

**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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# Fourth Quarter 2018

## Financial statement and review for Quantafuel AS

Reporting period: October-December 2018



## Summary of the fourth quarter 2018

The Skive plant is about 60% completed and the aim is to have mechanical completion in June and full production during 3Q 2019. After recycled hydrocarbons became part of EU's sustainability goals (RED2), securing premium pricing for Quantafuel's products, the interest for the segment has exploded, and the company aims to take maximum advantage of its first-mover advantage.

Quantafuel's key focus will until completion be the plant in Skive, Denmark. All major components are now ordered, installed or in storage, and the company have a large crew working diligently to complete mechanical construction before the summer and start commercial production during Q3.

### Skive plant status

Quantafuel started to install the four pyrolysis reactors in December 2018 and they are now inside the production hall ready for final commissioning. Other major components are also either ordered, installed or in storage, and we are now in process to complete engineering of piping and control systems.

The first 9 months of the construction process has been a steep learning curve for the company with several challenges, both on the technical and organizational side, which have had to be addressed on a continuous basis. Changes during a construction period are both costly and time consuming, and while it is never easy to establish new technology for the first time, it has been more changes and challenges than expected and appreciated.

The company have had to attract new resources both internally and externally but is now in a good position to complete the plant according to new timelines and estimates. At the same time, it has been of vital importance to learn from these challenges, and to use that learning both to plan for an expansion in Denmark and for the roll-out of more capacity in an EPC strategy.

The company clearly see that it will be possible to both establish new plants at a lower cost per ton production capacity and faster than the first plant in Denmark and aims to be ready with a comprehensive roll-out strategy, both on the technical and financial side, as soon as the Skive-plant is in production.

### Strategic landscape

EU recently published its new Renewable Directive (RED 2), stating that recycled hydrocarbons from 2021 or earlier will count towards EU's sustainability goals. What this means is that low carbon products produced from plastic waste will have a similar standing as advanced biofuel, and that Quantafuel with more certainty can expect to attract premium prices for its products.

It also sets the foundation for chemical recycling of plastic waste as a whole new industry. A new industry which McKinsey recently estimated that will grow from basically zero to BUSD 75 in revenue and BUSD 25 in profit by 2030. It is in this industry that Quantafuel has a first-mover advantage, and where the plant in Skive, as the first of its kind, will set the foundation for a roll-out in new locations and new geographies.

The new legal regime has also increased the interest for the segment from all parts of the value chain, from large recycling companies to the oil majors and the petrochemical industry. It will be Quantafuel's ambition to manoeuvre carefully in this landscape, and make sure that any partnerships entered will be supportive of the commercial long-term strategy and create value for the shareholders.

### 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 23.9. The plant is sold on a firm turnkey contract to the price of MUSD 12.0 and will therefore be delivered with a loss for the company.

Overall group cost for the Skive plant including local investments by our subsidiary is estimated to be MUSD 29.3.

The increase in the cost of the plant has as described in the Q3 report, made it necessary to seek further funding of the company.

A funding process was initiated in January 2019, and on the 15<sup>th</sup> of February, a private placement of MNOK 150 in new equity was concluded. The private placement was oversubscribed and received strong support both from existing and new investors, of where approx. 65% of the subscription came from existing shareholders.

This will enable the company to conclude the building and commission of the first plant in Skive and to start the project for further expansion of production capacity in Skive when the first plant is in production.

