

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 2018

Financial statement and review for Quantafuel AS

Reporting period: April-June 2018



Summary of the second quarter 2018

Quantafuel secures major milestones in Q2 with partnership agreement with Vitol, securing of equity funding and the ongoing construction of the first commercial plant in Skive, Denmark as key highlights

The second quarter 2018 provided several milestones in the development of Quantafuel. First the company signed a very important partnership and offtake agreement with Vitol. The framework agreement provides Vitol with a first right of refusal to take fuel for a ten-year period for all new plants, enabling Quantafuel to secure offtake during plant development and thus facilitates leveraged financing. The offtake agreement for Skive secures offtake of what we produce at the factory in Denmark, that product will be lifted, and that we will get paid even if the fuel should be of lesser quality at the start of production.

We are proud that Vitol chose Quantafuel as their partner for environmental fuel produced from plastic waste. As the world largest independent oil trader, we believe that it will be in Vitol's best interest that Quantafuel grow as fast as possible and roll out production capacity over the next years. That has manifested itself in the intention to build a minimum 300 tonnes per day production plant near Vitol's existing logistics. The agreement also secured some short-term liquidity in terms of a loan.

A second milestone was closing of 150 MNOK in new equity, in a capital increase process that was 50 % oversubscribed. The agreement with Vitol was a critical factor in securing of the funding, but with the increased focus on the environmentally challenges connected with waste plastic timing was also exceptional.

Operationally, it has been vital for the company to get the first plant in Skive, Denmark in production as soon as possible, to take required precautions to ensure that the plant will work as intended and optimise our CO₂ emission, as every percentage point decreased CO₂ emission will materialize itself in higher fuel prices. It is in that respect very satisfactory that we have received a Life Cycle Analyses (LCA) that shows a 89 % reduction in CO₂ emission compared to conventional fuel production – the highest reported by any producer of low-carbon fuel in the world – that we still have a realistic ambition to start commissioning by the end

of Q1 2019 and that we remain firm in our belief that the plant will work according to our specifications.

But the consequence of safety and timing has also been increased cost, and over the summer overall plant CAPEX has increased with approximately 17 % to 20.5 MUSD compared to the CAPEX budget of 17.5 MUSD presented in the capital increase process. Part of the increase in CAPEX is due to the reasons mentioned above, increased cost associated with piping and installation that was not ordered before the summer.

We believe that around 20 % of the cost will be a one-time investment associated with the first plant, and that we can reduce complexity and CAPEX when building the second and third production plant. But for the first plant we will not be able to book any profit in the transaction between Norway and our subsidiary and Denmark (76 % owned), which also will impact both result and cashflow negatively. The company do not plan a new open, capital raise, but will monitor cashflow and alternative financial instruments closely to secure a robust financial position during completion and start-up and the completion and start-up off the first plant in Denmark.

On the positive side diesel and low-carbon fuel prices have increased over the summer, we have identified several large sources of raw material at a low cost that gives a foundation for rapidly expansion of capacity in Denmark and we see that we most likely have a 10-15 % overcapacity in the process plant.

Quantafuel is currently in many ways in the "perfect storm", and when even Bill gates has taken to twitter to appraise our efforts to combat plastic waste, interest has reached a whole new level. The company is now approached almost on daily basis by media, potential new investors and potential new JV partners, and we are carefully evaluating all new opportunities to rapidly expand production capacity as soon as the first plant is in operation.

We are also very pleased that we over the summer have been able to attract very highly skilled new employees with a long track record from the Norwegian oil- and gas industry, to secure that the last part of the building process in Denmark goes

according to plan. We see a tremendous interest to be part of our journey to become a leader within the low-carbon fuel segment and will do our best to turn this into progress and value creation for the company, our partners and our shareholders.

