

Quantafuel AS

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First Quarter 2020

Consolidated financial statements

Quantafuel



Summary of the first quarter 2020

Despite challenging times, Quantafuel has managed to keep reasonable progress in the last testing phase in Skive, and we are now running final hot commissioning of the plant. In parallel, Quantafuel is preparing for a major roll-out of capacity after start of commercial operations in Denmark.

The ongoing Covid-19 pandemic has had a negative impact on the time schedule in the final testing phase in Denmark.

The Skive project was about to enter the final stage of commissioning when Covid-19 reached Europe. With the support from our employees in Norway and Denmark, we have been able to find new ways to run commissioning on key equipment without the physical presence of the suppliers, and when suppliers of key spare parts have been shut down we have managed to find new suppliers.

The result of these extraordinary efforts have been that we by the end of May are running hot commissioning in Denmark, and are just weeks away from starting production of low-carbon products from mixed, plastic waste, that will be transported to BASF in Germany and used to produce new plastic.

When the plant in Skive starts production it will still be unique, and it will be the first of its kind. Pyrolysis has existed for a long time, and many companies have started or will start with pyrolysis of plastic waste. But only pyrolysis of mixed plastic waste will have number of impurities and challenging hydrocarbons, that is very difficult to process further in existing refineries. Therefore, no oil major or petrochemical company has been able to start their own production.

The plant in Skive has become an advanced refinery for plastic waste, where we will remove impurities and change the molecular structure in the end-products, which is an absolutely necessity to be able to create the

market for chemical recycling in both a financial and environmental sustainable way.

The Skive project has experienced further delays during Q1 2020 due to the outbreak of Covid-19, adding to the existing challenges related to changes and adjustments during commission. The pandemic placed part of suppliers' commission teams in quarantine, and increased delivery times of remaining equipment and services have put further delays to the project. This has resulted in an increase in commissioning costs of NOK 36 million compared to preliminary 2019 figures presented on 28. February 2020.

Cost of the Skive plant per 31.12.19 was NOK 377 million, with additional local infrastructure of NOK 34 million and commissioning costs of NOK 58 million, resulting in a total project cost of NOK 469 million.

In accordance with IAS 11 –“Recognition of loss in Construction Contracts” and IAS 10 – “Events after the reporting period” , the estimate from the end of the year has been revised and the newly disclosed cost increase included in the 2019 annual report estimate for the completion of the Skive project.

Market

Swiss based consumer-good company Nestle announced in January that they will spend up to 2 billion swiss franc until 2025 in a premium for high-quality recycled plastic material. This, and many similar statements from the consumer-goods industry, shows the reality for the market.

New generation consumers do not longer accept that plastic, either used in products or as packaging material, is not part of the circular economy, and companies not willing to change to a more sustainable policy will eventually loose both credibility, revenue and profit.

The petrochemical industry has responded to this market demand with ambitious targets for the next 5-10 years, but lack the

technology. The start-up in Skive is therefore not only followed closely by the financial market, but also by the industry.

While the plant in Skive is the commercial proof of concept that chemical recycling of mixed plastic waste can be done in a sustainable way, we clearly understand what is expected of us from existing and potential new partners. Or as the CEO of Vitol, Russel Hardy, stated in Financial Times in January this year; "We will turn Quantafuel into the largest plastic recycling company in the world!"

To cater for this surge in demand, we have over the last 5-6 months welcomed a number of new employees with background from companies such as Aker, ABB, Aibel and Technip FMC, and we expect to welcome many more in the months to come. The task is very clear. We will take the learnings from Skive so far, and what we will obtain during start-up, into a new modular design that can be produced faster and cheaper in an industrial scale. These new plants will not only handle significant plastic for recycling, but also return attractive returns to our shareholders.

We have received, and continues to receive, massive interest from the petrochemical industry from all parts of the world, but have to date, with the exception of a limited study with Equinor, chosen not to enter into further commercial or strategic agreements. Partly because we first need to agree upon the roll-out plan for our two existing strategic partners, Vitol and BASF, and partly because we believe that we will be in a better position to agree upon terms after Skive is operational.

But we have, as announced to the market on the 12. May 2020, for some time discussed a major investment from a new potential, strategic investor. This is a potential partner that is not within the petrochemical industry, but rather brings complimentary and ancillary business to our existing relationships, and hence will help us close the loop on chemical

recycling and fasten the process of getting new legislation implemented.

