



15 February 2019

## **AYG to acquire Industrial Hemp company, ECS Botanics**

Axxis Technology Group Ltd (ASX: AYG) (**AYG** or **Company**) is pleased to announce it has signed a binding term sheet (**Term Sheet**) for the acquisition of 100% of the issued capital of hemp product company ECS Botanics Pty Ltd (**ECS**) (**Acquisition**) from the current shareholders of ECS (**Vendors**).

To effect the Acquisition, AYG will be required to comply with Chapters 1 & 2 of the Listing Rules (**Recompliance**). On completion of the Acquisition, AYG proposes to change its name to reflect the ECS Botanics brand.

### **Highlights**

- **AYG has secured the right to acquire 100% of ECS Botanics Pty Ltd**
- **AYG to conduct Non-Renounceable Rights Issue capital raising to raise up to \$276,890 to cover interim working capital and costs of the Acquisition and Recompliance with Chapters 1 & 2 of the ASX Listing Rules**
- **Australia's hemp industry has experienced significant growth as a result of food code changes in November 2017**
- **Established in February 2018, ECS is an agribusiness and food company focussed on industrial hemp**
- **ECS is bringing to market wholesale hemp food products and a range of innovative retail hemp food products**
- **ECS has been granted all necessary Industrial Hemp Licenses required for the cultivation, manufacturing and distribution of its wholesale and retail products**
- **ECS is also assessing medicinal cannabis as a complementary facet to ECS' existing industrial hemp business and has made medicinal cannabis production and manufacturing license applications within Australia**
- **ECS is led by an experienced management team comprised of Alex Keach (CEO) and Guy Banducci (Head of Strategy and Business Development)**

ECS is an agribusiness and food company focussed on industrial hemp, based in Tasmania. ECS is also assessing medicinal cannabis as a complementary facet to ECS' existing industrial hemp business, with cultivation and manufacturing license applications already submitted to the Office of Drug Control.

ECS' industrial hemp business includes cultivation, manufacturing, retail distribution and wholesale distribution components - insourcing and outsourcing along the supply chain where required. ECS is bringing to market wholesale hemp food products and a range of innovative retail hemp food products. ECS is cultivating its own hemp seed and also sourcing from third parties, with the first harvest planned for March 2019.

Australia's hemp industry has experienced significant growth as a result of recent changes to the Australian food standards code in November 2017 which permit the sale of low psychoactive hemp seed as a food in Australia.

## **Non-Renounceable Rights Issue**

AYG is also pleased to announce it is undertaking a pro rata non-renounceable rights issue (**Rights Issue** or **Offer**) of fully paid ordinary shares in the capital of the Company (**New Shares**) on the basis of 2 New Shares for every 9 existing shares held.

Shares under the Rights Issue will be offered at \$0.032 per New Share. The maximum number of New Shares which may be issued under the Rights Issue is 8,652,810 to raise approximately \$276,890 (before expenses).

The Company lodged a prospectus for the Offer (**Prospectus**) with ASIC and ASX on 15 February 2019.

The Company intends that the funds raised from the Rights Issue to cover interim working capital and costs of the Acquisition and Reconciliation and otherwise for working capital purposes, as follows:

<b>Use of Funds</b>	<b>\$</b>
Initial Costs of Reconciliation and due diligence	\$100,000
Administrative and Corporate Costs	\$30,000
Costs of the Offer	\$60,000
General working capital requirements	\$86,890
<b>Total</b>	<b>\$276,890</b>

*The above table is a statement of current intentions as at the date of this announcement. As with any budget, intervening events and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way the funds are applied on this basis.*

The Offer is being made to all shareholders of the Company named on its register of members at 5.00pm WST on Thursday 21 February 2019 (**Record Date**), whose registered address is in Australia or New Zealand (**Eligible Shareholders**).

New Shares will rank equally with all fully paid ordinary shares in the capital of the Company already on issue. Following completion of the Offer, the Company will have issued up to approximately 8,652,810 New Shares, resulting in total Shares on issue of approximately 47,590,456.

Xcel Capital Pty Ltd has been appointed as Lead Manager to the Rights Issue, and will be paid fees for its services, pursuant to the terms and conditions set out in section 5.4 of the Prospectus.

