

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Ecoark Holdings, Inc.

Form: 10-Q

Date Filed: 2020-08-13

Corporate Issuer CIK: 1437491

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2020

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ___ to ___

Commission File No. 000-53361

Ecoark Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

30-0680177

(IRS Employer
Identification No.)

5899 Preston Road #505, Frisco, TX 75034
(Address of principal executive offices) (Zip Code)

(479) 259-2977
(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
None		

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.001 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

There were 100,579,935 shares of the Registrant's \$0.001 par value common stock outstanding as of August 13, 2020.

INDEX

	<u>Page No.</u>
<u>Part I. Financial Information</u>	1
<u>Item 1. Financial Statements</u>	1
<u>Unaudited Condensed Consolidated Balance Sheets</u>	2
<u>Unaudited Condensed Consolidated Statements of Operations</u>	3
<u>Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity (Deficit)</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	37
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	42
<u>Item 4. Controls and Procedures</u>	43
<u>Part II. Other Information</u>	44
<u>Item 1. Legal Proceedings</u>	44
<u>Item 1A. Risk Factors</u>	44
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
<u>Item 3. Default Upon Senior Securities</u>	44
<u>Item 4. Mine Safety Disclosures</u>	44
<u>Item 5. Other Information</u>	44
<u>Item 6. Exhibits</u>	44
<u>Signatures</u>	45

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020

Table of Contents

Unaudited Condensed Consolidated Balance Sheets	2
Unaudited Condensed Consolidated Statements of Operations	3
Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity (Deficit)	4
Unaudited Condensed Consolidated Statements of Cash Flows	5
Notes to Unaudited Condensed Consolidated Financial Statements	6 - 36

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Dollars in thousands, except per share data)	
	June 30, 2020	March 31, 2020
	(Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash (\$85 and \$85 pledged as collateral for credit as of June 30, 2020 and March 31, 2020, respectively)	\$ 1,793	\$ 406
Accounts receivable, net of allowance of \$566 and \$500 as of June 30, 2020 and March 31, 2020, respectively	224	172
Note receivable, net of allowance of \$0 and \$25 as of June 30, 2020 and March 31, 2020, respectively	226	-
Inventories – Crude Oil	248	-
Current assets of discontinued operations	2	-
Prepaid expenses and other current assets	2,205	676
Total current assets	4,698	1,254
NON-CURRENT ASSETS		
Property and equipment, net	3,697	3,965
Intangible assets, net	2,279	2,350
Goodwill	10,225	10,225
Right of use assets – financing leases	550	589
Right of use assets – operating leases	122	142
Oil and gas properties, full cost-method	6,001	6,135
Non-current assets of discontinued operations	249	249
Other assets	7	7
Total non-current assets	23,130	23,662
TOTAL ASSETS	\$ 27,828	\$ 24,916
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 700	\$ 751
Accrued liabilities	2,441	3,036
Due to prior owners	1,250	2,358
Derivative liabilities	19,062	2,775
Current portion of long-term debt	1,658	6,401
Notes payable – related parties	955	2,172
Current portion of lease liability – financing leases	138	137
Current portion of lease liability – operating leases	79	85
Current liabilities of discontinued operations	228	228
Total current liabilities	26,511	17,943
NON-CURRENT LIABILITIES		
Lease liability – financing leases, net of current portion	401	436
Lease liability – operating leases, net of current portion	59	74
Long-term debt, net of current portion	3,231	421
Asset retirement obligations	302	295
Total liabilities	30,504	19,169
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT) (Numbers of shares rounded to thousands)		
Preferred stock, \$0.001 par value; 5,000 shares authorized; none and 1 (Series C) issued and outstanding as of June 30, 2020 and March 31, 2020, respectively	-	-
Common stock, \$0.001 par value; 200,000 shares authorized, 98,604 shares issued and 98,019 shares outstanding as of June 30, 2020 and 85,876 shares issued and 85,291 shares outstanding as of March 31, 2020	99	86
Additional paid-in-capital	148,100	135,355
Accumulated deficit	(149,204)	(128,023)
Treasury stock, at cost	(1,671)	(1,671)
Total stockholders' equity (deficit)	(2,676)	5,747
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 27,828	\$ 24,916

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30,	
	2020	2019
	(Dollars in thousands, except per share data)	
CONTINUING OPERATIONS:		
REVENUES	\$ 2,313	\$ 35
COST OF REVENUES	1,093	45
GROSS PROFIT (LOSS)	1,220	(10)
OPERATING EXPENSES:		
Selling, general and administrative	2,884	1,550
Depreciation, amortization, depletion and accretion	301	77
Research and development	230	897
Total operating expenses	3,415	2,524
Loss from continuing operations before other income (expense)	(2,195)	(2,534)
OTHER INCOME (EXPENSE):		
Change in fair value of derivative liability	(17,393)	945
Gain on exchange of warrants for common stock	1,630	-
Loss on conversion of long-term debt and accrued expenses	(2,194)	-
Loss on disposal of fixed assets	(105)	-
Loss on abandonment of oil and gas property	(83)	-
Interest expense, net of interest income	(841)	(59)
Total other income (expenses)	(18,986)	886
LOSS FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	(21,181)	(1,648)
DISCONTINUED OPERATIONS:		
Gain on disposal of discontinued operations	-	2
Total discontinued operations	-	2
PROVISION FOR INCOME TAXES	-	-
NET LOSS	\$ (21,181)	\$ (1,646)
NET LOSS PER SHARE		
Basic and diluted: Continuing operations	\$ (0.23)	\$ (0.03)
Discontinued operations	\$ (0.00)	\$ -
Total	\$ (0.23)	\$ (0.03)
SHARES USED IN CALCULATION OF NET LOSS PER SHARE		
Basic and diluted	91,784	53,819

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

(Dollar amounts and number of shares in thousands)

	Preferred		Common		Additional Paid-In- Capital	Accumulated Deficit	Treasury Stock	Total
	Shares	Amount	Shares	Amount				
Balances at March 31, 2019	-	\$ -	52,571	\$ 53	\$ 113,310	\$ (115,886)	\$ (1,671)	\$ (4,194)
Shares issued in acquisition of Trend Holdings	-	-	5,500	5	3,232	-	-	3,237
Share-based compensation	-	-	-	-	582	-	-	582
Net loss for the period	-	-	-	-	-	(1,646)	-	(1,646)
Balances at June 30, 2019	-	\$ -	58,071	\$ 58	\$ 117,124	\$ (117,532)	\$ (1,671)	\$ (2,021)
Balances at March 31, 2020	1	\$ -	85,876	\$ 86	\$ 135,355	\$ (128,023)	\$ (1,671)	\$ 5,747
Shares issued in the conversion of long-term debt and accrued interest	-	-	2,622	3	3,939	-	-	3,942
Shares issued in the conversion of accounts payable and accrued expenses	-	-	466	-	677	-	-	677
Preferred shares converted into common shares	(1)	-	1,540	2	(2)	-	-	-
Shares issued in the exercise of warrants, net of expenses	-	-	7,657	8	6,668	-	-	6,676
Shares issued in the exercise of stock options	-	-	443	-	349	-	-	349
Stock based compensation,	-	-	-	-	1,114	-	-	1,114
Net loss for the period	-	-	-	-	-	(21,181)	-	(21,181)
Balances at June 30, 2020	-	\$ -	98,604	\$ 99	\$ 148,100	\$ (149,204)	\$ (1,671)	\$ (2,676)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended	
	June 30,	
	2020	2019
	(Dollars in thousands)	
Cash flows from operating activities:		
Net loss	\$ (21,181)	\$ (1,646)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization, depletion and accretion	301	77
Share-based compensation	1,114	582
Change in fair value of derivative liabilities	17,393	(945)
Bad debt	66	-
Gain on exchange of warrants	(1,630)	-
Loss on sale of fixed assets	105	-
Loss on abandonment of oil and gas property	83	-
Warrants granted for interest expense	524	-
Recovery of bad debt	(25)	-
Loss on conversion of debt and liabilities to common stock	2,194	-
Amortization of debt discount	149	-
Gain on sale of discontinued operations	-	(2)
Changes in operating assets and liabilities:		
Accounts receivable	(118)	387
Inventories	(248)	-
Prepaid expenses and other current assets	(1,262)	664
Amortization of right of use asset – financing leases	39	-
Amortization of right of use assets – operating leases	20	-
Other assets	-	1
Interest on lease liability – financing leases	(34)	-
Interest on lease liability – operating leases	(21)	-
Accounts payable	(52)	(124)
Accrued liabilities	(252)	30
Net cash used in operating activities of continuing operations	(2,835)	(976)
Net cash used in discontinued operations	(2)	(-)
Net cash used in operating activities	(2,837)	(976)
Cash flows from investing activities:		
Cash received in acquisition of Trend Holdings	-	3
Advance of note receivable	(200)	-
Purchases of oil and gas properties	(2)	-
Proceeds from the sale of fixed assets	43	-
Proceeds received from sale of Magnolia	-	5
Purchases of fixed assets	(50)	(-)
Net cash provided by (used in) investing activities of continuing operations	(209)	8
Net cash used in investing activities of discontinued operations	(-)	(-)
Net cash provided by (used in) investing activities	(209)	8
Cash flows from financing activities:		
Proceeds from exercise of warrants, net of fees	6,677	-
Proceeds from exercise of stock options	349	-
Proceeds from notes payable – related parties	400	298
Proceeds from long-term debt	1,869	-
Repayment of long-term debt	(3,554)	-
Repayment to prior owners	(266)	-
Repayment of notes payable – related parties	(1,042)	-
Proceeds from credit facility	-	460
Net cash provided by financing activities	4,433	758
NET INCREASE (DECREASE) IN CASH	1,387	(210)
Cash - beginning of period	406	244
Cash - end of period	\$ 1,793	\$ 34

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for interest	\$ 333	\$ -
Cash paid for income taxes	\$ -	\$ -

SUMMARY OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Preferred stock converted into common stock	\$ 2	\$ -
Conversion of long-term debt and notes payable and accrued interest into common stock	\$ 3,942	\$ -
Conversion of accounts payable and accrued expenses into common stock	\$ 677	\$ -

Assets acquired via acquisition of Trend Holdings.:

Current assets	\$ -	\$ 12
----------------	------	-------

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ecoark Holdings is a diversified holding company, incorporated in the state of Nevada on November 19, 2007. Ecoark Holdings has four wholly owned subsidiaries: Ecoark, Inc. ("Ecoark"), a Delaware corporation which is the parent of Zest Labs, Inc. ("Zest Labs"), 440IoT Inc., a Nevada corporation ("440IoT"), Banner Midstream Corp., a Delaware corporation ("Banner Midstream") and Trend Discovery Holdings Inc., a Delaware corporation ("Trend Holdings"). Zest Labs, offers the Zest Fresh solution, a breakthrough approach to quality management of fresh food, specifically designed to help substantially reduce the \$161 billion amount of food loss the U.S. experiences each year. Banner Midstream is engaged in oil and gas exploration, production and drilling operations on over 10,000 cumulative acres of active mineral leases in Texas, Louisiana, and Mississippi. Banner Midstream also provides transportation and logistics services and procures and finances equipment to oilfield transportation service contractors. Trend Holdings invests in a select number of early stage startups each year as part of the fund's Venture Capital strategy.

Trend Capital Management provides services and collects fees from entities including Trend Discovery LP and Trend Discovery SPV I. Trend Discovery LP and Trend Discovery SPV I invest in securities. Neither Trend Holdings nor Trend Capital Management invest in securities or have any role in the purchase of securities by Trend Discovery LP and Trend Discovery SPV I. In the near-term, Trend Discovery LP's performance will be driven by its investment in Volans-i, a fully autonomous vertical takeoff and landing ("VTOL") drone delivery platform. Trend Discovery LP currently owns approximately 1% of Volans-i and has participation rights to future financings to maintain its ownership at 1% indefinitely. More information can be found at flyvoly.com.

440IoT Inc. was incorporated in 2019 and is located near Boston, Massachusetts and is a software development and information solutions provider for cloud, mobile, and IoT (Internet of Things) applications.

On March 27, 2020, the Company and Banner Energy Services Corp., a Nevada corporation ("Banner Parent"), entered into a Stock Purchase and Sale Agreement (the "Banner Purchase Agreement") to acquire Banner Midstream Corp., a Delaware corporation ("Banner Midstream"). Pursuant to the acquisition, Banner Midstream became a wholly-owned subsidiary of the Company and Banner Parent received shares of the Company's common stock in exchange for all of the issued and outstanding shares of Banner Midstream.

Banner Midstream has four operating subsidiaries: Pinnacle Frac Transport LLC ("Pinnacle Frac"), Capstone Equipment Leasing LLC ("Capstone"), White River Holdings Corp. ("White River"), and Shamrock Upstream Energy LLC ("Shamrock"). Pinnacle Frac provides transportation of frac sand and logistics services to major hydraulic fracturing and drilling operations. Capstone procures and finances equipment to oilfield transportation service contractors. These two operating subsidiaries of Banner Midstream are revenue producing entities. White River and Shamrock are engaged in oil and gas exploration, production, and drilling operations on over 10,000 cumulative acres of active mineral leases in Texas, Louisiana, and Mississippi.

