

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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Third Quarter 2018

Financial statement and review for Quantafuel AS

Reporting period: July-September 2018



Summary of the third quarter 2018

The Skive plant construction is making good progress and is still expecting to enter full production in the middle of 2019. The total Skive investment has further increased, and the company has taken swift action to secure a robust financial situation for completion of the plant construction.

Quantafuel's key focus this quarter has been the construction of the plant in Skive, Denmark, as it will continue to be until we reach full production. We believe to complete construction and start commissioning in early Q2 2019, representing a couple of weeks delay, while the total investment has increased.

Skive plant status

Quantafuel is now in the middle of the construction phase in Denmark. The groundwork is done, the building itself is about to be completed, suppliers and construction crew is ordered, and equipment is arriving at site, waiting to be installed.

The company is capturing important learning from this first plant which are being taken from the construction phase and the close cooperation we have with several key suppliers, as well as from the planning of commissioning and operations. These learnings will be captured in the standardized module design and will result in decreasing complexity, cost and construction time.

The total investment budget now stands at 22,5 MUSD, almost 30 % increase over the budget communicated during the capital increase. While the cost increases are disappointing, we have prioritised time, safety and functionality over cost.

Progress on site is good, and we have a highly motivated and skilled team with a number of new employees, including Bjørn Dahlen, who has 20

years of project experience from GE, and has taken up the position as CTO. We are working hard to deliver the first fully automated, working plastic-to-liquid factory by middle of 2019 and remain confident that we are on track to achieve that.

Financial situation

The cost increases have decreased the buffer from the capital increase in May, and the company has therefor initiated several processes to secure a robust financial position through the completion of this first plant.

Our strategic partner Vitol is continuing to be a key part of the solution, as they show great support both by extending the term of the provided loan and by initiating other processes to improve Quantafuel's liquidity. We are in constructive dialogue on securing a bank loan facility to bridge any liquidity challenges we might face during production start-up in Skive.

Furthermore, we have initiated a process to sell up to 25 % of the outstanding shares in Skive (Quantafuel AS currently owns 76 %). If such sale is closed, we plan to order long-lead items for an expansion of capacity in Skive of an additional 60 or 120 ton per day by the end of Q1 2019. Key processes for a plant increase in Skive have been initiated including engineering and design, securing land and public permits, securing feedstock, securing debt funding and the organisation will already be in place.

Financial highlights third quarter 2018 (July-September)

| Quantafuel financial highlights unaudited figures in kUSD if not stated otherwise | Q3 2018 | Q3 2017 | Change Q3 on Q3 | YTD 2018 |
|---|--------------------|--------------------|----------------------------|---------------------|
| Operating income | 2,697 | 0 | 100.0 % | 5,945 |
| EBITDA | -1,688 | -855 | 97.5 % | -5,812 |
| Net profit | -1,683 | -861 | 95.4 % | -5,819 |
| Total assets | 15,563 | 4,667 | 233.5 % | 15,563 |
| Cash and cash equivalents | 11,876 | 102 | 11 536,5 % | 11 877 |

Financial review

Income statement

| Statement of Operations unaudited figures in kUSD | Q3 2018 | Q3 2017 |
|--|------------|------------|
| Operating income | 2,697 | 0 |
| EBITDA | -1,688 | -855 |
| Net profit (/loss) | -1,683 | -861 |

Total income in the second quarter was USD 2,697k, through the part-delivery in construction of the Skive plant, which is up from nil in Q3 2017.

Increases in cost of sales, sales, general and administration expenses due to increasing internal engineering capacity and project execution, resulting in an EBITDA of USD -1,688k, which is down 97.5 % on Q3 2017.

Given depreciation of USD 2k, interest expenses of USD 3k and no taxation, this results in a net loss of USD -1,683k, down 95.4 % on Q3 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.

Outlook

The timing for what Quantafuel is doing could not have been better. There is an increased focus on plastic waste and ocean pollution, and the result is that we see regulations becoming more favourable and we see several regulatory initiatives both on the national and EU level aimed at incentivising both alternative fuel production and waste utilisation which is expected to benefit such a solution as Quantafuel offers. This environmental focus and regulatory incentives are further

Cash flow

| Statement of Cash flow unaudited figures in kUSD | Q3 2018 | Q3 2017 |
|---|------------|------------|
| Cash flow from operations | -5,729 | -747 |
| Cash flow from investing | 0 | 0 |
| Cash flow from financing | 1 | 182 |
| Net change in cash & cash eq. | -5,728 | -565 |
| Cash and cash eq. EOQ | 11,876 | 102 |

Net cash flow from operating activities was USD -5,729k, primarily due to USD -2,682k adjustment to net income (booked in income statement, but not received in cash) and a net increase in working capital of USD -1,359k.

There were no investing activities and net cash flow from financing activities was USD 1k.

The Company's holding of cash and cash equivalents was USD 11,876k at the end of the period, up 11,537 % relative to Q3 2017.

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.

increasing the interest we receive from potential partners. We have entered several strategic processes to plan for the expansion of production capacity in new markets which contributes in enabling Quantafuel's development plans.

It is based on this our ambition that we by the middle of 2019 will have the first commercial plant in operation, have a standardized design for new production capacity and several new projects ready to be implemented.