We expect to be able to present final terms and conditions for the transaction to our shareholders by the end of June this year.

While Quantafuel's Skive project has been negatively impacted by Covid-19, the impact in the bigger picture has been minimal. Rather than a threat, we seen the current situation as an opportunity and a bigger responsibility.

It has always felt as an important task to turn the environmental disaster of plastic waste into a global sustainable business, but never as much as when we see financial chaos and spiking unemployment rates around us. We owe it to our shareholders and the society as a whole to get the plant in Denmark into commercial production as soon as possible, and embark on the next stage in the development of Quantafuel; an industrial scale roll-out of capacity based on Norwegian process technology.

BASF agreement

Quantafuel and BASF entered into an Investment Agreement on 25. September 2019. In the Investment Agreement, Quantafuel and BASF also committed to negotiate on the establishment of a collaboration agreement within the PtL technology.

The Collaboration Agreement was signed 20. March 2020, and includes among others a cooperation on technology development.

The agreement with BASF is complementary to our longstanding strategic partnership with Vitol. All three parties see substantial synergies moving forward with Quantafuel's plans to grow business through establishing of new PtL plants.

Health, Safety and Environment (HSE)

Quantafuel has a zero tolerance when it comes to injury to persons, work related illness and environmental damage. The company remains committed to ensuring a safe working environment with a clear target to maintain its good HSE records of a no major injuries in project or administrative organisation.

There has been no reported HSE incidents at Quantafuel, neither of the subsidiaries, nor any of the contractors, in Q1 2020.

Financial situation

The total cost estimate for the construction of the first plant from Quantafuel AS to Quantafuel Skive ApS (Danish 76% owned subsidiary) is as reported in Q4 2019 NOK 377 million. Estimated costs for commissioning has increased by NOK 36 million to NOK 58 million.

By the end of Q1 2020, Quantafuel group had NOK 85 million in cash. In line with previous plans, Quantafuel will during 2020 require additional financing. As part of this plan, Quantafuel has initiated a process with the strategic investor as described under "Market", as well as in Note 6, for a potential major investment in Quantafuel. Quantafuel has confirmed interest from other financing sources if this equity capital investment is not concluded.

The effect in increased costs (loss) is included in the accrual in the company account for concluding the delivery of the plant to the Danish subsidiary with NOK 36 million. This accrual is done in the 2019 accounts as the

increase, although due to the events in 2020, changed the estimate as given by end of 2019. The accrual for loss in the 2019 audited annual accounts for the company is consequently increased with NOK 36 million to an EBITDA of NOK -223.2 million, vs NOK -187.3 million reported in the preliminary and unaudited financial results for Q4 2019.

Outlook

Quantafuel continues its planning of future PtL plants on our leading technology. Following the start-up of the Skive plant, Quantafuel will adopt its new project execution plan and start the roll-out of new facilities across Europe.

Quantafuel's activities are in process of being classified as material recycling, which will broaden Quantafuel's access to raw material for the process and have a significant impact on the economics of the plant.

Quantafuel is planning to increase its activities in Denmark, and has identified location and is performing engineering for a plant with a capacity of 80,000 ton plastic waste per annum.

Quantafuel is also working with the strategic partners and other major players within the petrochemical industry to roll-out capacity at key strategic locations based on a modified, standardized design as soon as the plant in Skive is in production.

Financial review

Income statement

Quantafuel Financial Highlights <i>unaudited figures in NOK'000 if not stated otherwise</i>	Q1 2020	Full year 2019 Audited	Q1 2020	Full year 2019 Audited
	Group	Group	Company	Company
Operating income	-	497	27 592	40 698
EBITDA	-18 377	-48 752	-11 507	-223 171
Net result	-26 198	-100 400	-11 076	-239 221
Total assets	620 910	597 073	201 328	253 027
Cash & Cash equivalents	85 204	150 666	82 176	145 437

In the Danish Subsidiary the cost for investment in local equipment & infrastructure is summed up to DKK 26.5 million as described in the Q4 2019 report.

Total investment on group level for the plant including local infrastructure in Denmark and provision for commissioning of the plant in 2020 is estimated to be NOK 469 million.

On Group level the full value of the plant and supporting systems will be recognised at completion.

For first quarter 2020 no additional accruals for the Skive project is done. The revenue and cost recognized in the quarter is based on the completion percentage of the total project including the commissioning.