On June 11, 2020, the Company acquired certain energy assets from SR Acquisition I, LLC for \$1 as part of the ongoing bankruptcy reorganization of Sanchez Energy Corporation. The transaction includes the transfer of 262 total wells in Mississippi and Louisiana, approximately 9,000 acres of active mineral leases, and drilling production materials and equipment. The 262 total wells include 57 active producing wells, 19 active disposal wells, 136 shut-in with future utility wells, and 50 shut-in pending plugging wells. Included in the assignment are 4 wells in the Tuscaloosa Marine Shale formation.

On June 18, 2020, the Company acquired certain energy assets from SN TMS, LLC for \$1 as part of the ongoing bankruptcy reorganization of Sanchez Energy Corporation. The transaction includes the transfer of wells, active mineral leases, and drilling production materials and equipment.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

Principles of Consolidation

The condensed consolidated financial statements of Ecoark Holdings and its subsidiaries and the accompanying notes included in this Quarterly Report on Form 10-Q are unaudited. In the opinion of management, all adjustments necessary for the fair presentation of the condensed consolidated financial statements have been included. Such adjustments are of a normal, recurring nature. The condensed consolidated financial statements, and the accompanying notes, are prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and do not contain certain information included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2020. Therefore, the interim condensed consolidated financial statements should be read in conjunction with that Annual Report on Form 10-K.

In May 2018 the Ecoark Holdings Board approved a plan to sell key assets of Pioneer (including the assets of Sable) and Magnolia Solar. Both of these subsidiaries were sold in May 2019.

On May 31, 2019, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Trend Discovery Holdings Inc., a Delaware corporation (“Trend Holdings”) for the Company to acquire 100% of Trend Holdings pursuant to a merger of Trend Holdings with and into the Company (the “Merger”). The Merger was completed, and Trend Holdings is now included in the consolidated financial statements.

On March 27, 2020, the Company and Banner Energy Services Corp, a Nevada corporation (“Banner Parent”), entered into a Stock Purchase and Sale Agreement (the “Banner Purchase Agreement”) to acquire Banner Midstream Corp., a Delaware corporation (“Banner Midstream”). Pursuant to the acquisition, Banner Midstream became a wholly-owned subsidiary of the Company and Banner Parent received shares of the Company’s common stock in exchange for all of the issued and outstanding shares of Banner Midstream.

The Company applies the guidance of Topic 810 *Consolidation* of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) to determine whether and how to consolidate another entity. Pursuant to ASC Paragraph 810-10-15-10 all majority-owned subsidiaries—all entities in which a parent has a controlling financial interest—are consolidated except when control does not rest with the parent. Pursuant to ASC Paragraph 810-10-15-8, the usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders, or by court decree.

Reclassifications

The Company has reclassified certain amounts in the June 30, 2019 condensed consolidated financial statements to be consistent with the June 30, 2020 presentation. Reclassifications relating to the discontinued operations are described in Note 2. The reclassifications had no impact on net loss or net cash flows for the three months ended June 30, 2020 and 2019.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. These estimates include, but are not limited to, management's estimate of provisions required for uncollectible accounts receivable, fair value of assets held for sale and assets and liabilities acquired, impaired value of equipment and intangible assets, including goodwill, asset retirement obligations, estimates of discount rates in lease, liabilities to accrue, fair value of derivative liabilities associated with warrants, cost incurred in the satisfaction of performance obligations, permanent and temporary differences related to income taxes and determination of the fair value of stock awards. Actual results could differ from those estimates.

The estimates of proved, probable and possible oil and gas reserves are used as significant inputs in determining the depletion of oil and gas properties and the impairment of proved and unproved oil and gas properties. There are numerous uncertainties inherent in the estimation of quantities of proven, probable and possible reserves and in the projection of future rates of production and the timing of development expenditures. Similarly, evaluations for impairment of proved and unproved oil and gas properties are subject to numerous uncertainties including, among others, estimates of future recoverable reserves and commodity price outlooks. Actual results could differ from the estimates and assumptions utilized.

Oil and Gas Properties

The Company uses the full cost method of accounting for its investment in oil and natural gas properties. Under the full cost method of accounting, all costs associated with acquisition, exploration and development of oil and gas reserves, including directly related overhead costs are capitalized. General and administrative costs related to production and general overhead are expensed as incurred.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit of production method using estimates of proved reserves. Disposition of oil and gas properties are accounted for as a reduction of capitalized costs, with no gain or loss recognized unless such adjustment would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in operations. Unproved properties and development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the loss from operations before income taxes and the adjusted carrying amount of the unproved properties is amortized on the unit-of-production method.

There was \$53 and \$0 in depreciation, depletion and amortization expense for the Company's oil and gas properties for the three months ended June 30, 2020 and 2019, respectively.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

Limitation on Capitalized Costs

Under the full-cost method of accounting, we are required, at the end of each reporting date, to perform a test to determine the limit on the book value of our oil and gas properties (the "Ceiling" test). If the capitalized costs of our oil and natural gas properties, net of accumulated amortization and related deferred income taxes, exceed the Ceiling, the excess or impairment is charged to expense. The expense may not be reversed in future periods, even though higher oil and gas prices may subsequently increase the Ceiling. The Ceiling is defined as the sum of: (a) the present value, discounted at 10% and assuming continuation of existing economic conditions, of (1) estimated future gross revenues from proved reserves, which is computed using oil and gas prices determined as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month hedging arrangements pursuant to SAB 103, less (2) estimated future expenditures (based on current costs) to be incurred in developing and producing the proved reserves; plus, (b) the cost of properties being amortized; plus, (c) the lower of cost or estimated fair value of unproven properties included in the costs being amortized, net of (d) the related tax effects related to the difference between the book and tax basis of our oil and natural gas properties. A ceiling test was performed as of June 30, 2020 and there was no indication of impairment on the oil and gas properties.

Oil and Gas Reserves

Reserve engineering is a subjective process that is dependent upon the quality of available data and interpretation thereof, including evaluations and extrapolations of well flow rates and reservoir pressure. Estimates by different engineers often vary sometimes significantly. In addition, physical factors such as results of drilling, testing and production subsequent to the date of an estimate, as well as economic factors such as changes in product prices, may justify revision of such estimates. Because proved reserves are required to be estimated using recent prices of the evaluation, estimated reserve quantities can be significantly impacted by changes in product prices.

Inventories

Crude oil, products and merchandise inventories are carried at the lower of cost (LIFO) or net realizable value. Inventory costs include expenditures and other charges directly and indirectly incurred in bringing the inventory to its existing condition and location.

Accounting for Asset Retirement Obligation

Asset retirement obligations ("ARO") primarily represent the estimated present value of the amount the Company will incur to plug, abandon and remediate its producing properties at the projected end of their productive lives, in accordance with applicable federal, state and local laws. The Company determined its ARO by calculating the present value of the estimated cash flows related to the obligation. The retirement obligation is recorded as a liability at its estimated present value as of the obligation's inception, with an offsetting increase to proved properties.

Revenue Recognition

The Company accounts for revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*.

The Company accounts for a contract when it has been approved and committed to, each party's rights regarding the goods or services to be transferred have been identified, the payment terms have been identified, the contract has commercial substance, and collectability is probable. Revenue is generally recognized net of allowances for returns and any taxes collected from customers and subsequently remitted to governmental authorities.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

Revenue recognition for multiple-element arrangements requires judgment to determine if multiple elements exist, whether elements can be accounted for as separate units of accounting, and if so, the fair value for each of the elements.

Revenue from software license agreements of Zest Labs is recognized over time or at a point in time depending on the evaluation of when the customer obtains control of the promised goods or services over the term of the agreement. For agreements where the software requires continuous updates to provide the intended functionality, revenue is recognized over the term of the agreement. For software as a service (“SaaS”) contracts that include multiple performance obligations, including hardware, perpetual software licenses, subscriptions, term licenses, maintenance and other services, the Company allocates revenue to each performance obligation based on estimates of the price that would be charged to the customer for each promised product or service if it were sold on a standalone basis. For contracts for new products and services where standalone pricing has not been established, the Company allocates revenue to each performance obligation based on estimates using the adjusted market assessment approach, the expected cost plus a margin approach or the residual approach as appropriate under the circumstances. Contracts are typically on thirty-day payment terms from when the Company satisfies the performance obligation in the contract. The Company did not have significant revenue from software license agreements in the three months ended June 30, 2020 and 2019, respectively.

Revenue under master service agreements is recorded upon the performance obligation being satisfied. Typically, the satisfaction of the performance obligation occurs upon the frac sand load being delivered to the customer site and this load being successfully invoiced and accepted by the Company’s factoring agent.

The Company accounts for contract costs in accordance with ASC Topic 340-40, *Contracts with Customers*. The Company recognizes the cost of sales of a contract as expense when incurred or at the time a performance obligation is satisfied. The Company recognizes an asset from the costs to fulfil a contract only if the costs relate directly to a contract, the costs generate or enhance resources that will be used in satisfying a performance obligation in the future and the costs are expected to be recovered. The incremental costs of obtaining a contract are capitalized unless the costs would have been incurred regardless of whether the contract was obtained.

Cost of sales for Pinnacle Frac includes all direct expenses incurred to produce the revenue for the period. This includes, but is not limited to, direct employee labor, direct contract labor and fuel.

Accounts Receivable and Concentration of Credit Risk

The Company considers accounts receivable, net of allowance for doubtful accounts, to be fully collectible. The allowance is based on management’s estimate of the overall collectability of accounts receivable, considering historical losses, credit insurance and economic conditions. Based on these same factors, individual accounts are charged off against the allowance when management determines those individual accounts are uncollectible. Credit extended to customers is generally uncollateralized, however credit insurance is obtained for some customers. Past-due status is based on contractual terms.

For Pinnacle Frac, accounts receivable is comprised of unsecured amounts due from customers that have been conveyed to a factoring agent without recourse. Pinnacle Frac receives an advance from the factoring agent of 98% of the amount invoiced to the customer within one business day. The Company recognizes revenue for 100% of the gross amount invoiced, records an expense for the 2% finance charge by the factoring agent, and realizes cash for the 98% net proceeds received. The Company has recognized an allowance for doubtful accounts of \$566 as of June 30, 2020.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

Fair Value Measurements

ASC 820 *Fair Value Measurements* defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosure about fair value measurements. ASC 820 classifies these inputs into the following hierarchy:

Level 1 inputs: Quoted prices for identical instruments in active markets.

Level 2 inputs: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 inputs: Instruments with primarily unobservable value drivers.

Segment Information

The Company follows the provisions of ASC 280-10 *Segment Reporting*. This standard requires that companies disclose operating segments based on the manner in which management disaggregates the Company in making internal operating decisions. The Company and its Chief Operating Decision Makers determined that the Company's operations effective with the May 31, 2019, acquisition of Trend Holdings and the March 27, 2020 acquisition of Banner Midstream now consist of three segments, Trend Holdings (Finance), Banner Midstream (Commodities) and Zest Labs (Technology).

Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. Management evaluates all of the Company's financial instruments, including warrants, to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. The Company generally uses a Black-Scholes model, as applicable, to value the derivative instruments at inception and subsequent valuation dates when needed. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is remeasured at the end of each reporting period. The Black-Scholes model is used to estimate the fair value of the derivative liabilities.

Recently Issued Accounting Standards

There were other updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Liquidity

For the three months ended June 30, 2020 and 2019, the Company had a net loss of \$21,181 and \$1,646, respectively, has a working capital deficit of \$21,813 as of June 30, 2020, and has an accumulated deficit as of June 30, 2020 of \$149,204. As of June 30, 2020, the Company has \$1,793 in cash and cash equivalents.

The Company alleviated the substantial doubt regarding this uncertainty as of March 31, 2020 which continues to be alleviated at June 30, 2020 as a result of the Company's acquisition of Banner Midstream on March 27, 2020 which bring revenue generating subsidiaries with reserves of oil properties over \$6 million and existing customer relationships over \$2 million, coupled with the raising of \$1,585 in the exercise of warrants in July and August 2020.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

If the Company raises additional funds by issuing equity securities, its stockholders would experience dilution. Additional debt financing, if available, may involve covenants restricting its operations or its ability to incur additional debt. Any additional debt financing or additional equity that the Company raises may contain terms that are not favorable to it or its stockholders and require significant debt service payments, which diverts resources from other activities. If the Company is unable to obtain additional financing, it may be required to significantly scale back its business and operations. The Company's ability to raise additional capital will also be impacted by the recent outbreak of COVID-19.

Based on this acquisition, company-wide consolidation, and management's plans, the Company believes that the current cash on hand and anticipated cash from operations is sufficient to conduct planned operations for one year from the issuance of the unaudited condensed consolidated financial statements.