For the purposes of calculating each Eligible Shareholders' entitlement to New Shares (**Entitlement**), fractions of entitlements have been rounded up to the nearest whole number of New Shares.

The indicative timetable for the Rights Issue is as follows:

<b>EVENT</b>	<b>DATE*</b>
Prospectus lodged with ASIC	
Announcement of Rights Issue, Prospectus and Appendix 3B lodged with ASX	Friday 15 February 2019
Notice of Rights Issue sent to Shareholders	Friday 15 February 2019
Ex Date	Wednesday 20 February 2019
Record Date for determining Entitlements (date for determining Shareholder entitlements to participate in the Rights Issue)	Thursday 21 February 2019
Opening Date of Offer	
Prospectus sent to Shareholders	Monday 25 February 2019
Closing Date of Offer**	Wednesday 6 March 2019
Notification of under-subscriptions to ASX	Monday 11 March 2019
Issue date/New Shares entered into Shareholders' security holdings	Wednesday 13 March 2019
Quotation of New Shares and Dispatch of Holding Statements***	Thursday 14 March 2019

\* Dates are indicative only

*\*\*Subject to the Listing Rules, the Directors reserve the right to extend the Closing Date for the Offer at their discretion. Should this occur, the extension will have a consequential effect on the anticipated date of issue for the Securities.*

*\*\*\* The Company's securities have been suspended since 22 September 2016 and the Company securities will remain suspended until all necessary shareholder and regulatory approvals are obtained, completion of the proposed Acquisition and until the Company satisfies any re-admission conditions imposed by ASX (which will include the Company convening a shareholder meeting and conducting a further capital raising under a separate prospectus). Due to the Company's long term suspension, and the change in nature and scale of activities which will result from completion of the proposed Acquisition of ECS Botanics Pty Ltd, ASX requires the Company to conduct the Re-compliance.*

Full details of the Rights Issue are set out in the Prospectus. A copy of the Prospectus is available on [www.axxis.com](http://www.axxis.com). Eligible Shareholders will be mailed a Prospectus together with an Entitlement and Acceptance Form no later than Monday 25 February 2019.

### **About ECS Botanics**

- **ECS' Wholesale hemp food products include – bulk hemp hearts (dehulled seeds), hemp seed oil, hemp flour and protein powder**
- **ECS' Retail hemp food products include hemp hearts, bottled hemp seed oil, hemp seed oil capsules, soups with hemp, curry sauces with hemp, protein shake mixes with hemp**

ECS Botanics Pty Ltd (ACN 624 153 331) was incorporated on 1 February 2018, following the changes to the Australian food standards code in November 2017 which permit the sale of low psychoactive hemp seed as a food in Australia.

ECS has received various binding and non-binding letters of intent (**LOIs**) in respect of processing and manufacturing agreements for proposed ECS products.

ECS leases a farm with two 17.5 hectare centre pivot irrigators, including the necessary water licenses. ECS also owns 75T of storage capacity to store its contracted crop, along with LOIs from farmers to expand its growing into 2020 and 2021.

ECS has a very strong management team providing leadership in each of their respective fields, from ground roots agriculture through to distribution and marketing of fast moving consumer goods (**FMCG**).

ECS' management team brings together significant experience and expertise in establishing and developing businesses:

- **Alex Keach (CEO)** has a degree in rural business management, a background in farming including cultivation of hemp, poppies and other cash crops. Alex has also worked as fund manager and stockbroker, with a particular focus on high growth companies in emerging industries, and brings with him significant experience and relationships.
- **Guy Banducci (Head of Strategy and Business Development)** has over 22 years' experience working with clients to develop business strategies, design operating models, re-engineer and optimise business processes, and negotiate commercial arrangements with suppliers, customers and channel partners across various industries, including retail and FMCG sectors. Guy has a Bachelor of Commerce and a MBA. Guy has worked across the Asia Pacific region, and brings with him significant experience and relationships in the retail and distribution sector.
- **David McCredie (Industry Advisor)** has been the CEO of the Australian British Chamber of Commerce since 2010. His interactions with a broad range of industries both in Australia and the UK enables him to provide crucial advice to government, non-government and private sector organisations on best practice in a range of fields, including business strategy, marketing, financing, political and government connectivity. David has a Bachelor of Arts and a MBA.