Financial statements

Third Quarter 2018 (July – September)

| Quantafuel Statement of Operations | Q3 2018 | YTD 2018 | YTD 2018 | Full year 2017 |
|--|--------------------|---------------------|---------------------|---------------------------|
| (Unaudited figures, NOK/USD exchange rate 30.09: 8.1777) | (kUSD) | (kUSD) | (kNOK) | (kNOK) |
| Revenues | 2,682 | 5,918 | 48,395 | 2,187 |
| Other income | 14,8 | 27 | 221 | 1,457 |
| Total revenues and other income | 2,697 | 5,945 | 48,616 | 3,645 |
| Cost of sales | -2,683 | -6,625 | -54,181 | -3,748 |
| Payroll expenses | -734 | -1,616 | -13,211 | -11,225 |
| Other operating expenses | -887 | -2,341 | -19,140 | -16,416 |
| Depreciation | -2 | -7 | -59 | -197 |
| Total operating expenses | -4,307 | -10,589 | -86,592 | -31,586 |
| Operating profit (/loss) | -1,610 | -4,644 | -37,976 | -27,941 |
| Net financial items | -73 | -1,176 | -9,613 | -4,616 |
| Income from subsidiaries and other group entities | 0 | 0 | 0 | 0 |
| Net financial gain (/loss) | -73 | -1,176 | -9,613 | -4,616 |
| Profit (/loss) before taxes | -1,683 | -5,819 | -47,589 | -32,558 |
| Tax on ordinary result | 0 | 0 | 0 | 0 |
| Net profit (/loss) | -1,683 | -5,819 | -47,589 | -32,558 |

| Quantafuel Balance sheet (Unaudited figures, NOK/USD exchange rate 30.09: 8.1777) | 30.09.2018 (kUSD) | 30.09.2018 (kNOK) | 31.12.2017 (kNOK) |
|---|-----------------------------|-----------------------------|-----------------------------|
| Assets | | | |
| Property, plant and equipment | 29 | 239 | 275 |
| Investment in Associates | 2,159 | 17,654 | 17,654 |
| Intangible assets | 53 | 433 | 107 |
| Other non-current assets | 0 | 0 | 0 |
| Total non-current assets | 2,241 | 18,325 | 18,035 |
| Accounts receivables | 9 | 76 | 76 |
| Other receivables | 1,436 | 11,747 | 4,347 |
| Financial investments and derivative instruments | 0 | 0 | 0 |
| Cash and cash equivalents | 11,876 | 97,121 | 12,492 |
| Total current assets | 13,322 | 108,944 | 16,915 |
| Total assets | 15,563 | 127,269 | 34,951 |
| Equity and Liabilities | | | |
| Shareholders' equity | 28,472 | 232,837 | 41,966 |
| Retained earnings | -14,228 | -116,353 | -68,765 |
| Non-controlling interests | | | |
| Total equity | 14,244 | 116,484 | -26,798 |
| Convertible debt | 0 | 0 | 13,566 |
| Other non-current liabilities | 0 | 0 | 0 |
| Total non-current liabilities | 0 | 0 | 13,566 |
| Accounts payable | 181 | 1,479 | 4,265 |
| Trace, other payables and provisions | -255 | -2,084 | 0 |
| Finance debt | 2,943 | 24,071 | 0 |
| Other non-current liabilities | -1,551 | -12,680 | 43,919 |
| Total current liabilities | 1,318 | 10,785 | 48,183 |
| Total equity and liabilities | 15,563 | 17,269 | 34,951 |

| Quantafuel Statement of Cash flow | Q3 2018 | YTD 2018 | YTD 2018 | Full year 2017 |
|---|--------------------|---------------------|---------------------|---------------------------|
| (Unaudited figures, NOK/USD exchange rate 30.09: 8.1777) | (kUSD) | (kUSD) | (kNOK) | (kNOK) |
| Cash flows from operation | | | | |
| Net profit (/loss) | -1,683 | -5,819 | -47,589 | -32,558 |
| Depreciations, amortisations and net impairment losses | 2 | 7 | 59 | 197 |
| Adjustments to net income | -2,682 | -5,918 | -48,395 | 30,612 |
| Adjustments to Accrued expenses | 29 | -297 | -2,427 | 1,364 |
| Changes in inventories, accounts payable and receivables | -1,359 | -1,705 | -13,946 | 7,797 |
| Changes in other current balance sheet items | -36 | -544 | -4,449 | 604 |
| Cash flows provided by (/used in) operating activities | -5,729 | -14,276 | -116,746 | 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 | 4,998 | 23,342 | 190,880 | 1,059 |
| Increase (/repayment) of finance debt | -4,997 | 1,284 | 10,505 | 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 | 1 | 24,626 | 201,385 | 14,624 |
| Cash balance | | | | |
| Net increase (/decrease) in cash and cash equivalents | -5,728 | 10,350 | 84,639 | 5,770 |
| Cash and cash equivalents at the beginning of the period | 17,604 | 1,526 | 12,482 | 6,721 |
| Cash and cash equivalents at the end of the period | 11,876 | 11,876 | 97,121 | 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.



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