Impact of COVID-19

The recent outbreak of COVID-19, which has been declared by the World Health Organization to be a pandemic, has spread across the globe and is impacting worldwide economic activity. A pandemic, including COVID-19, or other public health epidemic poses the risk that the Company or its employees, suppliers, and other partners may be prevented from conducting business activities at full capacity for an indefinite period of time, including due to spread of the disease within these groups or due to shutdowns that may be requested or mandated by governmental authorities. While it is not possible at this time to estimate the impact that COVID-19 could have on the Company's business, the continued spread of COVID-19 and the measures taken by the governments of countries affected and in which the Company operates could disrupt the operation of the Company's business. The COVID-19 outbreak and mitigation measures may also have an adverse impact on global economic conditions, which could have an adverse effect on the Company's business and financial condition, including on its potential to conduct financings on terms acceptable to the Company, if at all. In addition, the Company may take temporary precautionary measures intended to help minimize the risk of the virus to its employees, including temporarily requiring all employees to work remotely, and discouraging employee attendance at in-person work-related meetings, which could negatively affect the Company's business. The extent to which the COVID-19 outbreak impacts the Company's results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the virus and the actions to contain its impact.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law. The CARES Act provides aid to small businesses through programs administered by the Small Business Administration ("SBA"). The CARES Act includes, among other things, provisions relating to payroll tax credits and deferrals, net operating loss carryback periods, alternative minimum tax credits and technical corrections to tax depreciation methods for qualified improvement property. The CARES Act also established a Paycheck Protection Program ("PPP"), whereby certain small business are eligible for a loan to fund payroll expenses, rent and related costs.

In April 2020, the Company and one of its subsidiaries entered into PPP loans with financial institutions, See Notes 11 (u) and (v). Should the Company meet the criteria established under the loan, these amounts will be forgiven.

NOTE 2: DISCONTINUED OPERATIONS

Pursuant to ASC 205-20, Presentation of Financial Statements – Discontinued Operations, ASC-20-45-1B, paragraph 360-10-45-15, Pinnacle Vac will be disposed of other than by sale via an abandonment and termination of operations with no intent to classify the entity or assets as Available for Sale. Pursuant to ASC 205-20-45-3A, the results of operations of Pinnacle Vac from inception to discontinuation of operations will be reclassified to a separate component of income, below Net Income/(Loss), as a Loss on Discontinued Operations.

All of the equipment assets of Pinnacle Vac and the related loan liabilities will be subsequently transitioned into Capstone to continue servicing the debt. The remaining current assets of Pinnacle Vac will be used to settle any outstanding current liabilities of Pinnacle Vac. A loss contingency will be recorded if any of the outstanding liabilities or obligations of Pinnacle Vac resulting from this abandonment are reasonably estimable and likely to be incurred.

Banner Midstream made the decision to discontinue the operations of its wholly owned subsidiary, Pinnacle Vac Service LLC ("Pinnacle Vac"), effective October 31, 2018 due to the inability of Pinnacle Vac's management to develop a sustainable, profitable business model. The managerial staff of Pinnacle Vac was terminated on November 15, 2018 and Pinnacle Vac's rental facility at Sligo Rd was vacated on November 15, 2018.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

Carrying amounts of major classes of assets and liabilities included as part of discontinued operations in the condensed consolidated balance sheet as of June 30, 2020 for Pinnacle Vac consisted of the following:

Current asset	
Cash	\$ 2
Total current assets	<u>\$ 2</u>
Property and equipment, net	\$ 249
Non-current assets	<u>\$ 249</u>
Accounts payable	\$ 228
Current liabilities	<u>\$ 228</u>

There was no income (loss) from discontinued operations for the three months ended June 30, 2020.

After consideration of all the evidence, both positive and negative, management has recorded a full valuation allowance due to the uncertainty of realizing income tax benefit for all periods presented, and the income tax provision for all periods presented was considered immaterial. Thus, no separate tax provision or benefit relating to discontinued operations is included here or on the face of the consolidated statements of operations.

NOTE 3: REVENUE

The following table disaggregates the Company's revenue by major source for the three months ended June 30:

	<u>2020</u>	<u>2019</u>
Revenue:		
Software as a Service ("SaaS")	\$ -	\$ 12
Professional Services	-	23
Financial Services	90	-
Oil and Gas Services	2,125	-
Fuel Rebate	46	-
Equipment Rental	52	-
	<u>\$ 2,313</u>	<u>\$ 35</u>

There were no significant contract asset or contract liability balances for all periods presented. The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

Subsequent to the acquisitions of Trend Discovery and Banner Midstream, the Company in 2020 recorded revenues for financial services and oil and gas services and production. For both of these entities, revenues are billed upon the completion of the performance obligations.

Collections of the amounts billed are typically paid by the customers within 30 to 60 days.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

NOTE 4: INVENTORIES

The Company's inventories of \$248 consisted of crude oil of approximately 6,908 barrels of unsold crude oil using LIFO cost method.

NOTE 5: NOTE RECEIVABLE

The Company entered into a \$225 senior secured convertible promissory note on June 18, 2020 with Rabb Resources, LTD. The Company had an existing note in the amount of \$25 that had not been secured, and rolled an additional \$200 into Rabb Resources, LTD, whereby the entire amount now becomes secured. The note is non-interest bearing if paid or converted within forty-five days of the issuance date of June 18, 2020 (August 2, 2020, which is the maturity date). If not paid or converted, the note bears interest at 11% per annum, paid in cash on a quarterly basis.

This note is convertible into shares of Rabb Resources, LTD. based on a valuation of Rabb Resources, LTD. into shares of that company at a value of the \$225.

The Company has accrued interest income in the amount of \$1 as of June 30, 2020 as the repayment of this note had not occurred by the maturity date.

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2020 and March 31, 2020:

	June 30, 2020	March 31, 2020
Zest Labs freshness hardware	\$ 2,493	\$ 2,493
Computers and software costs	222	222
Leasehold improvements – Pinnacle Frac	18	18
Machinery and equipment - Technology	200	200
Machinery and equipment – Commodity	3,267	3,405
Total property and equipment	6,200	6,338
Accumulated depreciation and impairment	(2,503)	(2,373)
Property and equipment, net	<u>\$ 3,697</u>	<u>\$ 3,965</u>

As of June 30, 2020 and March 31, 2020, the Company performed an evaluation of the recoverability of these long-lived assets. The analysis resulted in no impairment as of related to these assets.

The Company acquired \$3,423 in property and equipment on March 27, 2020 in the acquisition of Banner Midstream.

Depreciation expense for the three months ended June 30, 2020 and 2019 was \$170 and \$77, respectively. During the three months ended June 30, 2020, the Company disposed of \$188 worth of equipment that had a net value of \$148 for cash proceeds of \$43, resulting in a loss on disposal of \$105.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

NOTE 7: INTANGIBLE ASSETS AND GOODWILL

Intangible assets consisted of the following as of June 30, 2020 and March 31, 2020:

	June 30, 2020	March 31, 2020
Patents	\$ 1,013	\$ 1,013
Customer relationships	2,100	2,100
Non-compete agreements	250	250
Outsourced vendor relationships	340	340
Non-compete agreements	1,017	1,017
Total intangible assets	<u>4,720</u>	<u>4,720</u>
Accumulated amortization and impairment	<u>(2,441)</u>	<u>(2,370)</u>
Intangible assets, net	<u>\$ 2,279</u>	<u>\$ 2,350</u>

All intangible assets prior to the acquisition of Banner Midstream were fully impaired as of March 31, 2019. Those intangible assets related to the outsourced vendor relationships and non-compete agreements were recorded as part of the acquisition of 440labs. Goodwill of \$3,223 was recorded in the Trend Holdings acquisition, and \$7,002 was recorded in the Banner Midstream acquisition.

In the acquisition of Banner Midstream, the Company acquired the customer relationships and non-compete agreements valued at \$2,350. The estimated useful lives of the customer relationships is ten years based on the estimated cash flows from those customer contracts, and the estimated useful lives of the non-compete agreement is five years amortized over a straight-line method.

Amortization expense for the three months ended June 30, 2020 and 2019 was \$71 and \$0, respectively.

The following is the future amortization of the intangibles as of June 30:

2021	\$ 301
2022	326
2023	259
2024	265
2025	251
Thereafter	877
	<u>\$ 2,279</u>

In addition to the statutory based intangible assets noted above, the Company incurred \$10,225 in the purchase of Trend and Banner Midstream as follows:

Acquisition – Trend Discovery	\$ 3,223
Acquisition – Banner Midstream	7,002
Goodwill – June 30, 2020 and March 31, 2020	<u>\$ 10,225</u>

The Company assessed the criteria for impairment, and there were no indicators of impairment present as of June 30, 2020, and therefore no impairment is necessary.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

NOTE 8: ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	June 30, 2020	March 31, 2020
Professional fees and consulting costs	\$ 85	\$ 106
Vacation and paid time off	93	126
Legal fees	-	503
Compensation	241	865
Interest	380	673
Insurance	1,442	548
Other	200	215
Total	<u>\$ 2,441</u>	<u>\$ 3,036</u>

On March 27, 2020, the Company assumed \$2,362 in the acquisition of Banner Midstream, and in addition, assumed \$2,362 in amounts that are due to prior owners of Banner Midstream and their subsidiaries. These amounts are non-interest bearing and due on demand. As of June 30, 2020 and March 31, 2020, \$1,250 and \$2,358 of the amounts due to prior owners is currently due, and \$50 of this amount was converted in the Company's fiscal quarter ending September 30, 2020. The Company converted \$1,208 of amounts due to prior owners which resulted in a loss on conversion of \$366 in the three months ended June 30, 2020.

NOTE 9: WARRANT DERIVATIVE LIABILITIES

The Company issued common stock and warrants in several private placements in March 2017, May 2017, March 2018 and August 2018. The March and May 2017 and March and August 2018 warrants (collectively the "Derivative Warrant Instruments") are classified as liabilities. The Derivative Warrant Instruments have been accounted for utilizing ASC 815 "*Derivatives and Hedging*". The Company has incurred a liability for the estimated fair value of Derivative Warrant Instruments. The estimated fair value of the Derivative Warrant Instruments has been calculated using the Black-Scholes fair value option-pricing model with key input variables provided by management, as of the date of issuance, with changes in fair value recorded as gains or losses on revaluation in other income (expense).

The Company identified embedded features in the March and May 2017 warrants which caused the warrants to be classified as a liability. These embedded features included the implicit right for the holders to request that the Company settle the warrants in registered shares. Since maintaining an effective registration of shares is potentially outside the control of the Company, these warrants were classified as liabilities as opposed to equity. The accounting treatment of derivative financial instruments requires that the Company treat the whole instrument as liability and record the fair value of the instrument as derivatives as of the inception date of the instrument and to adjust the fair value of the instrument as of each subsequent balance sheet date.

On October 28, 2019, the Company issued 2,243 shares of the Company's common stock to investors in exchange for the March and May 2017 warrants. Upon the issuance of the 2,243 shares, the March and May 2017 warrants were extinguished. The fair value of the shares issued was \$2,186, and the fair value of the warrants was \$1,966 resulting in a loss of \$220 that was recognized on the exchange.

The Company identified embedded features in the March and August 2018 warrants which caused the warrants to be classified as a liability. These embedded features included the right for the holders to request that the Company cash settle the warrant instruments from the holder by paying to the holder an amount of cash equal to the Black-Scholes value of the remaining unexercised portion of the Derivative Warrant Instruments on the date of the consummation of a fundamental transaction. The accounting treatment of derivative financial instruments requires that the Company treat the whole instrument as liability and record the fair value of the instrument as derivatives as of the inception date of the instrument and to adjust the fair value of the instrument as of each subsequent balance sheet date.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

On July 12, 2019, the March and August 2018 warrants were exchanged for 4,277 shares of Company common stock, and all of those warrants were extinguished. The fair value of the shares issued was \$3,293, and the fair value of the warrants was \$2,455 resulting in a loss of \$840 that was recognized on the exchange.

As described further in Note 13 below, on August 22, 2019 the Company issued warrants that can be exercised in exchange for 3,922 shares of Company common stock to investors that invested in shares of Company preferred stock. The fair value of those warrants was estimated to be \$1,576 at inception and on January 26, 2020, the Company entered into letter agreements with accredited institutional investors holding the warrants issued with the Company's Series B Convertible Preferred Stock on August 21, 2019. Pursuant to the agreements, the investors agreed to a cash exercise of 3,921 of the warrants at a price of \$0.51. The Company additionally, granted 5,882 warrants at \$0.90. On January 27, 2020, the Company received approximately \$2,000 in cash from the exercise of the August 2019 warrants and issued the January 2020 warrants to the investors, which have an exercise price of \$0.90 and may be exercised within five years of issuance. This transaction resulted in a loss on extinguishment of \$1,038.

On November 11, 2019, the Company issued warrants that can be exercised to purchase a number of shares of common stock of the Company equal to the number of shares of common stock issuable upon conversion of the Series C Preferred Stock purchased by the investors.

The fair value of those warrants was estimated to be \$1,107 at inception and \$543 as of March 31, 2020. The Company recognized \$107 of interest expense related to the fair value of the warrants at inception that exceeded the proceeds received for the preferred stock on November 11, 2019.

On April 15, 2020, the Company granted 200 warrants with an exercise price of \$0.73 per share to extend the maturity date of the Senior Secured Debt acquired in the Banner Midstream acquisition to May 31, 2020. The fair value of those warrants was estimated to be \$84 at inception and \$551 as of June 30, 2020.