## **Australia's Hemp Industry**

Industrial hemp and marijuana come from the same genus of flowering plant – cannabis. However, industrial hemp is produced exclusively by strains of *Cannabis sativa* that have been cultivated to produce minimal levels of THC and are instead artificially selected and bred to grow taller and sturdier. Industrial hemp has many uses, including paper, textiles, biodegradable plastics, construction, health food, and fuel.

The recent changes in the regulatory environment in November 2017 has identified hemp and particularly the hemp food industry as a fast growing and emerging industry in Australia. Australia has the perfect climate for growing hemp and as such a versatile crop, the economic and social benefits for Australia can be considered significant.

Industrial hemp is experiencing resurgence in many countries and now also in Australia following favourable law change with respect to the consumption of hemp foods. Hemp seeds are a rich source of omega-3 and omega-6, amino acids, and proteins. These nutrients aid in insulin balance, cardiac function, mood stability and aid skin and joint health.

Hemp products can be recycled, reused and are 100% biodegradable. Hemp may help reduce global warming because it takes out large amounts of carbon dioxide per hectare, more than most plants.

According to Grand View Research (published June 2018), the global industrial hemp market (seed, hurd, fibre) was estimated at USD \$3.9 billion in 2017, expanding at a compound annual growth rate of 14.0% over the forecast period. The global industry is experiencing growth due to broader consumer awareness on the health benefits of hemp foods and a plant based protein sources and more alkaline diet.

Both globally and locally the cannabis and industrial hemp industry is undergoing transformation and growth - from access to medical and recreational cannabis, legalisation of hemp food in Australia and the passing of the 2018 US Farm Bill legalising hemp.

It is too early to accurately quote the growth rate of hemp foods in Australia, however in parallel, Australia is the third fastest growing vegan market in the world, with 2 million Australians now meat free (Vegetarianism in Australia, Roy Morgans Research, 2016), this is coupled with growth in the plant based protein market (as opposed to the meat protein market) which according to Mordor Intelligence 2018 is expected to register an estimated compound annual growth rate of 7.1%, during the forecast period, 2018-2023.

## **Re-Compliance with Chapters 1 and 2 of the ASX Listing Rules**

As the Acquisition will constitute a significant change in the nature and scale of AYG's activities, AYG will be required to re-comply with the listing requirements set out in Chapters 1 and 2 of the ASX Listing Rules (including preparing a full form prospectus). This Re-compliance will be accompanied by the Public Offer (described below), to provide working capital for the new business.

## **Binding Term Sheet and Transaction Structure**

It is proposed that AYG will acquire ECS by way of acquiring 100% of the shares on issue in ECS in exchange for consideration securities comprised of fully paid ordinary AYG shares, and performance rights which will convert into AYG shares upon satisfaction of milestones in respect of ECS' performance.

Under the Binding Term Sheet, AYG is proposing to:

- conduct the Rights Issue to cover AYG's interim working capital and costs of the Acquisition and Re-compliance;
- issue 287.5million ordinary shares in AYG to the Vendors of ECS (**Consideration Shares**). The Consideration Shares will be subject to escrow restrictions as imposed by ASX;

- issue 131.25 million Performance Rights to the Vendors of ECS (**Performance Rights**), which will convert into ordinary shares in AYG on a 1:1 basis upon certain milestones being achieved as follows:

Milestone	No. of Performance Rights
Milestone A: ECS achieving annual revenue in any financial year of \$1 million within 2 years of AYG's readmission	43,750,000
Milestone B: ECS achieving annual revenue in any financial year of \$2.5 million within 3 years of AYG's readmission	43,750,000
Milestone C: ECS achieving annual revenue in any financial year of \$10 million within 4 years of AYG's readmission	43,750,000
<b>Total</b>	<b>131,250,000</b>

\* Further details of the Performance Rights and their terms will be provided in the Notice of Meeting which will be sent to all shareholders in due course. The terms of the Performance Rights are subject to ASX approval.

