

Quantafuel AS

(NOTC: QFUEL)

*is a Norwegian technology based energy company
converting under-utilised hydrocarbon resources
into high-quality fuel products.*

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Second Quarter 2019

Financial statement and review
for Quantafuel AS

Summary of the second quarter 2019

Quantafuel is building the first plant in Denmark, that will chemically recycle mixed plastic waste to high-value products. The strategic interest for this is increasing, and the company have therefore, in understanding with Vitol, entered into parallel discussions for a potential financial- and strategic partnership with companies within or related to the petrochemical industry.

Currently all technical resources are directed at completing the plant in Skive, Denmark. Progress on site is good, and we are running pre-commissioning on those parts of the process line already completed. But it is complex and challenging, and the ambition of starting production by the end of the Q3 has now shifted over to the 4 quarter. The related cost increase is about 2 MUSD, with most of this related to having full workload for a longer period than expected.

Quantafuel is in Denmark building a factory that has as ambition to maximize the output of diesel, which is currently expected to become the premium market for low carbon products produced from mixed plastic waste. But we have over the last 6 months received a growing number of requests from the petrochemical industry to produce naphtha.

There are two reasons for this. Firstly, chemical recycling of plastic waste to fuel under the current EU regulation, is not considered to be material recycling. But if the amount of naphtha produced is increased, a major feedstock component for plastic production, the arguments for classifying chemical recycling of waste plastic as material recycling will be compelling. Consequently, the amount and quality of raw materials available to Quantafuel will increase, and at more favourable prices.

Secondly, mechanical recycling is still struggling with low yields and the ability to produce high quality plastic that could be used across several industries. Chemical recycling of waste plastic is therefore in high demand, especially by the consumer goods industry. Given the overall market sentiment, it is expected that naphtha will become a premium market in the near future, at the same or potentially also at a higher level than fuel.

To maximize naphtha production, changes in the lay-out of the catalyst park and development and commercialization of a new catalyst is needed. Quantafuel has this catalyst already produced, but it has so far only been tested in a small pilot plant, and hence is further testing and development needed to get it to a commercial stage. This is expected to take 9-12 months.

Quantafuel do not as of today have the resources to undertake this effort, as all available human and financial resources are directed at completing Skive 1, together with the planning of a potential expansion in Skive and the two large plants that the company are preparing to build together with Vitol, most likely starting in Antwerp.

The company is therefore in final negotiations with potential partners within and in relation to the petrochemical sector, with the intent to form a partnership that includes both a financial investment, a technical development collaboration and an intention to roll-out production capacity in scale. Considering this, the investment by Vitol as announced in June, has not been completed. However, the commitment is still strong, and a final decision on how and when will be made based on the outcome of the ongoing negotiations.

The plant in Skive is in its final stage of construction. All major process equipment is installed, and we are running pre-commissioning on the different parts of the

system as completed and ready for testing. That includes, as an example, the plastic handling and shredder system, the distillation column and the tank and loading facility.

The challenge has throughout the quarter been piping, and while all systems now are delivered to our local entrepreneur, it's no longer realistic to get it completed by the end of the third quarter. Our ambition regarding first oil and start of production has therefore shifted to the fourth quarter. We have now 60-70 people working on the construction site, and a full external engineering team in Norway, so all delays are costly. The cost of the plant has therefore increased with approximately 2 MUSD where the majority is related to the above-mentioned reasons.

We obviously work diligently to complete the plant as soon as possible, but even more important is the quality of the work done and the safety of the plant. We are building a plant that is unmatched both in terms of quality and the ability to turn mixed waste plastic into high value end-products, and in the bigger picture a safe and controlled start-up with a good result is more important than the exact start date.

Because of the delay and related increase in cost, our desire to not lose any of the time advantage that we have, to speed up the expansion of Skive and to make sure that we have the resources to deliver in the two projects already in a planning phase with Vitol, we will attract some additional financing either towards the end of the third quarter or beginning of the fourth.

The plan is to do this partly or in whole with existing or new strategic partners, but if that takes longer than anticipated we have received clear signals that existing shareholders will support the company. We have also seen growing interest for sustainable, environmentally friendly solutions over the last 6-9 months, for our segment in general and for Quantafuel in particular. This interest is from both corporate houses and national and international investors.

We fortunately see the same interest from the work market, as those 7-8 new positions we announced this summer has received close to 400 applicants. We have already strengthen our commercial team, and we will start hiring more technical and operational resources to complete a generic design of our next generation PTL plant ready to be built out with an EPC partner, to support the planning process of Skive 2 and the two new plants with Vitol and the pilot for biomass to jetfuel, supported by Enova and Avinor.

For interested local investors, Quantafuel will present at the Pareto Oil & Gas conference in Oslo on the 12th of September at Holmenkollen Park Hotel.

Health Safety and the Environment

There has been no reported HSE incidents at Quantafuel, either of the subsidiaries or any of the contractors in the period.

Financial situation

The total cost estimate for the delivery of the first plant from Quantafuel AS to Quantafuel Skive ApS (Danish 76% owned subsidiary) is now MUSD 31.2.(Q119 ; MUSD 29.2).