The Company experienced some higher operational cost in the quarter in relation to legal and advisory cost in connection with the Merkur Market listing in February 2020, in addition to the Group upscaling the organisation towards the start up in Skive. The operational cost in the period (ex. Skive commissioning) is NOK 19.5 million for the Group and NOK 11.7 million for the Company.

This gives an EBITDA of NOK -18.4 million (Group) and NOK - 11.5 million (Company).

The net financial items for the quarter reflects the change in the valuation of the BASF convertible bond (BASF Conversion rights), in addition to general currency fluctuations.

Balance Sheet

Per 31.03.20, the Group`s equity is NOK 256.5 million and holding of cash is NOK 85.2 million.

Quantafuel Balance sheet <i>unaudited figures in NOK'000 if not stated otherwise</i>	Q1 2020	Full year 2019 Audited	Q1 2020	Full year 2019 Audited
	Group	Group	Company	Company
Total non-current assets	254 425	223 258	113 728	103 981
Total current assets	109 961	95 725	81 737	133 255
Total assets	620 910	597 073	201 328	253 027
Total equity	256 524	278 090	5 863	15 791
Total non-current liabilities	254 425	223 258	113 728	103 981
Total current liabilities	109 961	95 725	81 737	133 255
Total equity and liabilities	620 910	597 073	201 328	253 027

QUANTAFUEL AS
CONSOLIDATED INCOME STATEMENT
1 JANUARY - 31 MARCH
(Amounts in NOK thousands)

	Q1 2020 Group	Full year 2019 Audited Group	Q1 2020 Company	Full year 2019 Audited Company
Operating revenue	-	497	27 592	40 698
Cost of materials	1 392	862	27 592	222 258
Salaries and personnel costs	7 445	28 965	3 744	23 198
Depreciation and amortization	1 115	3 352	276	1 216
Other operating expenses	9 540	19 422	7 763	18 413
Operating profit (loss)	-19 492	-52 104	-11 783	-224 387
Finance income	15 573	675	15 575	675
Finance expense	-9 347	-18 047	-14 868	-15 509
Net financial items	6 226	-17 372	707	-14 834
Profit (loss) before tax	-13 266	-69 476	-11 076	-239 221
Income tax expense	-12 932	-30 924	-	-
Profit (loss) for the period	-26 198	-100 400	-11 076	-239 221
Attributable to:	-	-	-	-
Equity holders of the parent	-36 055	-152 157		
Non-controlling interest	9 857	51 757		

QUANTAFUEL AS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
1 JANUARY - 31 MARCH
(Amounts in NOK thousands)

	Q1 2020 Group	Full year 2019 Audited Group
Profit for the period	-26 198	-100 400
Items that may be reclassified to profit (loss)		
Translation differences, net	3 484	404
Total comprehensive profit (loss)	-22 714	-99 996
Attributable to:		
Equity holders of the parent	-32 571	-151 753
Non-controlling interest	9 857	51 757

QUANTAFUEL AS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 MARCH
(Amounts in NOK thousands)

	Q1 2020 Group	Full year 2019 Audited Group	Q1 2020 Company	Full year 2019 Audited Company
ASSETS				
Investment in associates			17 155	17 155
Deferred tax asset	3 756	3 217	-	-
Other intangible assets	20 166	20 040	20 017	19 892
Property plant and equipment	430 426	358 748	1 777	1 541
Right-of-use asset	64 710	44 602	16 610	3 043
Other non-current assets	3 774	3 232	-	-
Total non-current assets	522 832	429 839	55 559	41 631
Accounts receivable	-	-	-	-
Other receivables	12 874	16 568	63 593	65 959
Cash and cash equivalents	85 204	150 666	82 176	145 437
Total current assets	98 078	167 234	145 769	211 396
Total assets	620 910	597 073	201 328	253 027
EQUITY AND LIABILITIES				
Sharecapital	112	112	112	112
Other paid-in capital	499 022	497 874	499 022	497 874
Retained earnings	-319 247	-286 676	-493 271	-482 195
Equity attributable to the owners of the parent	179 887	211 310	5 863	15 791
Non-controlling interests	76 637	66 780	-	-
Total equity	256 524	278 090	5 863	15 791
Deferred tax liabilities	77 609	64 677	-	-
Non-current interest bearing liabilities	118 225	117 440	99 912	101 755
Long-term leasing liability	58 591	41 141	13 816	2 226
Other non-current liabilities	-	-	-	-
Total non-current liabilities	254 425	223 258	113 728	103 981
Current interest bearing liabilities	1 221	1 046	-	-
Short-term leasing liability	6 900	4 366	2 896	933
Accounts payable	70 067	59 481	67 988	61 623
Other current liabilities	31 774	30 833	10 853	70 699
Total current liabilities	109 961	95 725	81 737	133 255
Total equity and liabilities	620 910	597 073	201 328	253 027