- conduct a public offer of shares under a Prospectus to raise a minimum of \$4.5 million, up to a maximum of \$6.5 million, via the issue of 112.5million, up to a maximum of 162.5m fully paid ordinary AYG shares at an issue price of \$0.04 (**Public Offer**);
- appoint Alex Keach and David McCredie as directors of AYG; and
- issue 25.87m unlisted options to AYG's existing and incoming directors, exercisable at \$0.08 each, on or before the date which is 30 months from their date of issue (**Director Options**).

Xcel Capital Pty Ltd (**Xcel**) and Sanlam Private Wealth Pty Ltd (**Sanlam**) will be appointed as joint lead managers to the Public Offer (**JLMs**).

Xcel and Sanlam will also be paid a facilitation fee of \$400,000 for their services in facilitating the Acquisition, to be split equally between Sanlam and Xcel Capital. The facilitation fee will be paid in shares, via the issue of 10 million AYG Shares at a deemed issue price of \$0.04 per share (**Facilitation Shares**). It is expected that the Facilitation Shares will be subject to 24 month escrow in accordance with ASX Listing Rules.

Completion of the Acquisition is subject to a number of conditions precedent, including:

- AYG conducting legal, financial and technical due diligence on ECS and its business to AYG's satisfaction;
- AYG obtaining all regulatory and shareholder approvals required to implement the Acquisition and Re-compliance, to be sought pursuant to a notice of meeting to be prepared and dispatched to shareholders in due course (**Notice of Meeting**), including:
  - ASX granting all necessary Listing Rule waivers to permit AYG to conduct the offer under the Prospectus at \$0.04 per share;
  - shareholder approval for the change of nature and scale of activities of AYG;
  - shareholder approval for the appointment of David McCredie and Alex Keach to the board of AYG (with the intention that current director Justyn Stedwell will resign, and existing directors Jeremy King and Eddie King will remain);
  - shareholder approval for the issue of the Consideration Shares, Performance Rights, Facilitation Shares, Director Options and Public Offer Shares; and
  - approval for AYG to change its company name to a name which reflects the Business and branding of ECS;
- AYG preparing a prospectus and conducting the Public Offer capital raising (described above) to enable AYG to re-comply with Chapter 1 and 2 of the ASX Listing Rules and be reinstated to quotation on the ASX (**Re-compliance Prospectus**), as well as lodging the Re-compliance Prospectus with ASIC, and receiving sufficient applications to meet the minimum subscription under the Prospectus; and

- AYG receiving conditional re-admission approval from ASX, on conditions which are reasonably acceptable to AYG.

## **Capital Structure**

The capital structure of AYG as a result of the Acquisition is as follows:

<b>Shares</b>	
Shares currently on issue	38,937,646
Rights Issue Shares to be issued	8,652,810
Shares to be issued pursuant to the Public Offer (Recompliance Prospectus)	112,500,000
Consideration Shares to be issued to Vendors	287,500,000
Facilitation Shares to Sanlam and Xcel Capital	10,000,000
<b>Total Shares on completion of the Offer</b>	<b>457,590,456</b>
<b>Options</b>	
Director Options - incoming directors	1,875,000
Director Options - existing AYG directors	24,000,000
<b>Total Options on completion of the Offer</b>	<b>25,875,000</b>
<b>Performance Rights</b>	
Currently on issue	Nil
Performance Rights to be issued pursuant to Vendors	131,250,000
<b>Total Performance Rights on completion of the Offer</b>	<b>131,250,000</b>

## **Indicative timetable**

AYG anticipates that the Acquisition will proceed based on the following indicative timetable:

<b>EVENT</b>	<b>DATE</b>
Announcement of Acquisition Rights Issue Announced	15 February 2019
Shareholder Meeting to approve the change of natures of activities and other matters	26 April 2019
Lodgement of Recompliance Prospectus	26 April 2019
Anticipated date of Recompliance completion (suspension of trading of shares is lifted)	28 June 2019

*The above dates are indicative only and may change without notice. The Directors reserve the right to amend the timetable.*

Further details of ECS and its business will be included in the Notice of Meeting and Recompliance Prospectus, to be released by the Company in due course.

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