On April 15, 2020, the Company granted 50 warrants with an exercise price of \$0.73 to extend the maturity date of the Senior Secured Debt acquired in the Banner Midstream acquisition to May 31, 2020. The Company does not believe this transaction constitutes an accounting extinguishment of debt due to a material modification of the debt instrument. The fair value of those warrants was estimated to be \$21 at inception and \$138 as of June 30, 2020.

On April 15 and 16, 2020, the Company received \$438 in proceeds in a loan provided by Trend Discovery SPV I. Since they were the borrower and responsible for repayment of these amounts the Company granted 1,000 warrants at \$0.73 for collateral for the loan. The fair value of those warrants was estimated to be \$419 at inception and \$2,753 as of June 30, 2020.

On May 10, 2020, the November 2019 and January 2020 warrants were exchanged for 7,262 shares of Company common stock, and all of those warrants were extinguished resulting in a gain on extinguishment of \$1,630.

On May 10, 2020, the Company issued warrants that can be exercised to purchase a number of shares of common stock of the Company. The fair value of those warrants was estimated to be \$6,115 at inception and \$15,620 as of June 30, 2020.

The Company determined our derivative liabilities to be a Level 3 fair value measurement and used the Black-Scholes pricing model to calculate the fair value as of June 30, 2020 and March 31, 2020. The Black-Scholes model requires six basic data inputs: the exercise or strike price, time to expiration, the risk-free interest rate, the current stock price, the estimated volatility of the stock price in the future, and the dividend rate.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

Changes to these inputs could produce a significantly higher or lower fair value measurement. The fair value of each warrant is estimated using the Black-Scholes valuation model. The following assumptions were used in June 30, 2020 and March 31, 2020 and at inception:

	Three Months Ended June 30, 2020	Year Ended March 31, 2020	Inception
Expected term	4.58 - 5 years	4.67-4.83 years	5.00 years
Expected volatility	94 - 101%	95%	91% - 107%
Expected dividend yield	-	-	-
Risk-free interest rate	0.61 - 0.73%	0.70%	1.50% - 2.77%

The Company's derivative liabilities associated with the warrants are as follows:

	June 30, 2020	March 31, 2020	Inception
Fair value of 1,000 March 17, 2017 warrants	\$ -	\$ -	\$ 4,609
Fair value of 1,850 May 22, 2017 warrants	-	-	7,772
Fair value of 2,565 March 16, 2018 warrants	-	-	3,023
Fair value of 2,969 August 14, 2018 warrants	-	-	2,892
Fair value of 3,922 August 22, 2019 warrants	-	-	1,576
Fair value of 1,379 November 11, 2019 warrants	-	543	1,107
Fair value of 5,882 January 27, 2020 warrants	-	2,232	3,701
Fair value of 200 April 15, 2020 warrants	551	-	84
Fair value of 50 April 15, 2020 warrants	138	-	21
Fair value of 1,000 April 16, 2020 warrants	2,753	-	419
Fair value of 5,882 May 10, 2020 warrants	15,620	-	6,115
	<u>\$ 19,062</u>	<u>\$ 2,775</u>	

During the three months ended June 30, 2020 and 2019 the Company recognized changes in the fair value of the derivative liabilities of \$(17,393) and \$945, respectively. The March and May 2017 warrants, March and August 2018 warrants, the August and November 2019 warrants, and the January 2020 warrants were exchanged and thus were no longer outstanding as of June 30, 2020. The November 2019 and January 2020 warrants were exercised in May 2020.

Activity related to the warrant derivative liabilities for the period ended June 30, 2020 is as follows:

Beginning balance as of March 31, 2020	\$ 2,775
Issuances of warrants – derivative liabilities	6,639
Warrants exchanged for common stock	(7,745)
Change in fair value of warrant derivative liabilities	17,393
Ending balance as of June 30, 2020	<u>\$ 19,062</u>

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

NOTE 10: OIL AND GAS PROPERTIES

The Company's holdings in oil and gas mineral lease ("OGML") properties as of June 30, 2020 and March 31, 2020 are as follows:

	June 30, 2020	March 31, 2020
Property acquired from Shamrock	\$ 1,962	\$ 1,970
Properties acquired from White River	4,037	4,165
Asset purchase – June 2020	2	-
Total OGML Properties	\$ 6,001	\$ 6,135

Cherry et al OGML including shallow drilling rights was acquired by Shamrock from Hartoil Company on July 1, 2018.

O'Neal Family OGML and Weyerhaeuser OGML including shallow drilling rights were acquired by White River on July 1, 2019 from Livland, LLC and Hi-Tech Onshore Exploration, LLC respectively in exchange for a \$125 drilling credit to be applied by Livland, LLC on subsequent drilling operations.

Taliaferro Family OGML including shallow drilling rights was acquired by White River on June 10, 2019 from Lagniappe Operating, LLC.

Kingrey Family OGML including both shallow and deep drilling rights was entered into by White River and the Kingrey Family on April 3, 2019.

Peabody Family OGML including both shallow and deep drilling rights was acquired by White River on June 18, 2019 from SR Acquisition I, LLC, a subsidiary of Sanchez Energy Corporation, for a 1% royalty retained interest in conjunction with White River executing a lease saving operation in June 2019.

Banner Midstream acquired the Cherry et al OGML via the Shamrock acquisition and the remaining OGML's via the White River acquisition. The Company then acquired all of the OGML properties as part of the acquisition of Banner Midstream on March 27, 2020.

As discussed in Note 15, the Company acquired certain leases on June 11, 2020 and June 18, 2020 in Mississippi and Louisiana valued at \$2. These assets were paid entirely in cash. In addition, the Company impaired \$83 of property as it let certain leases lapse.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

The following table summarizes the Company's oil and gas activities by classification for the three months ended June 30, 2020. There was no activity for the three months ended June 30, 2019:

Activity Category	March 31, 2020	Adjustments (1)	June 30, 2020
Proved Developed Producing Oil and Gas Properties			
Cost	\$ 167	\$ -	\$ 167
Accumulated depreciation, depletion and amortization	-	(1)	(1)
Total	<u>\$ 167</u>	<u>\$ (1)</u>	<u>\$ 166</u>
Undeveloped and Non-Producing Oil and Gas Properties			
Cost	\$ 5,968	\$ (81)	\$ 5,887
Accumulated depreciation, depletion and amortization	-	(52)	(52)
Total	<u>\$ 5,968</u>	<u>\$ (133)</u>	<u>\$ 5,835</u>
Grand Total	<u>\$ 6,135</u>	<u>\$ (134)</u>	<u>\$ 6,001</u>

(1) Pursuant to the preliminary asset allocation in Banner Midstream acquisition.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

NOTE 11: LONG-TERM DEBT

Long-term debt consisted of the following as of June 30, 2020 and March 31, 2020:

	June 30, 2020	March 31, 2020
Credit facility – Trend Discovery SPV 1, LLC (a)	\$ -	\$ -
Senior secured bridge loan – Banner Midstream (b)	-	2,222
Note payable – LAH 1 (c)	-	110
Note payable – LAH 2 (d)	-	77
Note payable – Banner Midstream 1 (e)	-	303
Note payable – Banner Midstream 2 (f)	-	397
Note payable – Banner Midstream 3 (g)	433	500
Merchant Cash Advance (MCA) loan – Banner Midstream 1 (h)	-	361
MCA loan – Banner Midstream 2 (i)	-	175
MCA loan – Banner Midstream 3 (j)	-	28
Note payable – Banner Midstream – Alliance Bank (k)	1,203	1,239
Commercial loan – Pinnacle Frac – Firststar Bank (l)	859	952
Auto loan 1 – Pinnacle Vac – Firststar Bank (m)	37	40
Auto loan 2 – Pinnacle Frac – Firststar Bank (n)	49	52
Auto loan 3 – Pinnacle Vac – Ally Bank (o)	40	42
Auto loan 4 – Pinnacle Vac – Ally Bank (p)	45	47
Auto loan 5 – Pinnacle Vac – Ally Bank (q)	42	44
Auto loan 6 – Capstone – Ally Bank (r)	90	97
Tractor loan 7 – Capstone – Tab Bank (s)	222	235
Equipment loan – Shamrock – Workover Rig (t)	-	50
Ecoark – PPP Loan (u)	386	-
Pinnacle Frac Transport – PPP Loan (v)	1,483	-
Total long-term debt	4,889	6,971
Less: debt discount	(-)	(149)
Less: current portion	(1,658)	(6,401)
Long-term debt, net of current portion	\$ 3,231	\$ 421

(a) On December 28, 2018, the Company entered into a \$10,000 credit facility that includes a loan and security agreement (the "Agreement") where the lender agreed to make one or more loans to the Company, and the Company may make a request for a loan or loans from the lender, subject to the terms and conditions. The Company is required to pay interest biannually on the outstanding principal amount of each loan calculated at an annual rate of 12%. The loans are evidenced by demand notes executed by the Company. The Company is able to request draws from the lender up to \$1,000 with a cap of \$10,000, including the \$1,000 advanced on December 28, 2018 and an additional \$350 advanced through March 31, 2019, resulting in a balance of \$1,350 at March 31, 2019.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

An additional \$1,137 was advanced during the year ended March 31, 2020; and \$38 of commitment fees, to bring the balance of the notes payable to \$2,525 at March 31, 2020. Loans made pursuant to the Agreement are secured by a security interest in the Company's collateral held with the lender and guaranteed by the Company's subsidiary, Zest Labs.

The Company pays to the lender a commitment fee on the principal amount of each loan requested thereunder in the amount of 3.5% of the amount thereof. The Company also paid an arrangement fee of \$300 to the lender which was paid upon execution of the Agreement. The aforementioned fees were and are netted from proceeds advanced and are recorded as interest expense. Zest Labs is a plaintiff in a litigation styled as *Zest Labs, Inc. vs Walmart, Inc., Case Number 4:18-cv-00500* filed in the United States District Court for the Eastern District of Arkansas (the "Zest Litigation"). The Company agrees that within five days of receipt by Zest Labs or the Company of any settlement proceeds from the Zest Litigation, the Company will pay or cause to be paid over to lender an additional fee in an amount equal to (i) 0.50 multiplied by (ii) the highest aggregate principal balance of the loans over the life of the loans through the date of the payment from settlement proceeds; provided, however, that such additional fee shall not exceed the amount of the settlement proceeds.

Subject to customary carve-outs, the Agreement contains customary negative covenants and restrictions for agreements of this type on actions by the Company including, without limitation, restrictions on indebtedness, liens, investments, loans, consolidation, mergers, dissolution, asset dispositions outside the ordinary course of business, change in business and restriction on use of proceeds. In addition, the Agreement requires compliance by the Company of covenants including, but not limited to, furnishing the lender with certain financial reports and protecting and maintaining its intellectual property rights. The Agreement contains customary events of default, including, without limitation, non-payment of principal or interest, violation of covenants, inaccuracy of representations in any material respect and cross defaults with certain other indebtedness and agreements.

Interest expense on the note for the three months ended June 30, 2020 and 2019 was \$0 and \$62, respectively.

On March 31, 2020, the Company converted all principal and interest in the Trend Discovery SPV I, LLC credit facility into shares of the Company's common stock. The conversion of \$2,525 of principal and \$290 of accrued interest resulted in the issuance of 3,855 shares of common stock at a value of \$0.59 per share. This transaction resulted in a gain on conversion of \$541. As a result of the conversion, there are no amounts outstanding as of March 31, 2020.