Financial highlights second quarter 2018 (April – June)

Quantafuel financial highlights unaudited figures in kUSD if not stated otherwise	Q2 2018	Q2 2017	Change Q2 on Q2	YTD 2018
Operating income	1,377	1,285	7.2 %	3,255
EBITDA	-2,802	-810	246.0 %	-3,815
Net profit	-2,800	-827	238.5 %	-3,820
Total assets	21,186	5,439	289.5 %	21,186
Cash and cash equivalents	17,645	635	2,680.7 %	17,645

Financial review

Income statement

Statement of Operations unaudited figures in kUSD	Q2 2018	Q2 2017
Operating income	1,377	1,285
EBITDA	-2,802	-810
Net profit (/loss)	-2,800	-827

Total income in the second quarter was USD 1,377k, through the part-delivery in construction of the Skive plant, which is a Q2 on Q2 increase of 7 %.

Increases in cost of sales, sales, general and administration expenses due to increasing internal engineering capacity and project execution, resulting in a negative EBITDA result of USD -2,802k, up 246 % Q2 on Q2.

Given depreciation of USD -2k and no taxation, this results in a net loss of USD -2,800k, up 239 % Q2 on Q2.

Cash flow

Statement of Cash flow unaudited figures in kUSD	Q2 2018	Q2 2017
Cash flow from operations	-6,206	213
Cash flow from investing	0	0
Cash flow from financing	22,440	399
Net change in cash & cash eq.	16,234	612
Cash and cash eq. EOQ	17,645	635

Net cash flow from operating activities was USD -6,206k, primarily due to USD -1,383 adjustment to net income (booked in income statement, but not received in cash) and a net increase in working capital of USD -1,907k.

There were no investing activities in the period.

Net cash flow from financing activities totalled USD 22,440k through the issue of convertible debt, loan and the private placement closing of USD 18,386k.

The Company's holding of cash and cash equivalents was USD 17,645k at the end of the period, up 2,380 % relative to Q2 2017.

Health Safety and the Environment

HSE is always the number one priority in all Quantafuel's activities and decisions. The company strives to ensure that all our operations, construction and projects are carried out under the highest HSE standards.

Quantafuel is developing strict operational procedures and HSEQ management system based on the ISO standards for the Skive plant which will be implemented from day 0 of operations.

Considerable work on ensuring quality in the procedure and in the use of the Quantafuel way of working has been executed. This is a central part of Quantafuel's work on standardisation and quality culture.

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

Outlook

The main objectives for the company over the next couple of quarters will be the completion of the first commercial plant in Skive, Denmark. The distillation column is due to be delivered in February 2019, and it is expected that it will be installed by the end of that same month. We therefore now expect “first-oil” at the end of Q1 2019, and full production in the following quarter. Besides the efforts being undertaken to complete the plant in Skive as soon as possible, the company will plan for and prepare for a large-scale roll-out of capacity both from a human, logistical and financial perspective.

The company is in many ways in the “perfect storm” where garbage is piling up all over the world after China and other Asian countries refused to take anymore, the massive environmental challenges that plastic waste represents has become daily news and the European Union and other areas sets new targets for the implementation of low-carbon, environmentally friendly fuel in the energy mix. To

take advantage of this situation in the best possible way, the company will need to carefully plan its next step and not jump to eagerly on opportunities that might draw resources away from the ultimate target of becoming the leading producer of environmentally friendly fuel from waste carbon resources.

Fortunately, the company is in a situation where we have the luxury of choosing between a set of good alternatives in developing the next production sites. In addition to planning to build a large-scale plant together with Vitol, Quantafuel has initiated discussions with several oil majors, oil traders and others wanting to explore the opportunities for establishing new plants. It is Quantafuel’s ambition over the next couple of quarters, to build up a project portfolio providing the best opportunity to rapidly establish several large production plants at key logistic hubs with strong, long-term partners.