QUANTAFUEL AS
CONSOLIDATED STATEMENT OF CASH FLOWS
1 JANUARY - MARCH
(Amounts in NOK thousands)

	Q1 2020	Full year 2019	Q1 20	Full year 2019
	Group	Audited	Company	Audited
		Group		Company
Profit (loss) for the period	-26 198	-100 400	-11 075	-239 221
Depreciation and amortization	1 115	3 352	276	1 216
Income taxes paid	-	-	-	-
Share-based payment expense	688	6 597	688	6 597
Net financial items	-6 226	17 372	708	-14 834
Increase/(decrease) in net accounts receivable and payable	10 586	40 873	6 365	64 860
Increase/(decrease) in net other receivables and other payables	28 846	34 898	-44 734	-68 144
Cash flows from operating activities	8 811	2 692	-47 772	-249 526
Purchase of property, plant and equipment	-71 784	-263 955	-13 803	-4 275
Purchase of intangible asset	-126	-10 874	-125	-10 874
Increase/(decrease) in other non-current assets	-1 081	-	-	-
Interest income received	-	675	-	675
Deferred tax liability	-	-	-	-
Cash flows from investment activities	-72 991	-274 154	-13 928	-14 474
Proceeds from issue of shares	460	238 866	460	238 866
Proceeds from borrowings	-	101 175	-1 843	101 175
Payment of lease liabilities	-1 692	-3 418	-178	-1 204
Interest expenses paid	-50	-548	0	-1
Cash flows from financing activities	-1 282	336 075	-1 561	338 836
Net change in cash and cash equivalents	-65 462	64 613	-63 261	74 836
Cash and cash equivalents at beginning of period	150 666	86 053	145 437	70 600
Cash at cash equivalents at end of period	85 204	150 666	82 176	145 436

QUANTAFUEL AS
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (GROUP)
1 JANUARY - 31 MARCH
(Amounts in NOK thousands)

	Share capital	Share premium	Retained earnings	Total	Non- controlling interests	Total equity
Equity at 31 December 2018	73	235 368	-142 769	92 672	15 023	107 695
Profit (loss)			-98 080	-98 080	-2 320	-100 400
Change in NCI share of plant excess value			-54 077	-54 077	54 077	-
Total comprehensive income	-	-	-152 157	-152 157	51 757	-100 400
Translation differences, net			404	404		404
Total OCI	-	-	-151 753	-151 753	51 757	-99 996
Increase in share capital	39	259 271	7 846	267 156		267 156
Currency gain in regards to equity increase		1 245		1 245		1 245
Share-based payments		1 990		1 990		1 990
Equity at 31 December 2019	112	497 874	-286 676	211 310	66 780	278 090
Profit (loss)			-20 281	-20 281	-5 917	-26 198
Change in NCI share of plant excess value			-15 774	-15 774	15 774	-
Total comprehensive income	-	-	-36 055	-36 055	9 857	-26 198
Translation differences, net			3 484	3 484		3 484
Total OCI	-	-	-32 571	-32 571	9 857	-22 714
Increase in share capital	0	460		460		460
Share-based payments		688		688		688
Equity at 30 March 2020	112	499 022	-319 247	179 887	76 637	256 524

Notes to the interim condensed consolidated financial statements

Note 1 Corporate information and basis for preparation

Corporate information

The interim condensed consolidated financial statements ('the Statements') of Quantafuel AS and its subsidiaries ('the Group') for the period ended 30 March 2020 were authorized for issue by the board of directors on 26 May 2020.

Quantafuel AS was formed in 2014 and is a Norwegian limited liability company listed on Oslo Stock Exchange Merkur Market. The group's head office is in Lilleakerveien 2C, 0283 Oslo, Norway

Quantafuel is a Norwegian technology-based energy company with the purpose of ending wasteful and unsustainable handling of our planet's resources. By drawing on 50 years of industry experience and over 10 years of development, Quantafuel converts almost all kinds of plastic waste into environmentally friendly fuels and chemicals, replacing new oil production. Starting in Skive, Denmark, Quantafuel aims to rapidly build up production capacity on a global scale to have a meaningful impact on one of our times most pressing environmental challenges.

