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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First Quarter 2019

Financial statement and review

for Quantafuel AS

Reporting period:
January-March 2019

Summary of the first quarter 2019

Following EUs revised renewable energy directive (RED2), Quantafuel has been approached by, and is in discussion with, several large oil- and recycling companies. The plant in Skive has become more expensive than what was expected just some months ago, but the company has financing to complete it and still aims to start production in the third quarter. In parallel, the planning of capacity increase in Denmark is moving forward, as well as the preliminary process of building a minimum 100.000 ton per year production facility together with Vitol.

In January this year, McKinsey published a report stating that chemical recycling using pyrolysis would become a 75 BUSD revenue market creating 25 BUSD in yearly profit within 2030, essentially starting from zero. This business opportunity and the fact that EU has included recycled hydrocarbons in their future energy mix and aims to create a shift from biofuel produced on fertile soil and palm oil to waste resources, has of course created a lot of interest among oil majors and other fuel producers.

In addition, it will become a necessity for the industry to look beyond traditional non-fossil biofuels, as there will be even tougher minimum requirements to include low carbon fuel in the energy mix. This will not be limited to road fuel, as also the petrochemical- and chemical industry will have to look at alternative feedstock in the years to come.

With limited production capacity of low carbon feedstock today, the entire oil- and petrochemical industry is now searching for new technologies, and several have already publicly announced their intention to build up production capacity based on waste plastic in the next 5-10 years.

The same goes for the raw material side, as also the European waste industry now is faced with tougher requirements and new market conditions.

For a long time, the U.S and Europe have shipped plastic waste to China and following the ban last year the industry has tried to find new outlets in countries that are not equipped to safely and securely manage it, like Malaysia and Indonesia. Numerous reports and investigations now show that European waste is mismanaged and is rerouted back into the ocean, into poor communities and low-grade landfills. This practice is not sustainable from any perspective – neither morally, environmentally nor financially. To provide an understanding of volumes, the Chinese plastic-ban will by 2030 have displaced 120 million tons of plastics, and this is already forcing the world's largest waste exporters to act now.

By Norwegian example, and on May 10th this year, 187 countries signed a revised BASEL-agreement stating they will stop all export of plastic waste to developing countries not capable to receive industrial volumes of waste. Plastic waste handlers now have four options; to re-open landfills that previously was closed for non-biological waste, to incinerate the waste for energy production, to mechanically recycle it or to chemically recycle it.

Neither to landfill nor to incinerate waste is a politically acceptable solution, and it is challenging to mechanically recycle it. Official figures in Europe states that we today recycle 1/3 of the waste plastic, but this is based on what is delivered to recycling and many places this also includes what is simply burned. If you look at what is *actually* recycled, the real figure is less than 10%.

EU has recently decided to promote transparency on waste exports and to follow what waste is *actually* recycled. In addition, EU has lifted the recycling target for plastic packaging to 55% within 2030. Combined with the pressure to stop exporting waste across the globe to developing countries, this has created a situation where also the recycling industry now is searching for new technologies and profitable outlets for their increasing waste streams and waste storage build-up.

It is in these market conditions that Quantafuel now is building what we consider to be the first plant to chemically recycle mixed plastic waste to high value low carbon products. There are other companies that already have some limited production capacity or have announced plans to build plants to convert plastics to oil. A recent example is the US based company Res Polyflow LLC that announced they have attracted 260 MUSD to build a plant in Indiana, US.

There is one significant difference between what Quantafuel is doing, and what other companies intend to do. When pyrolysis-technology is used to heat plastic waste, the yield is pyrolysis oil with impurities, aromatics and olefins, that must be upgraded and run through hydrotreatment and a hydrocracker before becoming high-value products.

Quantafuel differentiates itself by utilizing its core technology in combination with pyrolysis units, which means building a process facility on the backend of the pyrolysis reactor. By combining impurities-removal, hydrotreatment and hydrocracking in one operation, the plant production is more efficient and with higher yields.

The construction of the first plant has become more expensive and challenging that we had foreseen only months ago, yet we strongly believe this setup is the optimal solution to produce stable high-quality fuels and chemicals from non-homogeneous commodities, which waste plastics are. When we reach our goal, we will in our opinion, have a solution that gives Quantafuel a clear competitive advantage and at least a 18-24 months head start on the market.

Quantafuels solution will give a more stable end-product that also is easier to transport, it will use less energy and hence give a higher CO_2-reduction in production, it will use less hydrogen and hence save operating cost and it will save both CAPEX and OPEX by combining up to three production steps in one operation.

In addition, the end-products will with RED 2 potentially attract the same pricing as second-generation biofuel, currently trading 2-3 times the commodity market.

Quantafuels strategy is to become the leading producer of low carbon products from mixed plastic waste, and we intend to do so by utilizing our window of opportunity to build up production capacity and capturing market shares, as fast as we can.