## Financial highlights fourth quarter 2018 (October-December) and Full Year

<b>Quantafuel financial highlights</b> unaudited figures in USD if not stated otherwise	<b>Q4 2018</b>	<b>Q4 2017</b>	<b>Change Q4 on Q4</b>	<b>2018 YTD</b>
Operating income	4,084,603	-2,076,748	6,161,351	10,119,901
EBITDA	-10,438,958	-4,191,153	-6,247,805	-14,807,197
Net result	-10,805,778	-3,996,125	-6,809,653	-16,388,625
Total assets	11,442,372	4,259,680	7,182,691	11,442,372
Cash and cash equivalents	8,125,757	1,522,464	6,603,293	8,125,757

## Financial review

### Income statement

<b>Statement of Operations</b> unaudited figures in kUSD	<b>Q4 2018</b>	<b>Q4 2017</b>
Operating income	4,085	-2,077
EBITDA	-10,439	-4,191
Net profit (/loss)	-10,806	-3,996

Total income in the fourth quarter was MUSD 4.1, through the part-delivery in construction of the Skive plant. Total recognised income for the sale of the Skive plant to Quantafuel Skive ApS for 2018 is MUSD 10.1

Provision for the cost increase (loss) of the sale of the plant is booked in the Q4 accounts and included in the "Cost of sales" with MNOK 92.2 (MUSD 10.9 based on Q4 currency rate).

As part of the booking of the provisions above for the Skive project, necessary reallocations of costs are also made in the Q4 accounts in order to reflect the project cost correctly in the company's full year accounts for 2018.

Average G&A cost ("Other operating & payroll expenses") through 2018 for the company is MNOK

2.9 per. month, and for the full year MNOK 35 (MUSD 3.9).

This gives an EBITDA of MUSD -14.1, and a loss before taxes of MUSD 16.4 for the full year.

### Cash flow

<b>Statement of Cash flow</b> unaudited figures in kUSD	<b>Q4 2018</b>	<b>Q4 2017</b>
Cash flow from operations	-3,377	2,460
Cash flow from investing	0	-2,066
Cash flow from financing	0	1,036
Effect of exchange rate change	-373	
Net change in cash & cash eq.	-3,750	1 430
Cash and cash eq. EOQ	8,126	1,522

Net cash flow from operating activities was MUSD -3.4.

There were no investing activities and net cash flow from financing activities was nil.

The Company's holding of cash and cash equivalents was MUSD 8.1 at the end of the period.

## 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 statements

Fourth Quarter 2018 (October-December) and Full Year

<b>Quantafuel Statement of Operations</b>	<b>Q4 2018</b>	<b>YTD 2018</b>	<b>YTD 2018</b>	<b>Full year 2017</b>
(Unaudited figures, NOK/USD exchange rate quarter 8.4431)	(kUSD)	(kUSD)	(kNOK)	(kNOK)
Revenues	4,085	10,092	82,881	2,187
Other income		28	221	1,457
<b>Total revenues and other income</b>	<b>4,085</b>	<b>10,120</b>	<b>83,102</b>	<b>3,645</b>
Cost of sales	-14,298	-20,993	-175,140	-3,748
Payroll expenses	-982	-2,621	-21,506	-11,225
Other operating expenses	757	-1,313	-13,484	-16,416
Depreciation	-3	-11	-86	-197
<b>Total operating expenses</b>	<b>-14,527</b>	<b>-24,938</b>	<b>-210,215</b>	<b>-31,586</b>
<b>Operating profit (/loss)</b>	<b>-10,442</b>	<b>-14,818</b>	<b>-127,113</b>	<b>-27,941</b>
Net financial items	-364	-1,571	-12,731	-4,616
Income from subsidiaries and other group entities	0	0	0	0
<b>Net financial gain (/loss)</b>	<b>-364</b>	<b>-1,571</b>	<b>-12,731</b>	<b>-4,616</b>
<b>Profit (/loss) before taxes</b>	<b>-10,806</b>	<b>-16,389</b>	<b>-139,844</b>	<b>-32,558</b>
Tax on ordinary result	0	0	0	0
<b>Net profit (/loss)</b>	<b>-10,806</b>	<b>-16,389</b>	<b>-139,844</b>	<b>-32,558</b>