- (b) Senior secured bridge loan of \$2,222, containing a debt discount of \$132 as of March 31, 2020. This was assumed in the Banner Midstream acquisition, and fully repaid in May 2020, and was secured by machinery and equipment of Pinnacle Frac.
- (c) Unsecured note payable previously issued April 2, 2018 which was assumed by Banner Midstream in the acquisition of a previous entity. The amount was past due and bears interest at 10% per annum. This amount along with accrued interest of \$22 was assumed on March 27, 2020 in the acquisition of Banner Midstream. Amount was paid off in May 2020, and \$24 of accrued interest remains at June 30, 2020.
- (d) Unsecured note payable previously issued April 2, 2018 which was assumed by Banner Midstream in the acquisition of a previous entity. The amount was past due and bears interest at 10% per annum. This amount along with accrued interest of \$22 was assumed on March 27, 2020 in the acquisition of Banner Midstream. Amount was paid off in May 2020, and \$24 of accrued interest remains at June 30, 2020.
- (e) Junior secured note payable issued January 16, 2019 to an unrelated third party at 10% interest. This amount along with accrued interest of \$39 was assumed on March 27, 2020 in the acquisition of Banner Midstream. This note along with the accrued interest was repaid in May 2020.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

- (f) Unsecured notes payable issued in June and July 2019 to an unrelated third party at 10% interest. There are three notes to this party in total. This amount along with accrued interest of \$29 was assumed on March 27, 2020 in the acquisition of Banner Midstream. These notes were converted in May 2020.
- (g) Unsecured note payable issued October 2019 to an unrelated third party at 10% interest. Accrued interest on this note at June 30, 2020 is \$42. This amount along with accrued interest of \$23 was assumed on March 27, 2020 in the acquisition of Banner Midstream. The balance of this note and remaining accrued interest was converted into 430 shares of common stock in the Company's fiscal quarter ending September 30, 2020.
- (h) Merchant cash advance loan on Banner Midstream. The Company assumed \$368 of this note along with accrued interest of \$144. This note along with the accrued interest was repaid in May 2020.
- (i) Merchant cash advance loan on Banner Midstream. The Company assumed \$181 of this note along with accrued interest of \$70. This note along with the accrued interest was repaid in May 2020.
- (j) Merchant cash advance loan on Banner Midstream. The Company assumed \$69 of this note along with accrued interest of \$21. This note along with the accrued interest was repaid in May 2020.
- (k) Original loan date of June 14, 2019 with an original maturity date of April 14, 2020. The Company extended this loan for \$1,239 at 4.95% with a new maturity date of April 14, 2025. This loan and discount was assumed in the Banner Midstream acquisition.
- (l) Original loan date of February 28, 2018, due July 28, 2020 at 4.5% interest. This loan was assumed in the Banner Midstream acquisition.
- (m) On July 20, 2018, Pinnacle Vac Service entered into a long-term secured note payable for \$56 for a service truck maturing July 20, 2023. The note is secured by the collateral purchased and accrued interest annually at 6.50% with principal and interest payments due monthly. There is no accrued interest as of June 30, 2020. This note was assumed in the acquisition of Banner Midstream on March 27, 2020.
- (n) On August 3, 2018, Pinnacle Frac Transport entered into a long-term secured note payable for \$73 for a service truck maturing August 3, 2023. The note is secured by the collateral purchased and accrued interest annually at 6.50% with principal and interest payments due monthly. There is no accrued interest as of June 30, 2020. This note was assumed in the acquisition of Banner Midstream on March 27, 2020.
- (o) On July 18, 2018, Pinnacle Vac Service entered into a long-term secured note payable for \$56 for a service truck maturing August 17, 2024. The note is secured by the collateral purchased and accrued interest annually at 9.00% with principal and interest payments due monthly. There is no accrued interest as of June 30, 2020. This note was assumed in the acquisition of Banner Midstream on March 27, 2020.
- (p) On July 26, 2018, Pinnacle Vac Service entered into a long-term secured note payable for \$54 for a service truck maturing September 9, 2024. The note is secured by the collateral purchased and accrued interest annually at 7.99% with principal and interest payments due monthly. There is no accrued interest as of June 30, 2020. This note was assumed in the acquisition of Banner Midstream on March 27, 2020.
- (q) On July 26, 2018, Pinnacle Vac Service entered into a long-term secured note payable for \$54 for a service truck maturing September 9, 2024. The note is secured by the collateral purchased and accrued interest annually at 7.99% with principal and interest payments due monthly. There is no accrued interest as of June 30, 2020. This note was assumed in the acquisition of Banner Midstream on March 27, 2020.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

- (r) On November 5, 2018, Capstone Equipment Leasing entered into four long-term secured notes payable for \$140 maturing on November 5, 2021. The notes are secured by the collateral purchased and accrued interest annually at rates ranging between 6.89% and 7.87% with principal and interest payments due monthly. There is no accrued interest as of June 30, 2020. These notes were assumed in the acquisition of Banner Midstream on March 27, 2020.
- (s) On November 7, 2018, Capstone Equipment Leasing entered into a long-term secured note payable for \$301 maturing on November 22, 2023. The note is secured by the collateral purchased and accrued interest annually at 10.25% with principal and interest payments due monthly. There is no accrued interest as of June 30, 2020. This note was assumed in the acquisition of Banner Midstream on March 27, 2020.
- (t) Equipment loan assumed in the acquisition of Banner Midstream on March 27, 2020, and repaid with accrued interest in June 2020.
- (u) PPP loan received by Ecoark Holdings Inc. in April 2020. Loan bears interest at 1% per annum and matures April 2022.
- (v) PPP loan received by Pinnacle Frac Transport. in April 2020. Loan bears interest at 1% per annum and matures April 2022.

The following is a list of maturities as of June 30:

2021	\$ 1,658
2022	2,284
2023	380
2024	331
2025	236
	<u>\$ 4,889</u>

During the three months ended June 30, 2020, the Company received proceeds of \$1,869 in new long-term debt, repaid \$3,554 in existing long-term debt, and converted \$397 in existing long-term debt that resulted in a loss on conversion of \$443. In addition, the Company converted \$65 of accrued interest and paid \$333 in accrued interest during this period. The Company recognized a loss of \$146 on conversion of the accrued interest to common stock in the three months ended June 30, 2020.

NOTE 12: NOTES PAYABLE - RELATED PARTIES

Notes payable to related parties consisted of the following as of June 30, 2020 and March 31, 2020:

	June 30, 2020	March 31, 2020
Ecoark Holdings Board Member (a)	\$ 582	\$ 578
Ecoark Holdings Officers (b)	274	1,242
Banner Midstream Officers (c)	99	152
Ecoark Holdings – common ownership (d)	-	200
Total Notes Payable – Related Parties	<u>955</u>	<u>2,172</u>
Less: Current Portion of Notes Payable – Related Parties	(955)	(2,172)
Long-term debt, net of current portion	<u>\$ -</u>	<u>\$ -</u>

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

- (a) A board member advanced \$328 to the Company through March 31, 2020, under the terms of a note payable that bears 10% simple interest per annum, and the principal balance along with accrued interest is payable July 30, 2020 or upon demand. Interest expense on the note for the three months ended June 30, 2020 was \$8 and \$35 is accrued as of June 30, 2020. In addition, the Company assumed \$250 in notes entered into in March 2020 via the acquisition of Banner Midstream from the same board member at 15% interest. In addition, another board member advanced \$4 in the three months ended June 30, 2020 which is non-interest bearing and due on demand.
- (b) William B. Hoagland, Principal Financial Officer, advanced \$30 to the Company in May 2019 pursuant to a note with the same terms as the note with the board member. Randy May, CEO, advanced \$45 to the Company in August 2019 pursuant to a note with the same terms as the note with the board member. Interest expense on both of these notes was \$5. Both of these amounts along with the accrued interest was repaid during the year ended March 31, 2020. In addition, Randy May advanced \$1,242 in five separate notes to Banner Midstream and its subsidiaries prior to the acquisition by the Company. These amounts are due at various times through July 2020 and bear interest at 10-15% interest per annum. Accrued interest on these notes as of June 30, 2020 is \$24. \$968 of these notes were repaid in May 2020.
- (c) An officer of Banner Midstream who remains an officer of this subsidiary advanced \$152 in three separate notes to Banner Midstream and its subsidiaries prior to the acquisition by the Company. These amounts are due at various times through July 2020 and bear interest at 10-15% interest per annum. Accrued interest on these notes as of June 30, 2020 is \$9. \$55 of these notes were repaid in May 2020.
- (d) A company controlled by an officer of the Company advanced \$200 to Banner Midstream and its subsidiaries prior to the acquisition by the Company. These amounts were due April 15, 2020 and bears interest at 14% interest per annum. These notes were converted in May 2020.

During the three months ended June 30, 2020, the Company received proceeds of \$400 in notes payable – related parties, repaid \$1,042 in existing notes payable – related parties, and converted \$575 in existing notes payable – related parties that resulted in a loss on conversion of \$1,239. In addition, the Company converted \$15 of accrued interest during this period.

NOTE 13: STOCKHOLDERS' EQUITY (DEFICIT)

Ecoark Holdings Preferred Stock

On March 18, 2016, the Company created 5,000 shares of "blank check" preferred stock, par value \$0.001. On August 21, 2019 (the "Effective Date"), the Company and two accredited investors entered into a Securities Purchase Agreement pursuant to which the Company sold and issued to the investors an aggregate of 2 shares of Series B Convertible Preferred Stock, par value \$0.001 per share at a price of \$1,000 per share.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

Pursuant to the Securities Purchase Agreement, the Company issued to each investor a warrant (a "Warrant") to purchase a number of shares of common stock of the Company, par value \$0.001 per share ("Common Stock"), equal to the number of shares of Common Stock issuable upon conversion of the Series B Preferred Stock purchased by the investor. Each Warrant has an exercise price equal to \$0.51, subject to full ratchet price only anti-dilution provisions in accordance with the terms of the Warrants (the "Exercise Price") and is exercisable for five years after the Effective Date. In addition, if the market price of the Common Stock on the 11 month anniversary of the closing date of the offering is less than \$0.51, holder of the warrants shall be entitled to receive additional shares of common stock based on the number of shares of common stock that would have been issuable upon conversion of the Series B Convertible Preferred Stock had the initial conversion price been equal to the market price at such time (but not less than \$0.25) less the number of shares of common stock issued or issuable upon exercise of the Series B Convertible Preferred Stock based on the \$0.51 conversion price.

The Company also agreed to amend the current exercise price of the warrants that the investors received in connection with the Securities Purchase Agreements dated March 14, 2017 (the "March Warrants") and May 22, 2017 (the "May Warrants" and, together with the March Warrants, the "Existing Securities"). The Existing Securities have a current exercise price of \$0.59, which was amended from \$2.50 on July 12, 2019. The current exercise price for the Existing Securities shall be amended to reduce the exercise price to \$0.51 on August 21, 2019, subject to adjustment pursuant to the provisions of the Existing Securities.

Each share of the Series B Preferred Stock has a par value of \$0.001 per share and a stated value equal to \$1,000 (the "Stated Value") and is convertible at any time at the option of the holder into the number of shares of Common Stock determined by dividing the stated value by the conversion price of \$0.51, subject to certain limitations and adjustments (the "Conversion Price").

The Company received gross proceeds from the Private Placement of \$2,000, before deducting transaction costs, fees and expenses payable by the Company. The Company intends to use the net proceeds of the Private Placement to support the Company's general working capital requirements.

As required by the Securities Purchase Agreement, each director and officer of the Company has previously entered into a lock-up agreement with the Company whereby each director and officer has agreed that during the period commencing from the Effective Date until 120 days after the Effective Date, such director or officer will not offer, sell, contract to sell, hypothecate, pledge or otherwise dispose of or enter into any transaction to dispose of, or establish or increase a put position or liquidate or decrease a call position, with respect to any share of Common Stock or securities convertible, exchangeable or exercisable into, shares of Common Stock. On August 21, 2019, the Company issued 300 shares of common stock to advisors that assisted with the securities purchase agreement and exchange agreement

On October 15, 2019, nearly all the Series B Preferred Stock shares were converted into 3,761 shares of Common Stock.

On November 11, 2019, the Company and two accredited investors entered into a securities purchase agreement (the "Securities Purchase Agreement") pursuant to which the Company sold and issued to the investors an aggregate of 1 share of Series C Convertible Preferred Stock, par value \$0.001 per share (the "Series C Preferred Stock"), at a price of \$1,000 per share (the "Private Placement").

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

Pursuant to the Securities Purchase Agreement, the Company issued to each investor a warrant (a "Warrant") to purchase a number of shares of common stock of the Company, par value \$0.001 per share ("Common Stock"), equal to the number of shares of Common Stock issuable upon conversion of the Series C Preferred Stock purchased by the Investor. Each Warrant has an exercise price equal to \$0.73, subject to full ratchet price only anti-dilution provisions in accordance with the terms of the Warrants (the "Exercise Price") and is exercisable for five years after the Effective Date. In addition, if the market price of the Common Stock for the five trading days prior to July 22, 2020 is less than \$0.73, holder of the warrants shall be entitled to receive additional shares of common stock based on the number of shares of common stock that would have been issuable upon conversion of the Series C Convertible Preferred Stock had the initial conversion price been equal to the market price at such time (but not less than \$0.25) less the number of shares of common stock issued or issuable upon exercise of the Series C Convertible Preferred Stock based on the \$0.73 conversion price.

Each share of the Series C Preferred Stock has a par value of \$0.001 per share and a stated value equal to \$1,000 (the "Stated Value") and is convertible at any time at the option of the holder into the number of shares of Common Stock determined by dividing the stated value by the conversion price of \$0.73, subject to certain limitations and adjustments (the "Conversion Price").

The Company received gross proceeds from the Private Placement of \$1,000. The Company intends to use the net proceeds of the Private Placement to support the Company's general working capital requirements.

As required by the Securities Purchase Agreement, each director and officer of the Company has previously entered into a lock-up agreement with the Company whereby each director and officer has agreed that during the period commencing from the Effective Date until 120 days after the Effective Date, such director or officer will not offer, sell, contract to sell, hypothecate, pledge or otherwise dispose of or enter into any transaction to dispose of, or establish or increase a put position or liquidate or decrease a call position, with respect to any share of Common Stock or securities convertible, exchangeable or exercisable into, shares of Common Stock.

In April 2020, the remaining shares of preferred stock in these transactions were converted into 1,540 shares of common stock.

Ecoark Holdings Common Stock

The Company has 100,000 shares of common stock, par value \$0.001 which were authorized on March 18, 2016. On March 31, 2020 this amount was increased to 200,000, par value \$0.001.