Financial highlights second quarter 2019 (April- June)

Quantafuel financial highlights unaudited figures in USD if not stated otherwise	Q2 2019 Company	Q1 2019 Company	Q2 2019 Group	Q1 2019 Group
Operating income	2,855,726	2,300,973	0	55,075
EBITDA	-5,996,748	-563,409	-4,227,155	-797,771
Net result	-6,473,109	-1,748,378	-4,787,014	-2,132,137
Total assets	15,801,019	22,044,700	29,867,573	30,285,131
Cash and cash equivalents	10,659,216	18,206,502	11,452,749	19,275,474

Financial review

Income statement

Statement of Operations unaudited figures in kUSD	Q2 2019 Company	Q1 2019 Company	Q2 2019 Group	Q1 2019 Group
Operating income	2,856	2,301	0	55
EBITDA	- 5,996	- 563	- 4,227	- 798
Net profit (/loss)	-6,473	-1,748	-4,787	-2,132

As the company foresees an increased cost for concluding the Skive project, a provision of MUSD 2.0 is booked in the Company accounts ("cost of sales"). No further accruals are done on consolidated level in Q2 as the accumulated cost already is recognized in the Group's accounts. A final assessment of the book value of the plant on group and company level will be done at finalization of the plant.

Payroll expenses of MUS\$ 3.477 includes accrual for the company employee option program of MUS\$ 3.234. The cost of the option program is recognised in the accounts on a continuous basis based on the actual share price , as the options are fully vested.

Average G&A cost (“Other operating & payroll expenses”) for the period has been MUS\$ 0.250 per month (Q1 MUS\$ 0.210 per. month). This represent a slight increase due to increased activity in the Company.

The Group cost includes MNOK 0.242 in G&A for Quantafuel Skive ApS for the quarter.

This gives an EBITDA of MUS\$ -6.0 (Company) and MUS\$ -4.2 for the Group.

Cash flow

Statement of Cash flow unaudited figures in kUSD	Q2 2019 Company	Q1 2019 Company	Q2 2019 Group	Q1 2019 Group
Cash flow from operations	-10,825	-7,676	-10,906	-8,458
Cash flow from investing	0	0	-209	0
Cash flow from financing	2,849	17,388	2,849	17,389
Effect of exchange rate change	430	368	443	440
Net change in cash & cash eq.	-7,547	10,081	-7,823	9,371
Cash and cash eq. EOQ	10,659	18,207	11,453	19,275

Net cash flow from operating activities was MUS\$ -10.8 (MUS\$ -10.9 Group).

There were no investing activities in the Company , and MUS\$ 0.2 in local infrastructure in the Danish subsidiary,

The effect of increased accrual for options is booked as an increase in the equity and reflected in “Cashflow from financing “ (while the cost of the increase is booked through the P&L and included in “Cashflow from operations”).

The Company’s holding of cash and cash equivalents was MUS\$ 10.7 at the end of the period, and MUS\$ 11.5 at Group level.

Financial statements

Second Quarter 2019 (April-June)

Quantafuel Statement of Operations	Q2 2019 Company (kUSD)	Q1 2019 Company (kUSD)	Q2 2019 Group (kUSD)	Q1 2019 Group (kUSD)	Q2 2019 Group (kNOK)
(Unaudited figures, NOK/USD exchange rate quarter 8.645)					
Revenues	2,856	2,246	0	0	0
Other income	0	55	0	55	0
Total revenues and other income	2,856	2,301	0	55	0
Cost of sales	-4,870	-2,246	-2	-3	-21
Payroll expenses	-3,477	-288	-3,581	-385	-30,959
Other operating expenses	-506	-330	-644	-465	-5,565
Depreciation	-3	-3	-3	-3	-27
Total operating expenses	-8,856	-2,867	-4,230	-856	-36,572
Operating profit (/loss)	-6,000	-566	-4,230	-801	-36,572
Net financial items	-99	-879	-172	-929	-1,487
Net currency exchange	-374	-303	-385	-402	-97
Income from subsidiaries and other group entities					
Net financial gain (/loss)	-473	-1,182	-557	-1,331	-1,584
Profit (/loss) before taxes	-6,473	-1,748	-4,787	-2,132	-38,156
Tax on ordinary result	0	0	0	0	0
Net profit (/loss)	-6,473	-1,748	-4,787	-2,132	-38,156