We have therefore started the planning of a minimum 100.000 ton per year plant together with Vitol, likely to be placed in Antwerp. The final investment decision will be taken after the plant in Skive is in operation. To be in position to move forward as soon as possible, the company has engaged further into the dialogue with Vitol and expect to initiate a process involving pre-engineering, site-inspections, permitting etc., very soon.

Quantafuel is also positive towards entering into strategic partnerships with other companies that has either the financial resources or access to raw material, or both, as long as it supports the long-term strategy of the company and our current strategic partners. We have therefore entered several discussions that may materialize further in the months to come, trying to balance our long-term strategic objectives with short- and long-term shareholder value.

Skive plant status

We are working diligently to complete the plant in Denmark and is making good progress. Most major parts are installed and have been so for a while, but the last part - piping, steel structures and monitoring, has proven to be more costly and time consuming than we had foreseen.

In the beginning of Q1 we were under the assumption that we were weeks away from having the last drawings and calculations made. The production of ISO-drawings has taken longer than what was initially expected and has affected and postponed activities on site linked to this production. Too remedy loss of time Quantafuel has engaged up to 10 full-time external consultants committed to reducing loss of time and to get aligned on schedule.

By the end of May most of the work is already completed and delivered to our construction partners in Denmark, but when fully completed by mid-June, it will have taken us thousands of engineering hours longer than anticipated.

The challenge has not been directly related to the actual performance of our technology, but rather with the high temperatures in the production process, piping, steel quality, CE approval and security.

The consequence has been that the cost of engineering and piping alone has increased with more than 4 MUSD since the beginning of Q1.

We are certainly not satisfied with the increase in the project costs and will have an improved and continuous focus to mitigate the consequences as much as possible. We have implemented a stronger cost control focus in the project, and initiated measures to further cuts in the G&A cost going forward.

Even if the cost increase has been a setback, we do not loose perspective. And the perspective is quite simple;

We are building the first fully integrated waste plastic to high value low carbon products in a market that is set to expand rapidly in the years to come. We are perfectly positioned to become the front-runner in that market, and every challenge that we now have overcome everyone else also have to overcome as well if they want to compete directly with Quantafuel.

We have increased operational performance with the extra cost put into the plant.

The plant will have upgraded installments to reduce risk in production quality from the plastic inlets and provide the team with extensive analytical data to be used for new plants, and overall be able to take the lead within technological innovations within the waste-to-energy sector.

We have 1200 ton of start-up material provided at zero cost by nearby municipalities and suppliers for raw material. We still have the financing to complete the plant in Denmark, and strong support from our strategic partner Vitol, and aims to get production started before the end of Q3.

It's a challenging schedule, but we will run commissioning on those parts of the factory that are already installed while completing the rest on piping and monitoring, and we will run double shift and take all the steps possible to make it.

Skive is our commercial proof of concept, and our steppingstone to a large-scale roll-out. We are confident that we will succeed and will take every action that we can to make sure that it happens.

What is most relevant to increasing shareholder value, is to complete the plant and get it into production as soon as possible and prove that the facility in Skive is far more than simply our first commercial production plant but also represent the very first alternative solution to traditional recycling in Europe.

Oil- and recycling companies, government official, potential investors and news media have lined up to see the plant in production, and we will provide them with a showroom for green-technology and innovative business capable of impact.

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 29.2 (Q418 ; MUSD23.9).

As reported in the Q4 18 report, the company raised MNOK 150 in new equity in February and will, based on the current plan and cost estimate, be able to conclude the Skive 1 project and commence commercial production.

In addition, activities for preparing for the expansion in Skive is underway and will be supported by detailed studies and planning to be able to make an investment decision for the expansion when Skive 1 is operational.

A part of this is also to plan for further need of funding (equity and debt) to build the increased capacity in Skive.

Financial highlights first quarter 2019 (January - March)

Quantafuel financial highlights unaudited figures in USD if not stated otherwise	**Q1** **2019**	**Q4** **2018**	**Full year** **2018**
Operating income	55,075	4,084,603	10,119,901
EBITDA	- 5,742,559	-10,438,958	-14,807,197
Net result	- 6,624,110	-10,805,778	-16,388,625
Total assets	22,097,548	11,442,372	11,442,372
Cash and cash equivalents	18,206,502	8,125,757	8,125,757

Financial review

Income statement

Statement of Operations unaudited figures in kUSD	**Q1** **2019**	**Q4** **2018**
Operating income	55	4,085
EBITDA	- 5,743	-10,439
Net profit (/loss)	-6,624	-10,806

As the company foresee an increased cost for concluding the Skive project, an provision of MUSD 5.2 (MNOK 44.4) is booked in the Q1 accounts (“cost of sales”)

Average G&A cost (“Other operating & payroll expenses”) for the period has been MNOK 1.8 per month (2018 MNOK 2.9 per. month). The decrease is due to general reduced G&A cost combined with higher allocation of employees to the Skive project (Cost for employees allocated for the Skive project is included in the “cost of sales”)

Net financial includes provision for brokers fee for the private placement.