<b>Quantafuel Balance sheet</b> (Unaudited figures, NOK/USD exchange rate 31.12: 8.6885)	<b>31.12.2018</b> (kUSD)	<b>31.12.2018</b> (kNOK)	<b>31.12.2017</b> (kNOK)
<b>Assets</b>			
Property, plant and equipment	35	309	275
Investment in Associates	1,975	17,155	17,654
Intangible assets	1,090	9,473	107
Other non-current assets	0	0	0
<b>Total non-current assets</b>	<b>3,100</b>	<b>26,937</b>	<b>18,035</b>
Accounts receivables			76
Other receivables	61	536	4,347
Other current assets	155	1,343	0
Cash and cash equivalents	8,126	70,601	12,492
<b>Total current assets</b>	<b>8,342</b>	<b>72,480</b>	<b>16,915</b>
<b>Total assets</b>	<b>11,442</b>	<b>99,417</b>	<b>34,951</b>
<b>Equity and Liabilities</b>			
Shareholders' equity	27,098	235,441	41,966
Retained earnings	-24,010	-208,609	-68,765
Non-controlling interests			
<b>Total equity</b>	<b>3,088</b>	<b>26,832</b>	<b>-26,798</b>
Convertible debt	0	0	13,566
Other non-current liabilities	0	0	0
<b>Total non-current liabilities</b>	<b>0</b>	<b>0</b>	<b>13,566</b>
Accounts payable	1,731	15,044	4,265
Trace, other payables and provisions	-57	-498	0
Finance debt	3,000	26,065	0
Other current liabilities	3,680	31,974	43,919
<b>Total current liabilities</b>	<b>8,354</b>	<b>72,585</b>	<b>48,183</b>
<b>Total equity and liabilities</b>	<b>11,442</b>	<b>99,417</b>	<b>34,951</b>

<b>Quantafuel Statement of Cash flow</b>	<b>Q4 2018 (kUSD)</b>	<b>YTD 2018 (kUSD)</b>	<b>YTD 2018 (kNOK)</b>	<b>Full year 2017 (kNOK)</b>
(Unaudited figures, NOK/USD exchange rate quarter: 8.4431)				
<b>Cash flows from operation</b>				
<b>Net profit (/loss)</b>	<b>-10,806</b>	<b>-16,389</b>	<b>-139,844</b>	<b>-32,558</b>
Depreciations, amortisations and net impairment losses	3	10	86	197
Adjustments to net income	-4,912	-10,830	-89,870	30,612
Adjustments to Accrued expenses	11,413	11,116	94,043	1,364
Changes in inventories, accounts payable and receivables	2,054	755	5,697	7,797
Changes in other current balance sheet items	-1,129	-2,079	-15,373	604
<b>Cash flows provided by (/used in) operating activities</b>	<b>-3,377</b>	<b>-17,417</b>	<b>-145,261</b>	<b>8,017</b>
<b>Cash flows from investing activities</b>				
Capital expenditures	0	0	0	0
Investments in associates	0	0	0	-16,871
Other cash flows from investing activities	0	0	0	0
<b>Cash flows used in investing activities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-16,871</b>
<b>Cash flows from financing activities</b>				
Issuing (/repurchase) of shares	0	23,342	190,870	1,059
Increase (/repayment) of finance debt	0	1,284	12,500	13,566
Dividends paid	0	0	0	0
Other cash flows from financing activities	0	0	0	0
<b>Cash flows provided by (/used in) financing activities</b>	<b>0</b>	<b>24,626</b>	<b>203,370</b>	<b>14,624</b>
Effect of exchange rate changes	-373	-606		
<b>Cash balance</b>				
Net increase (/decrease) in cash and cash equivalents	-3,750	6,603	58,109	5,770
Cash and cash equivalents at the beginning of the period	11,876	1,523	12,492	6,721
<b>Cash and cash equivalents at the end of the period</b>	<b>8,126</b>	<b>8,126</b>	<b>70,601</b>	<b>12,492</b>

## 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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