On May 31, 2019, the Company acquired Trend Discovery Holdings, Inc. for 5,500 shares of common stock. The value of this transaction was \$3,237.

In the three months ended June 30, 2020, the Company issued 1,540 shares of common stock in April and May 2020 to convert the remaining shares of preferred B and C shares; 7,657 shares of common stock in the exercise of warrants; 443 shares in the exercise of stock options; 466 shares of common stock in the conversion of accounts payable and accrued expenses; and 2,622 shares of common stock in the conversion of long-term debt, notes payable – related parties and accrued interest.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

As of June 30, 2020, 98,604 common shares were issued and 98,019 common shares were outstanding, net of 585 treasury shares. As of March 31, 2020, 85,876 common shares were issued and 85,291 common shares were outstanding, net of 585 treasury shares.

Share-based Compensation

Share-based compensation expense is included in selling, general and administrative expense in the condensed consolidated statements of operations as follows:

	2013				
	Incentive Stock	2017 Omnibus	Non-Qualified	Common Stock	Total
	Plan	Incentive Plan	Stock Options		
Three months ended June 30, 2020					
Directors	\$ -	\$ 75	\$ -	\$ -	\$ 75
Employees	-	24	878	-	902
Services	-	21	116	-	137
	<u>\$ -</u>	<u>\$ 120</u>	<u>\$ 994</u>	<u>\$ -</u>	<u>\$ 1,114</u>
Three months ended June 30, 2019					
Directors	\$ -	\$ 100	\$ -	\$ -	\$ 100
Employees	-	101	306	-	407
Amortization of services cost	-	75	-	-	75
	<u>\$ -</u>	<u>\$ 276</u>	<u>\$ 306</u>	<u>\$ -</u>	<u>\$ 582</u>

NOTE 14: COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We are presently involved in the following in Arkansas and Florida. To the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties or businesses are subject, which would reasonably be likely to have a material adverse effect on the Company.

- On August 1, 2018, Ecoark Holdings, Inc. and Zest Labs, Inc. filed a complaint against Walmart Inc. in the United States District Court for the Eastern District of Arkansas, Western Division. The complaint includes claims for violation of the Arkansas Trade Secrets Act, violation of the Federal Defend Trade Secrets Act, breach of contract, unfair competition, unjust enrichment, breach of the covenant of good faith and fair dealing, conversion and fraud. Ecoark Holdings and Zest Labs are seeking monetary damages and other related relief to the extent it is deemed proper by the court. The Company does not believe that expenses incurred in pursuing the complaint have had a material effect on the Company's net income or financial condition for the fiscal year ended March 31, 2020 or any individual fiscal quarter. On October 22, 2018, the Court issued an order initially setting a trial date of June 1, 2020, which has been delayed due to COVID-19.
- On December 12, 2018, a complaint was filed against the Company in the Twelfth Judicial Circuit in Sarasota County, Florida by certain investors who invested in the Company before it was public. The complaint alleges that the investment advisors who solicited the investors to invest into the Company made omissions and misrepresentations concerning the Company and the shares. The Company filed a motion to dismiss the complaint which is pending.

In the opinion of management, there are no legal matters involving us that would have a material adverse effect upon the Company's financial condition, results of operations or cash flows.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

NOTE 15: CONCENTRATIONS

Three and two customers, both in the commodity segment accounted for more than 10% of the accounts receivable balance at June 30, 2020 and March 31, 2020 for a total of 81% and 63% of accounts receivable. In addition, two customers represent approximately 81% and 32% of total revenues for the Company for the three months ended June 30, 2020 (both over 10% individually).

Supplier Concentration. Certain of the raw materials, components and equipment used by the Company in the manufacture of its products are available from single-sourced vendors. Shortages could occur in these essential materials and components due to an interruption of supply or increased demand in the industry. If the Company were unable to procure certain materials, components or equipment at acceptable prices, it would be required to reduce its manufacturing operations, which could have a material adverse effect on its results of operations. In addition, the Company may make prepayments to certain suppliers or enter into minimum volume commitment agreements. Should these suppliers be unable to deliver on their obligations or experience financial difficulty, the Company may not be able to recover these prepayments.

The Company occasionally maintains cash balances in excess of the FDIC insured limit. The Company does not consider this risk to be material.

NOTE 16: ACQUISITIONS

Trend Discovery Holdings, Inc.

On May 31, 2019, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Trend Discovery Holdings Inc., a Delaware corporation ("Trend Holdings") for the Company to acquire 100% of Trend Holdings pursuant to a merger of Trend Holdings with and into the Company (the "Merger"). The Merger was completed as agreed in the Merger Agreement, the Company is the surviving entity in the Merger and the separate corporate existence of Trend Holdings has ceased to exist. Pursuant to the Merger, each of the 1,000 issued and outstanding shares of common stock of Trend Holdings was converted into 5,500 shares of the Company's common stock. No cash was paid relating to the acquisition.

The Company acquired the assets and liabilities noted below in exchange for the 5,500 shares and accounted for the acquisition in accordance with ASC 805. Based on the fair values at the effective date of acquisition the purchase price was recorded as follows:

Cash	\$	3
Receivables		10
Other assets		1
Goodwill		3,223
	\$	<u>3,237</u>

The Acquisition has been accounted for under the acquisition method of accounting. Under the acquisition method of accounting, the total acquisition consideration price was allocated to the assets acquired and liabilities assumed based on their preliminary estimated fair values. The fair value measurements utilize estimates based on key assumptions of the Acquisition, and historical and current market data. The excess of the purchase price over the total of estimated fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed is recognized as goodwill. In order to ultimately determine the fair values of tangible and intangible assets acquired and liabilities assumed for Trend Holdings, we have engaged a third-party independent valuation specialist. The Company has recognized the purchase price allocations based on historical inputs and data as of May 31, 2019.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

The allocation of the purchase price is based on the best information available, amongst other things: (i) the valuation of the fair values and useful lives of tangible assets acquired; (ii) valuations and useful lives for intangible assets; (iii) valuation of accounts payable and accrued expenses; and (iv) the fair value of non-cash consideration.

The Company had an independent valuation consultant confirm the valuation of Trend Holdings and the allocation of the intangible assets.

The goodwill is not expected to be deductible for tax purposes.

Banner Midstream

On March 27, 2020, the Company and Banner Energy, a Nevada corporation ("Banner Parent"), entered into a Stock Purchase and Sale Agreement (the "Banner Purchase Agreement") to acquire Banner Midstream Corp., a Delaware corporation ("Banner Midstream"). Pursuant to the acquisition, Banner Midstream became a wholly-owned subsidiary of the Company and Banner Parent received shares of the Company's common stock in exchange for all of the issued and outstanding shares of Banner Midstream.

Banner Midstream has four operating subsidiaries: Pinnacle Frac Transport LLC ("Pinnacle Frac"), Capstone Equipment Leasing LLC ("Capstone"), White River Holdings Corp. ("White River"), and Shamrock Upstream Energy LLC ("Shamrock"). Pinnacle Frac provides transportation of frac sand and logistics services to major hydraulic fracturing and drilling operations. Capstone procures and finances equipment to oilfield transportation service contractors. These two operating subsidiaries of Banner Midstream are revenue producing entities. White River and Shamrock are engaged in oil and gas exploration, production, and drilling operations on over 10,000 cumulative acres of active mineral leases in Texas, Louisiana, and Mississippi.

The Company issued 8,945 shares of common stock (which Banner Parent issued to certain of its noteholders) and assumed \$11,774 in debt and lease liabilities of Banner Midstream. The Company's Chief Executive Officer and another director recused themselves from all board discussions on the acquisition of Banner Midstream as they are stockholders and/or noteholders of Banner Midstream. The transaction was approved by all of the disinterested members of the Board of Directors of the Company. The Chairman and CEO of Banner Parent is a former officer of the Company and is currently the Principal Accounting Officer of the Company and Chief Executive Officer and President of Banner Midstream.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

The Company acquired the assets and liabilities noted below in exchange for the 8,945 shares and accounted for the acquisition in accordance with ASC 805. Based on the fair values at the effective date of acquisition the purchase price was recorded as follows (subject to adjustment):

Cash (including restricted cash)	\$ 205
Accounts receivables	110
Prepaid expenses and other current assets	585
Machinery and equipment	3,426
Oil and gas properties	6,135
Customer relationships	2,100
Trade name	250
Right of use assets	731
Assets of discontinued operations	249
Goodwill	7,002
Intercompany advance	(1,000)
Accounts payable	(268)
Accrued liabilities	(2,362)
Due to prior owners	(2,362)
Lease liabilities	(732)
Liabilities of discontinued operations	(228)
Asset retirement obligation	(295)
Notes payable – related parties	(1,844)
Long-term debt	(6,836)
	<u>\$ 4,866</u>

The consideration paid for Banner Midstream was in the form of 8,945 shares of stock at a fair value of \$0.544 per share or \$4,866. The Company had an independent valuation consultant perform a valuation of Banner Midstream.

The Acquisition has been accounted for under the acquisition method of accounting. Under the acquisition method of accounting, the total acquisition consideration price was allocated to the assets acquired and liabilities assumed based on their preliminary estimated fair values. The fair value measurements utilize estimates based on key assumptions of the Acquisition, and historical and current market data. The excess of the purchase price over the total of the estimated fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed is recognized as goodwill. In order to determine the fair values of tangible and intangible assets acquired and liabilities assumed for Banner Midstream, we have engaged a third-party independent valuation specialist. The Company has estimated the preliminary purchase price allocations based on historical inputs and data as of March 27, 2020. The preliminary allocation of the purchase price is based on the best information available and is pending, amongst other things: (i) the finalization of the valuation of the fair values and useful lives of tangible assets acquired; (ii) the finalization of the valuations and useful lives for the reserves and intangible assets acquired; (iii) finalization of the valuation of accounts payable and accrued expenses; and (iv) finalization of the fair value of non-cash consideration.

During the measurement period (which is the period required to obtain all necessary information that existed at the acquisition date, or to conclude that such information is unavailable, not to exceed one year), additional assets or liabilities may be recognized, or there could be changes to the amounts of assets or liabilities previously recognized on a preliminary basis, if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of these assets or liabilities as of that date.

The goodwill is not expected to be deductible for tax purposes.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

The following table shows the unaudited pro-forma results for the three months ended June 30, 2019, as if the acquisitions had occurred on April 1, 2019. These unaudited pro forma results of operations are based on the historical financial statements and related notes of Trend Holdings, Banner Midstream (which includes White River and Shamrock) and the Company.

	Three Months Ended June 30, 2019 <u>(Unaudited)</u>
Revenues	\$ 4,894
Net loss	\$ (2,270)
Net loss per share	\$ (0.04)

Energy Assets

On June 11, 2020, the Company acquired certain energy assets from SR Acquisition I, LLC for \$1 as part of the ongoing bankruptcy reorganization of Sanchez Energy Corporation. The transaction includes the transfer of 262 total wells in Mississippi and Louisiana, approximately 9,000 acres of active mineral leases, and drilling production materials and equipment. The 262 total wells include 57 active producing wells, 19 active disposal wells, 136 shut-in with future utility wells, and 50 shut-in pending plugging wells. Included in the assignment are 4 wells in the Tuscaloosa Marine Shale formation.

On June 18, 2020, the Company acquired certain energy assets from SN TMS, LLC for \$1 as part of the ongoing bankruptcy reorganization of Sanchez Energy Corporation. The transaction includes the transfer of wells, active mineral leases, and drilling production materials and equipment.

NOTE 17: FAIR VALUE MEASUREMENTS

The Company measures and discloses the estimated fair value of financial assets and liabilities using the fair value hierarchy prescribed by U.S. generally accepted accounting principles. The fair value hierarchy has three levels, which are based on reliable available inputs of observable data. The hierarchy requires the use of observable market data when available. The three-level hierarchy is defined as follows:

Level 1 – quoted prices for identical instruments in active markets;

Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations in which significant inputs and significant value drivers are observable in active markets; and

Level 3 – fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

Financial instruments consist principally of cash, accounts receivable and other receivables, accounts payable and accrued liabilities, notes payable, and amounts due to related parties. The fair value of cash is determined based on Level 1 inputs. There were no transfers into or out of "Level 3" during the three months ended June 30, 2020 and 2019. The recorded values of all other financial instruments approximate their current fair values because of their nature and respective relatively short maturity dates or durations.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The Company records the fair value of the of the warrant derivative liabilities disclosed in accordance with ASC 815, *Derivatives and Hedging*. The fair values of the derivatives were calculated using the Black-Scholes Model. The fair value of the derivative liabilities is revalued on each balance sheet date with corresponding gains and losses recorded in other income (expense) in the consolidated statement of operations.