Basis of preparation

The Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The Statements do not include all the information and disclosures required in the annual financial statements, and should be read together with the Group's annual consolidated financial statements as of 31 December 2019.

The accounting policies used in preparation of the Statements are consistent with those used for preparation of the Group's annual financial statements for 2019.

Note 2 Property plant and equipment

	Property and plant	Machinery and equipment	Assets under construction	Total
Period ended at 31 December 2019				
Cost		815	95 736	96 551
Additions		4 489	259 466	263 955
Accumulated depreciation		1 263		1 263
Net book value at December 2019		3 545	355 202	358 748
Period ended 31 March 2020				
Additions		1 067	70 717	71 784
Depreciation		105		105
Net book value at 31 March 2020		4 508	425 919	430 426
Useful life	15-50 years	3-10 years	No depreciation	
Depreciation	Straight line	Straight line		

Quantafuel is currently in the final stage of building its first commercial plant in Skive, Denmark, and the cost of the plant is presented as assets under construction until operation is started. At full operation, the plant will have a yearly capacity to transform 20,000 ton of plastic waste into 16,000 ton of high value products.

Note 3 Financial assets and financial liabilities

Below is an overview of financial assets and liabilities, other than cash, held by the group:

Financial assets other than cash:	31/03/2020	2019
Debt instruments at amortised cost:		
Trade and other receivables	12 874	16 568
Non-current deposits	3 774	3 232
Sum financial assets	16 648	19 800
Total current	12 874	16 568
Total non-current	3 774	3 232

Financial liabilities: Interest-bearing liabilities:

	Interest rate	Maturity	31/03/2020	2019
Current interest-bearing liabilities				
Loan from DGI	CIBOR+8.14%	2018-2028	1 221	1 046
Lease liabilities	8.5 %	2019-2034	6 900	4 366
Total current			8 121	5 412
Non-current interest-bearing loans:				
Loan from DGI	CIBOR+8.14%	2018-2028	18 314	15 685
BASF liability	19.5%	2022	76 250	62 456
BASF conversion right liability	n.a.		23 661	39 299
Lease liabilities	8.5 %		58 591	41 141
Total non-current			176 816	158 581
Total interest-bearing liabilities			184 937	163 993

Other financial liabilities at amortized cost:

	31/03/2020	2019
Trade and other payables	70 067	59 481
Total current	70 067	59 481
Total non-current		-

Note 4 Share-based payments

Share options of the parent company are granted to board members, management and other selected employees. The Group may at any time resolve to terminate all issued options against a cash consideration equal to the market value of the option shares as the time of the termination, less the exercise price for such options. As of 31.03.20, the Company had 539,500 options outstanding. Each option gives the right to subscribe for one share.

The options outstanding at the reporting date with an exercise price between NOK 46 – 175 per share, and with an exercise period that ends between 19 October 2021 and 15 March 2022. The calculated value is recognized as a liability in the statement of position. The liability recognized at the reporting date is NOK 10.0

million and NOK 3.9 million for social security taxes. The change in the liability in the period is recognized as Salaries and personnel costs in the income statement.

Note 5 Share capital increase

The company had a share capital increase with 10,000 shares at 0.01 per share at a subscription price of NOK 46. This capital increase was in relations to exercising of options granted to employees and board members previously. Registered on 30 March 2020 in the Norwegian Register of Business Enterprise.

After the share capital increase, the total share capital of Quantafuel AS per 31.03.20 is NOK 111.774,67 divided on 11,177,467 shares of NOK 0.01 each.

Note 6 Events after the balance sheet date

On 16 April 2020, Quantafuel announced the appointment of Kristian Flaten as the new CFO.

On 12. May 2020, Quantafuel announced the signing of a Memorandum of Understanding with an undisclosed strategic investor contemplating an equity investment in Quantafuel. The agreement is signed in understanding and with the support of existing strategic investors, BASF and Vitol. An investment, if completed, will be in the order of 12-15% of the outstanding shares on a fully diluted basis.

On 13. May 2020, Quantafuel announced the signing of a commercial study with Equinor.

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 investments; 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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