Quantafuel Balance sheet (Unaudited figures, NOK/USD exchange rate 30.06: 8.518)	Q2 2019 Company (kUSD)	Q1 2019 Company (kUSD)	Q2 2019 Group (kUSD)	Q1 2019 Group (kUSD)	Q2 2019 Group (kNOK)
Assets					
Property, plant and equipment	33	37	13,500	7,539	115,001
Investment in Associates	2,014	1,995	0	0	0
Intangible assets	1,735	1,416	1,757	1,439	14,967
Other non-current assets	0	0	373	370	3,180
Total non-current assets	3,782	3,448	15,630	9,348	133,148
Accounts receivables	470	0	470	0	4,000
Other receivables	890	390	2,314	1,662	19,715
Other current assets	0	0	0	0	
Cash and cash equivalents	10,659	18,207	11,453	19,275	97,558
Total current assets	12,019	18,597	14,237	20,937	121 273
Total assets	15,801	22,045	29,867	30,285	254,421
Equity and Liabilities					
Shareholders' equity	48,060	44,768	47,092	43,879	401,147
Retained earnings	-37,090	-30,616	-38,015	-33,228	-323,824
-Non-controlling interests			1,044	958	8,895
Total equity	10,970	14,152	10,121	11,609	86,218
Accounts payable	848	405	4,999	3,393	42,581
Trace, other payables and provisions	0	0	1,495	1,481	12,732
Finance debt	3,042	3,000	3,042	3,000	25,917
Other current liabilities	941	4,488	10,210	10,802	86,973
Total current liabilities	4,831	7,893	19,746	18,676	168,203
Total equity and liabilities	15,801	20,045	29,867	30,285	254,421

Quantafuel Statement of Cash flow (Unaudited figures, NOK/USD exchange rate quarter: 8.645)	Q2 2019 Company (kUSD)	Q1 2019 Company (kUSD)	Q2 2019 Group (kUSD)	Q1 2019 Group (kUSD)	Q2 2019 Group (kNOK)
Cash flows from operation					
Net profit (/loss)	-6,473	-1,748	-4,787	-2,132	-38,156
Depreciations, amortisations and net impairment losses	3	3	3	3	27
Adjustments to net income	-3,194	-2,981	-2,398	-2,247	-20,735
Adjustments to Accrued expenses	-1,578	-3,769	-3,592	-3,769	-31,053
Changes in inventories, accounts payable and receivables	906	991	357	-96	3,093
Changes in other current balance sheet items	-489	-171	-489	-217	-4,229
Cash flows provided by (/used in) operating activities	-10,825	-7,676	-10,906	-8,458	-91,052
Cash flows from investing activities					
Capital expenditures	0	0	0	0	0
Net investments in tangible fixed assets	0	0	-209	0	-1,806
Other cash flows from investing activities	0	0	0	0	0
Cash flows used in investing activities	0	0	-209	0	-1,806
Cash flows from financing activities					
Issuing (/repurchase) of shares	0	17,486	0	17,486	0
Increase (/repayment) of finance debt	0		0	0	0
Dividends paid	0		0	0	0
Other cash flows from financing activities	2,848	-97	2,848	-97	24,626
Cash flows provided by (/used in) financing activities	2,848	17,389	2,848	17,389	24,626
Effect of exchange rate changes	430	368	443	440	-324
Cash balance					
Net increase (/decrease) in cash and cash equivalents	-7,547	10,081	-7,823	9,371	-68,556
Cash and cash equivalents at the beginning of the period	18,206	8,126	19,275	9,904	166,114
Cash and cash equivalents at the end of the period	10,659	18,207	11,453	19,275	97,558

Forward looking statement

This report contains certain forward-looking statements that involve risks and uncertainties. In some cases, we use words such as "ambition", "continue", "could", "estimate", "expect", "believe", "focus", "likely", "may", "outlook", "plan", "strategy", "will", "guidance" and similar expressions to identify forward-looking statements. All statements other than statements of historical fact, including, among others, statements regarding plans and expectations with respect to Quantafuel's development and returns, balance sheet and long-term underlying earnings growth; market outlook and future economic projections and assumptions; capital expenditure guidance; production guidance; development and construction activities; projected unit of production cost; accounting decisions and policy judgments, ability to put new plants into profitable production, and the impact thereof; expected dividend payments; estimated provisions and liabilities; implementation of IFRS, and the impact thereof; planned acquisitions and divestments; and the projected impact or timing of administrative or governmental rules, standards, decisions or laws, including with respect to and future impact of legal proceedings are forward-looking statements.

You should not place undue reliance on these forward- looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons.

These forward-looking statements reflect current views about future events and are, by their nature, subject to significant risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including levels of industry product supply, demand and pricing; price and availability of alternative fuels; currency exchange rate and interest rate fluctuations; the political and economic policies of operating countries; general economic conditions; political and social stability and economic growth in relevant areas of the world; global political events and actions; economic sanctions, security breaches; changes or uncertainty in or non-compliance with laws and governmental regulations; the timing of bringing new plants on stream; an inability to exploit growth or investment opportunities; material differences from reserves estimates; an inability to find and develop new plants; ineffectiveness of crisis management systems; adverse changes in tax regimes; the development and use of new technology; geological or technical difficulties; operational problems; operator error; inadequate insurance coverage; the lack of necessary transportation infrastructure when a field is in a remote location and other transportation problems; the actions of competitors; the actions of partners; the actions of governments; counterparty defaults; natural disasters and adverse weather conditions, climate change, and other changes to business conditions; an inability to attract and retain personnel; relevant governmental approvals; industrial actions by workers and other factors discussed elsewhere in this report.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot assure you that our future results, level of activity, performance or achievements will meet these expectations. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, we undertake no obligation to update any of these statements after the date of this report, whether to make them either conform to actual results or changes in our expectations or otherwise.



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