The following table presents assets and liabilities that are measured and recognized at fair value on a recurring basis as of:

June 30, 2020	Level 1	Level 2	Level 3	Total Gains and (Losses)
Warrant derivative liabilities	-	-	\$ 19,062	\$ (17,393)
March 31, 2020				
Warrant derivative liabilities	-	-	\$ 2,775	\$ (369)

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

NOTE 18: SEGMENT INFORMATION

The Company follows the provisions of ASC 280-10 *Disclosures about Segments of an Enterprise and Related Information*. This standard requires that companies disclose operating segments based on the manner in which management disaggregates the Company in making operating decisions. As of June 30, 2020, and for the three months ended June 30, 2020, the Company operated in three segments. The segments are Financial Services (Trend Holdings), Technology (Zest Labs (which includes the operations of 440IoT Inc.)), and Commodities (Banner Midstream). As of June 30, 2019 and for the three months ended June 30, 2019, the Company operated in two segments only (Technology and Financial).

Three Months Ended June 30, 2020	Commodities	Financial	Technology	Total
Segmented operating revenues	\$ 2,223	\$ 90	\$ -	\$ 2,313
Cost of revenues	1,093	-	-	1,093
Gross profit	1,130	90	-	1,220
Total operating expenses net of depreciation, amortization, depletion and accretion	2,066	129	919	3,114
Depreciation, amortization, depletion and accretion	238	-	63	301
Other (income) expense	13,738	875	4,373	18,986
Loss from continuing operations	<u>\$ (14,912)</u>	<u>\$ (914)</u>	<u>\$ (5,355)</u>	<u>\$ (21,181)</u>

Segmented assets as of June 30, 2020				
Property and equipment, net	\$ 3,219	\$ -	\$ 478	\$ 3,697
Oil and Gas Properties	\$ 6,001	\$ -	\$ -	\$ 6,001
Intangible assets, net	\$ 9,281	\$ 3,223	\$ -	\$ 12,504
Capital expenditures	\$ 50	\$ -	\$ -	\$ 50

Three Months Ended June 30, 2019	Commodities	Financial	Technology	Total
Segmented operating revenues	\$ -	\$ 23	\$ 12	\$ 35
Cost of revenues	-	-	45	45
Gross profit	-	23	(33)	(10)
Total operating expenses net of depreciation, amortization, and impairment	-	139	2,308	2,447
Depreciation and amortization	-	-	77	77
Other (income) expense	-	(148)	(738)	(886)
Income (loss) from continuing operations	<u>\$ -</u>	<u>\$ 32</u>	<u>\$ (1,680)</u>	<u>\$ (1,648)</u>

Segmented assets as of June 30, 2019				
Property and equipment, net	\$ -	\$ -	\$ 747	\$ 747
Oil and Gas Properties	\$ -	\$ -	\$ -	\$ -
Intangible assets, net	\$ -	\$ 3,223	\$ -	\$ 3,223
Capital expenditures	\$ -	\$ -	\$ -	\$ -

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

NOTE 19: LEASES

The Company has adopted ASU No. 2016-02, *Leases (Topic 842)*, as of April 1, 2019 and will account for their leases in terms of the right of use assets and offsetting lease liability obligations under this pronouncement. The Company had had only short-term leases up through the acquisition of Banner Midstream. The Company acquired a right of use asset and lease liability of \$731 and \$732, respectively on March 27, 2020. The Company recorded these amounts at present value, in accordance with the standard, using discount rates ranging between 2.5% and 6.8%. The right of use asset is composed of the sum of all lease payments, at present value, and is amortized straight line over the life of the expected lease term. For the expected term of the lease the Company used the initial terms ranging between 42 and 60 months. Upon the election by the Company to extend the lease for additional years, that election will be treated as a lease modification and the lease will be reviewed for remeasurement. This lease will be treated as an operating lease under the new standard.

The Company has chosen to implement this standard using the modified retrospective model approach with a cumulative-effect adjustment, which does not require the Company to adjust the comparative periods presented when transitioning to the new guidance. The Company has also elected to utilize the transition related practical expedients permitted by the new standard. The modified retrospective approach provides a method for recording existing leases at adoption and in comparative periods that approximates the results of a modified retrospective approach. Adoption of the new standard did not result in an adjustment to retained earnings for the Company.

The Company's portfolio of leases contains both finance and operating leases that relate primarily to the commodity segment. As of June 30, 2020, the value of the unamortized lease right of use asset is \$672, of which \$550 is from financing leases (through maturity at June 30, 2024) and \$122 is from operating leases (through maturity at September 30, 2022). As of June 30, 2020, the Company's lease liability was \$677, of which \$539 is from financing leases and \$138 is from operating leases.

Maturity of lease liability for the operating leases for the period ended June 30,

2021	\$	82
2022	\$	48
2023	\$	12
2024	\$	-
Imputed interest	\$	(4)
Total lease liability	\$	138

Disclosed as:

Current portion	\$	79
Non-current portion	\$	59

Maturity of lease liability for the financing leases for the period ended June 30,

2021	\$	151
2022	\$	151
2023	\$	148
2024	\$	119
Imputed interest	\$	(30)
Total lease liability	\$	539

Disclosed as:

Current portion	\$	138
Non-current portion	\$	401

Amortization of the right of use asset for the period ended June 30,

2021	\$	212
2022	\$	185
2023	\$	156
2024	\$	119
2025	\$	-
Total	\$	672

ECOARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLAR AMOUNTS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)
JUNE 30, 2020

Total Lease Cost

Individual components of the total lease cost incurred by the Company is as follows:

	<u>Three months ended June 30, 2020</u>
Operating lease expense	\$ 20
Finance lease expense	
Depreciation of capitalized finance lease assets	35
Interest expense on finance lease liabilities	<u>4</u>
Total lease cost	<u>\$ 59</u>

NOTE 20: ASSET RETIREMENT OBLIGATIONS

In conjunction with the approval permitting the Company to resume drilling in the existing fields, the Company has recorded an asset retirement obligation based upon the plan submitted in connection with the permit. The following table summarizes activity in the Company's ARO for the periods ended June 30, 2020 and March 31, 2020:

	<u>June 30, 2020</u>	<u>March 31, 2020</u>
Balance, beginning of period	\$ 295	\$ -
Accretion expense	7	-
ARO liability acquired in Banner Midstream acquisition	-	295
Reclamation obligations settled	-	-
Additions and changes in estimates	-	-
Balance, end of period	<u>\$ 302</u>	<u>\$ 295</u>

NOTE 21: SUBSEQUENT EVENTS

Subsequent to June 30, 2020, the Company had the following transactions:

Between July 29 and August 6, 2020, 1,441 warrants were exercised for \$1,585 in cash.

The Company issued on August 4, 2020 430 common shares of stock to convert long-term debt and accrued interest at \$1.10 per share. This transaction resulted in a loss on conversion of \$894, and issued 68 shares to convert \$50 in amounts due to prior owners at \$0.73 per share resulting in a loss on conversion of \$197.

The Company issued 34 shares of common stock in a cashless warrant exercise on July 28, 2020 and 2 shares of common stock in a cashless option exercise on July 6, 2020.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including: any projections of earnings, revenues or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new products, services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words “may,” “will,” “estimate,” “intend,” “continue,” “believe,” “expect,” “plan” or “anticipate” and other similar words. Such forward-looking statements may be contained in the sections “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Notes to Condensed Consolidated Financial Statements (Unaudited)” among other places in this Form 10-Q.

Dollar amounts and number of shares below are expressed in thousands, except per share amounts.

OVERVIEW

Ecoark Holdings is a diversified holding company incorporated in the state of Nevada on November 19, 2007. Ecoark Holdings has four wholly-owned subsidiaries: Ecoark, Inc. (“Ecoark”), a Delaware corporation which is the parent of Zest Labs, Inc. (“Zest Labs”), 440IoT Inc., a Nevada corporation (“440IoT”), Banner Midstream Corp., a Delaware corporation (“Banner Midstream”), and Trend Discovery Holdings Inc., a Delaware corporation (“Trend Holdings”).

Through its subsidiaries, the Company is engaged in three separate and distinct business segments: (i) technology; (ii) commodities; and (iii) financial.

- Zest Labs offers the Zest Fresh solution, a breakthrough approach to quality management of fresh food, is specifically designed to help substantially reduce the \$161 billion amount of food loss the U.S. experiences each year.
- Banner Midstream is engaged in oil and gas exploration, production and drilling operations on over 10,000 cumulative acres of active mineral leases in Texas, Louisiana, and Mississippi. Banner Midstream also provides transportation and logistics services and procures and finances equipment to oilfield transportation service contractors.
- Trend Holding's primary asset is Trend Discovery Capital Management. Trend Discovery Capital Management provides services and collects fees from entities. Trend Holdings invests in a select number of early stage startups each year as part of the fund’s Venture Capital strategy.
- 440IoT is a cloud and mobile software developer based near Boston, Massachusetts and is a software development and information solutions provider for cloud, mobile, and IoT (Internet of Things) applications.

On May 31, 2019, the Company a Delaware corporation (“Trend Holdings”), pursuant to which the Trend Holdings merged with and into the Company (the “Merger”). The Merger was consummated on the May 31, 2019.

Pursuant to the Merger, the Company acquired Trend Holding's primary asset, Trend Discovery Capital Management, LLC (“Trend Capital Management”). Trend Capital Management provides services and collects fees from entities including Trend Discovery LP (“Trend LP”) and Trend Discovery SPV I (“Trend SPV”). Trend Discovery and Trend SPV invest in securities. Trend Capital Management does not invest in securities or have any role in the purchase of securities by Trend LP and Trend SPV.

In the near-term, Trend LP's performance will be driven by its investment in Volans-i, a fully autonomous vertical takeoff and landing drone delivery platform ("Volans"). Trend LP currently owns approximately 1% of Volans and has participation rights to future financings to maintain its ownership at 1% indefinitely. More information can be found at flyvoly.com.

Our principal executive offices are located at 5899 Preston Road #505, Frisco, Texas 75034, and our telephone number is (479) 259-2977. Our website address is <http://ecoarkusa.com/>. Our website and the information contained on, or that can be accessed through, our website will not be deemed to be incorporated by reference in and are not considered part of this report.

On March 27, 2020, the Company and Banner Energy, Inc., a Nevada corporation ("Banner Parent"), entered into a Stock Purchase and Sale Agreement (the "Banner Purchase Agreement") to acquire Banner Midstream Corp., a Delaware corporation ("Banner Midstream"). Pursuant to the acquisition, Banner Midstream became a wholly-owned subsidiary of the Company.

Banner Midstream has four operating subsidiaries: Pinnacle Frac Transport LLC ("Pinnacle Frac"), Capstone Equipment Leasing LLC ("Capstone"), White River Holdings Corp. ("White River"), and Shamrock Upstream Energy LLC ("Shamrock"). Pinnacle Frac provides transportation of frac sand and logistics services to major hydraulic fracturing and drilling operations. Capstone procures and finances equipment to oilfield transportation service contractors. These two operating subsidiaries of Banner Midstream are revenue producing entities.

White River and Shamrock are engaged in oil and gas exploration, production, and drilling operations on over 10,000 cumulative acres of active mineral leases in Texas, Louisiana, and Mississippi.

Critical Accounting Policies, Estimates and Assumptions

In reading and understanding the Company's discussion of results of operations, liquidity and capital resources, one should be aware of key policies, judgments and assumptions that are important to the portrayal of financial conditions and results. The Company has recently entered into the commodity business through its acquisition of Banner Midstream. The Company has included several new accounting policies related to this segment of this business.

Our revenues from periods prior to fiscal 2020 were generated principally from the sale of hardware. In the three months ended June 30, 2020, revenues were principally from professional services from our financing segment as well as oil and gas services related to our transportation and logistics service business contained in Banner Midstream.

A significant percentage of our operating expenses results from non-cash share-based compensation, which is typical of technology companies as well as costs related to our exploration and driver costs.

For the share-based compensation, we have granted shares, options and warrants to employees, consultants and investors as incentives to generate success for the Company instead of making cash payments. The accounting calculations for this type of compensation can be complex and are derived from models like the Black-Scholes option pricing model that requires judgment in making assumptions and developing estimates.

We have also invested heavily in research and development expenses. Those investments have required cash payments principally for the development of our software solutions and the testing of those solutions in our labs and on some customer projects. We have not capitalized any of that development effort, so there are no research and development costs to amortize in the future.

We have been conservative in our treatment of income taxes. Our historical losses have resulted in net operating losses for tax purposes. Applying accounting policies, we have recorded a "valuation allowance" against both current and future tax benefits of the losses. We will not recognize any benefits until such time as we are assured that we will generate taxable income.

RESULTS OF OPERATIONS

Overview

The discussion below addresses the Company's operations and liquidity which were impacted by the acquisition of Trend Holdings in May 2019 and Banner Midstream in March 2020 as described above.

Results of Operations for the Three Months Ended June 30, 2020 and 2019

Revenues

Revenues for the three months ended June 30, 2020 were \$2,313 as compared to \$35 for the three months ended June 30, 2019. Revenues were comprised of \$90 and \$25 in the financing segment; \$0 and \$10 in the technology segment; and \$2,223 and \$0 in the commodity segment for the three months ended June 30, 2020 and 2019, respectively.

