offer, should they wish to do so. Whilst your board will push for this outcome, its capacity to deliver on this will necessarily be qualified by the appetite of prospective investors for this form of investment structure.

I cannot guarantee that will occur, but it is our current intention.

On the issue of debt, as Dalton indicated, we have been working closely with our Noteholders.

Our Noteholders have provided forebearance on a number of issues, including the $10.9 million bi-annual interest payment that Quintis did not pay to them in August of this year. The Noteholders have also contributed US$20 million in additional funds to ensure we remain solvent during this recapitalisation negotiation process.

I believe this is a very good signal that they are invested in recapitalising Quintis. That said, it in no way guarantees that they will ultimately support the recapitalisation.

These negotiations have now been going for more than half a year, considerably longer than I had hoped or expected. However, when there are multiple parties, multiple issues, multiple advisers and high levels of complexity, it all adds to increased time.

Importantly, these recapitalisation negotiations are continuing, though to date no binding agreements have been entered into and there is no guarantee that the recapitalisation will be completed in its current form or another form. The recapitalisation, if implemented, will be subject to all necessary shareholder, creditor and regulatory approvals, due diligence and other conditions precedent.

I would like to thank the broader management team and the finance team in particular for their efforts to deal with the Company's issues. The demands on time since March have been extraordinary, but the team has demonstrated significant commitment to finding solutions to the corporate issues and have risen to the challenges we are facing.

Ladies and Gentleman, in a perfect world I wouldn't be standing up here talking about recapitalisng the Company. And preferably I would have been standing here today discussing the detail of the recapitalisation rather than a high level overview of the status of negotiations.

However, that is not the case.

So what I can say is that we are working incredibly hard, in challenging circumstances, to do what we can to address and resolve the current problems that are confronting Quintis so that we can place it on a sustainable footing for the future and so that you are able to recover as much value as you can from your investment.

I thank you for your support.

ENDS

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