Financial statements

Second quarter 2018 (April – June)

Quantafuel Statement of Operations	Q2 2018	YTD 2018	YTD 2018	Full year 2017
(Unaudited figures, NOK/USD exchange rate 30.06: 8.159)	(kUSD)	(kUSD)	(kNOK)	(kNOK)
Revenues	1,377	3,243	26,460	2,187
Other income	0	12	100	1,457
Total revenues and other income	1,377	3,255	26,560	3,645
Cost of sales	-2,045	-3,917	-31,962	-3,748
Payroll expenses	-418	-883	-7,208	-11,225
Other operating expenses	-597	-1,155	-9,420	-16,416
Depreciation	-2	-5	-39	-197
Total operating expenses	-3,063	-5,960	-48,629	-31,586
Operating profit (/loss)	-1,687	-2,705	-22,069	-27,941
Net financial items	-1,113	-1,115	-9,100	-4,616
Income from subsidiaries and other group entities	0	0	0	0
Net financial gain (/loss)	-1,113	-1,115	-9,100	-4,616
Profit (/loss) before taxes	-2,800	-3,820	-31,168	-32,558
Tax on ordinary result	0	0	0	0
Net profit (/loss)	-2,800	-3,820	-31,168	-32,558

Quantafuel Balance sheet (Unaudited figures, NOK/USD exchange rate 30.06: 8.159)	30.06.2018 (kUSD)	30.06.2018 (kNOK)	31.12.2017 (kNOK)
Assets			
Property, plant and equipment	32	259	275
Investment in Associates	2,161	17,635	17,654
Intangible assets	53	433	107
Other non-current assets	0	0	0
Total non-current assets	2,246	18,327	18,035
Accounts receivables	9	76	76
Other receivables	1,286	10,490	4,347
Financial investments and derivative instruments	0	0	0
Cash and cash equivalents	17,645	143,962	12,492
Total current assets	18,940	154,528	16,915
Total assets	21,186	172,855	34,951
Equity and Liabilities			
Shareholders' equity	23,530	191,974	41,966
Retained earnings	-12,248	-99,933	-68,765
Non-controlling interests			
Total equity	11,281	92,042	-26,798
Convertible debt	5,009	40,864	13,566
Other non-current liabilities	0	0	0
Total non-current liabilities	5,009	40,864	13,566
Accounts payable	831	6,777	4,265
Trace, other payables and provisions	-19	-152	0
Finance debt	2,950	24,071	0
Other non-current liabilities	1,134	9,255	43,919
Total current liabilities	4,897	39,950	48,183
Total equity and liabilities	21,186	172,855	34,951

Quantafuel Statement of Cash flow	Q2 2018	YTD 2018	YTD 2018	Full year 2017
(Unaudited figures, NOK/USD exchange rate 30.06: 8.159)	(kUSD)	(kUSD)	(kNOK)	(kNOK)
Cash flows from operation				
Net profit (/loss)	-2,800	-3,820	-31,168	-32,558
Depreciations, amortisations and net impairment losses	2	5	39	197
Adjustments to net income	-1,383	-3,243	-26,460	30,612
Adjustments to Accrued expenses	-114	-201	-1,636	1,364
Changes in inventories, accounts payable and receivables	-1,907	-845	-6,897	7,797
Changes in other current balance sheet items	-4	-464	-3,784	604
Cash flows provided by (/used in) operating activities	-6,206	-8,568	-69,906	8,017
Cash flows from investing activities				
Capital expenditures	0	0	0	0
Investments in associates	0	0	0	-16,871
Other cash flows from investing activities	0	0	0	0
Cash flows used in investing activities	0	0	0	-16,871
Cash flows from financing activities				
Issuing (/repurchase) of shares	18,386	18,386	150,008	1,059
Increase (/repayment) of finance debt	4,054	6,296	51,369	13,566
Dividends paid	0	0	0	0
Other cash flows from financing activities	0	0	0	0
Cash flows provided by (/used in) financing activities	22,440	24,682	201,377	14,624
Cash balance				
Net increase (/decrease) in cash and cash equivalents	16,234	16,114	131,470	5,770
Cash and cash equivalents at the beginning of the period	1,411	1,531	12,492	6,721
Cash and cash equivalents at the end of the period	17,645	17,645	143,962	12,492

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.



Quantafuel AS (NOTC: QFUEL)

Org.no: 915 119 484

*Address:
Vollsvn. 13H
1366 Lysaker
Norway*

www.quantafuel.com