Cost of Revenues and Gross Profit

Cost of revenues for the three months ended June 30, 2020 was \$1,093 as compared to \$45 for the three months ended June 30, 2019. Cost of Revenues were comprised of \$0 and \$0 in the financing segment; \$0 and \$45 in the technology segment; and \$1,093 and \$0 in the commodity segment for the three months ended June 30, 2020 and 2019, respectively. Gross margins increased from (28%) for the three months ended June 30, 2019 to 52% for the three months ended June 30, 2020 due to lower costs involved with executing the projects.

Operating Expenses

Operating expenses for the three months ended June 30, 2020 were \$3,415 as compared to \$2,524 for the three months ended June 30, 2019. Operating expenses were comprised of \$129 and \$139 in the financing segment; \$982 and \$2,385 in the technology segment; and \$2,304 and \$0 in the commodity segment for the three months ended June 30, 2020 and 2019, respectively. The \$891 increase, or approximately 35%, was due principally to changes in operations for Zest Labs in their selling expenses, offset by wages and consulting fees for Banner Midstream as this was acquired in March 2020 and the depreciation, depletion, amortization and accretion for Banner Midstream in 2020.

Selling, General and Administrative

Selling, general and administrative expenses for the three months ended June 30, 2020 were \$2,884 compared with \$1,550 for the three months ended June 30, 2019. Cost reduction initiatives were focused on salary related and professional fees for the Technology segment offset by the costs incurred for Banner Midstream as this was acquired in March 2020. In addition, the modification of stock options contributed to this increase in 2020.

Depreciation, Amortization, Depletion and Accretion

Depreciation, amortization, depletion and accretion expenses for the three months ended June 30, 2020 were \$301 compared to \$77 for the three months ended June 30, 2019. Depreciation, amortization, depletion and accretion expenses were comprised of \$0 and \$0 in the financing segment; \$63 and \$77 in the technology segment; and \$238 and \$0 in the commodity segment for the three months ended June 30, 2020 and 2019, respectively. The \$240 increase resulted primarily from the acquisition of Banner Midstream and the depletion and accretion is the result of the oil and gas properties maintained by Banner Midstream. The technology and financing segment do not have depletion or accretion.

Research and Development

Research and development expense decreased 74% to \$230 in the three months ended June 30, 2020 compared with \$897 in the three months ended June 30, 2019. The \$667 reduction in costs related primarily to the maturing of development of the Zest Labs freshness solutions.

Other Income and Expense

Change in fair value of derivative liabilities for the three months ended June 30, 2020 was a loss of (\$17,393) as compared to a gain of \$945 for the three months ended June 30, 2019. The \$18,338 decrease was a result of the volatility in the stock price in the three months ended June 30, 2020 compared to the three months ended June 30, 2019. In addition, there was a gain in June 30, 2020 from the extinguishment of the derivative liabilities that when converted to shares of common stock of \$1,630. In the period ended June 30, 2020, there was a loss on the conversion of debt and other liabilities to shares of common stock of \$2,194 and a loss on the sale of fixed assets and abandonment of oil and gas properties of \$105 and \$83, respectively.

Interest expense, net of interest income, for the three months ended June 30, 2020 was \$841 as compared to \$59 for the three months ended June 30, 2019. The increase was the result of the interest incurred on the debt assumed in the Banner Midstream acquisition as well as the value related to the granting of warrants for interest of \$524 and the amortization of debt discount of \$149.

Net Loss

Net loss from continuing operations for the three months ended June 30, 2020 was \$21,181 as compared to \$1,648 for the three months ended June 30, 2019. The \$19,533 decrease in net loss was primarily due to the changes in the fair value of the derivative liability and the losses incurred on the conversion of debt to equity, offset by the gain on the exchange of warrants for common stock described herein. The net income (loss) was comprised of (\$914) and \$32 in the financing segment; (\$5,355) and (\$1,680) in the technology segment; and net loss of (\$14,912) and \$0 in the commodity segment for the three months ended June 30, 2020 and 2019, respectively.

Liquidity and Capital Resources

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. Significant factors in the management of liquidity are funds generated by operations, levels of accounts receivable and accounts payable and capital expenditures.

To date we have financed our operations through sales of common stock and the issuance of debt.

In addition to these transactions, the Company in the period April 1, 2020 through June 30, 2020, entered into the following transactions:

- (a) On April 16, 2020, the Company received \$386 in Payroll Protection Program funding related to Ecoark Holdings, and the Company also received on April 13, 2020, \$1,482 in Payroll Protection Program funds for Pinnacle Frac LLC, a subsidiary of Banner Midstream.
- (b) On May 1, 2020, an institutional investor elected to convert its remaining shares of Series B Preferred shares into 161 common shares.
- (c) On April 1 and May 5, 2020, two institutional investors elected to convert their 1 Series C Preferred share into 1,379 common shares.
- (d) On May 10, 2020, the Company received approximately \$6,294 from accredited institutional investors holding 1,379 warrants issued on November 13, 2019 with an exercise price of \$0.73 and holding 5,882 warrants with an exercise price of \$0.90. The Company agreed to issue to these investors an additional number of warrants as a condition of their agreement to exercise the November 2019 warrants.

The following unaudited pro forma consolidated balance sheet as of June 30, 2020 is presented to reflect certain equity transactions that occurred in July and August 2020 as if they had occurred as of June 30, 2020:

	<u>June 30, 2020</u> <u>(as Reported)</u>	<u>Pro Forma</u> <u>Adjustment</u>	<u>June 30, 2020</u> <u>(as Adjusted)</u>
ASSETS:			
Current assets:			
Cash	\$1,793 (1)	\$ 1,585	\$ 3,378
Accounts receivable	224		224
Other current assets	2,681		2,681
Total current assets	<u>4,698</u>	<u>1,585</u>	<u>6,283</u>
Other assets	<u>23,130</u>		<u>23,130</u>
Total assets	<u>\$ 27,828</u>	<u>\$ 1,585</u>	<u>\$ 29,413</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable and accrued expenses	\$ 3,141		\$ 3,141
Derivative liabilities	19,062 (1)	(3,749)	15,313
Current portion of long-term debt, notes payable and lease liabilities	2,830		2,830
Other current liabilities	1,478		1,478
Total current liabilities	<u>26,511</u>	<u>(3,749)</u>	<u>22,762</u>
Non-current liabilities	<u>3,993</u>		<u>3,993</u>
Total liabilities	<u>30,504</u>	<u>(3,749)</u>	<u>26,755</u>
Stockholders' Equity (Deficit)			
Common stock	99 (1)	1	100
Additional paid-in capital	148,100 (1)	1,584	149,684
Accumulated deficit	(149,204) (1)	3,749	(145,455)
Treasury stock	(1,671)		(1,671)
Total stockholders' equity (deficit)	<u>(2,676)</u>	<u>5,334</u>	<u>2,658</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 27,828</u>	<u>\$ 1,585</u>	<u>\$ 29,413</u>

(1) This represents the issuance of 1,441 shares of common stock in the exercise of warrants at an exercise price of \$1.10 per share. These warrants contained an embedded derivative liability that had a value at June 30, 2020 of \$3,749. This derivative liability would be eliminated upon the exercise of the warrants and reflected in the statement of operations, and as a result will decrease the accumulated deficit.

At June 30, 2020 we had cash (including restricted cash) of \$1,793, and a working capital deficit of \$21,813 and \$16,689 as of June 30, 2020 and March 31, 2020, respectively. The increase in the working capital deficit is the result of the change in the fair value of the derivative liabilities offset by the repayment and conversion of debt and liabilities to shares of common stock. These liabilities were assumed in the Banner Midstream in March 2020. The Company is dependent upon raising additional capital from future financing transactions and had raised approximately \$1,585 in a warrant exercise in the second quarter of fiscal 2021. The revenue generating operations of Banner Midstream will continue to improve the liquidity of the Company moving forward. The COVID-19 pandemic has had minimal impact on our operations to date, but the effect of this pandemic on the capital markets may affect some of our operations.

Net cash used in operating activities was \$2,837 for the three months ended June 30, 2020, as compared to net cash used in operating activities of \$976 for the three months ended June 30, 2019. Cash used in operating activities is related to the Company's net loss partially offset by non-cash expenses, including share-based compensation and the change in the fair value of the derivative liability and net losses incurred in the conversion of debt and liabilities to shares of common stock as well as losses on the sale of fixed assets and abandonment of oil and gas properties.

Net cash used in investing activities was \$209 for the three months ended June 30, 2020, as compared to \$8 net cash provided for the three months ended June 30, 2019. Net cash used in investing activities in 2020 related to the advancement of a note receivable of \$200, and the net purchases of fixed assets and oil and gas properties.

Net cash provided by financing activities for the three months ended June 30, 2020 was \$4,433 that included \$7,026 (net of fees) raised via issuance of stock for the exercise of warrants and stock options, offset by proceeds and repayments of long-term debt and notes payable – related parties of \$2,593. This compared with the three months ended June 30, 2019 amounts of \$758 provided by financing that included \$460 provided through the credit facility.

Contractual Obligations

Our contractual obligations are included in our Notes to the Unaudited Condensed Consolidated Financial Statements. To the extent that funds generated from our operations, together with our existing capital resources, are insufficient to meet future requirements, we will be required to obtain additional funds through equity or debt financings. No assurance can be given that any additional financing will be made available to us or will be available on acceptable terms should such a need arise.

Off-Balance Sheet Arrangements

As June 30, 2020 and March 31, 2020, we had no off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, as of June 30, 2020, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's current management, including the Company's Chief Executive Officer and Principal Financial Officer (Principal Financial and Accounting Officer), who concluded that as of the end of the period covered by this report the Company's disclosure controls and procedures were not effective given the identification of one material weakness in controls.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Principal Financial Officer (Principal Financial and Accounting Officer), as appropriate, to allow timely decisions regarding required disclosure.

We have advised our audit committee of one material weaknesses in internal control. This weakness relates to inadequate segregation of duties consistent with control objectives. In an effort to reduce expenses, the Company reduced its accounting and administrative staff at the parent company level to the extent that achieving desired control objectives were deemed at risk.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in litigation relating to claims arising out of our operations in the normal course of business. We are not presently involved in any pending legal proceeding or litigation other than a suit filed by the Company in Arkansas on August 1, 2018, a suit filed against us in California on June 20, 2018, and a suit we filed in Maryland to collect a receivable from a customer. To the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties or businesses are subject, which would reasonably be likely to have a material adverse effect on the Company.

We are presently involved in the following in Arkansas and Florida. To the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties or businesses are subject, which would reasonably be likely to have a material adverse effect on the Company.

- On August 1, 2018, Ecoark Holdings, Inc. and Zest Labs, Inc. filed a complaint against Walmart Inc. in the United States District Court for the Eastern District of Arkansas, Western Division. The complaint includes claims for violation of the Arkansas Trade Secrets Act, violation of the Federal Defend Trade Secrets Act, breach of contract, unfair competition, unjust enrichment, breach of the covenant of good faith and fair dealing, conversion and fraud. Ecoark Holdings and Zest Labs are seeking monetary damages and other related relief to the extent it is deemed proper by the court. The Company does not believe that expenses incurred in pursuing the complaint have had a material effect on the Company's net income or financial condition for the fiscal year ended March 31, 2020 or any individual fiscal quarter. On October 22, 2018, the Court issued an order initially setting a trial date of June 1, 2020, which has been delayed due to COVID-19.
- On December 12, 2018, a complaint was filed against the Company in the Twelfth Judicial Circuit in Sarasota County, Florida by certain investors who invested in the Company before it was public. The complaint alleges that the investment advisors who solicited the investors to invest into the Company made omissions and misrepresentations concerning the Company and the shares. The Company filed a motion to dismiss the complaint which is pending.

In the opinion of management, there are no legal matters involving us that would have a material adverse effect upon the Company's financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors affecting our business that were discussed in Part I. "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended March 31, 2020 filed with the SEC on June 29, 2020.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We did not sell any securities during the quarter ended June 30, 2020, which were not registered under the Securities Act of 1933, as amended.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit
31.1*	Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Ecoark Holdings, Inc.
(Registrant)

Date: August 13, 2020

By: /s/ RANDY MAY
Randy May
Chief Executive Officer
(Principal Executive Officer)

Date: August 13, 2020

By: /s/ WILLIAM B. HOAGLAND
William B. Hoagland
Principal Financial and Accounting Officer

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT OF 2002
AND RULE 13A-14 OF THE EXCHANGE ACT OF 1934**

CERTIFICATION

I, Randy May, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ecoark Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2020

/s/ Randy May

Randy May
Chief Executive Officer and
Principal Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT OF 2002
AND RULE 13A-14 OF THE EXCHANGE ACT OF 1934**

CERTIFICATION

I, William B. Hoagland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ecoark Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2020

/s/ William B. Hoagland

William B. Hoagland
Principal Financial and Accounting Officer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S. C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Ecoark Holdings, Inc., (the "Company") on Form 10-Q for the quarterly period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Randy May, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2020

/s/ Randy May

Randy May
Chief Executive Officer and
Principal Executive Officer

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S. C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Ecoark Holdings, Inc., (the "Company") on Form 10-Q for the quarterly period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William B. Hoagland, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2020

/s/ William B. Hoagland

William B. Hoagland

Principal Financial and Accounting Officer