This gives an EBITDA of MUSD -5.7, and a loss before taxes of MUSD 6.6.

Cash flow

Statement of Cash flow unaudited figures in kUSD	**Q1** **2019**	**Q4** **2018**
Cash flow from operations	-7,372	-3,377
Cash flow from investing	0	0
Cash flow from financing	17,389	0
Effect of exchange rate change	64	-373
Net change in cash & cash eq.	10,081	-3,750
Cash and cash eq. EOQ	18,207	8,126

Net cash flow from operating activities was MUSD -7.4.

There were no investing activities, while from the financing activity MUSD 17.4 in new equity was received through the private placement.

The Company's holding of cash and cash equivalents was MUSD 18.2 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

First Quarter 2019 (January-March)

Quantafuel Statement of Operations (Unaudited figures, NOK/USD exchange rate quarter 8.578)	**Q1 2019** (kUSD)	**Full year 2018** (kUSD)	**Q1 2019** (kNOK)	**Full year 2018** (kNOK)
Revenues		10,092		82,881
Other income	55	28	473	221
Total revenues and other income	**55**	**10,120**	**473**	**83,102**
Cost of sales	-5,179	-20,993	-44,429	-175,140
Payroll expenses	-289	-2,621	-2,473	-21,506
Other operating expenses	-330	-1,313	-2,833	-13,484
Depreciation	-3	-11	-26	-86
Total operating expenses	-5,801	-24,938	-49,761	-210,215
Operating profit (/loss)	**-5,746**	**-14,818**	**-49,288**	**-127,113**
Net financial items	-878	-1,571	-7,536	-12,731
Income from subsidiaries and other group entities	0	0	0	0
Net financial gain (/loss)	-878	-1,571	-7,536	-12,731
Profit (/loss) before taxes	**-6,624**	**-16,389**	**-56,824**	**-139,844**
Tax on ordinary result	0	0	0	0
Net profit (/loss)	**-6,624**	**-16,389**	**-56,824**	**-139,844**

Quantafuel Balance sheet (Unaudited figures, NOK/USD exchange rate 31.03: 8.597)	**31.03.2019** (kUSD)	**31.12.2018** (kUSD)	**31.03.2019** (kNOK)	**31.12.2018** (kNOK)
Assets				
Property, plant and equipment	37	35	315	309
Investment in Associates	1,995	1,975	17,155	17,155
Intangible assets	1,469	1,090	12,632	9,473
Other non-current assets	0	0	0	0
Total non-current assets	**3,501**	3,100	**30,102**	**26,937**
Accounts receivables				
Other receivables	29	61	245	536
Other current assets	361	155	3,105	1,343
Cash and cash equivalents	18,207	8,126	156,525	70,601
Total current assets	**18,597**	8,342	**159,875**	**72,480**
Total assets	**22,098**	11,442	**189,977**	**99,417**
Equity and Liabilities				
Shareholders' equity	44,768	27,098	384,883	235,441
Retained earnings	-30,874	-24,010	-265,433	-208,609
Non-controlling interests				
Total equity	**13,894**	3,088	**119,450**	**26,832**
Accounts payable	3,266	1,731	28,075	15,044
Trace, other payables and provisions	-213	-57	-1,834	-498
Finance debt	3,000	3,000	25,791	26,065
Other current liabilities	2,151	3,680	18,495	31,974
Total current liabilities	**8,204**	8,354	**70,527**	**72,585**
Total equity and liabilities	**22,098**	11,442	**189,977**	**99,417**

Quantafuel Statement of Cash flow (Unaudited figures, NOK/USD exchange rate quarter: 8.578)	**Q1 2019** (kUSD)	**Full year 2018** (kUSD)	**Q1 2019** (kNOK)	**Full year 2018** (kNOK)
Cash flows from operation				
Net profit (/loss)	**-6,624**	**-16,389**	**-56,824**	**-139,844**
Depreciations, amortisations and net impairment losses	3	10	26	86
Adjustments to net income	-735	-10,830	-6,310	-89,870
Adjustments to Accrued expenses	-836	11,116	-7,170	94,043
Changes in inventories, accounts payable and receivables	991	755	8,505	5,697
Changes in other current balance sheet items	-171	-2,079	-1,470	-15,373
Cash flows provided by (/used in) operating activities	**-7,372**	**-17,417**	**-63,243**	**-145,261**
Cash flows from investing activities				
Capital expenditures	0	0	0	0
Investments in associates	0	0	0	0
Other cash flows from investing activities	0	0	0	0
Cash flows used in investing activities	**0**	**0**	**0**	**0**
Cash flows from financing activities				
Issuing (/repurchase) of shares	17,486	23,342	150,000	190,870
Increase (/repayment) of finance debt	0	1,284	0	12,500
Dividends paid		0	0	0
Other cash flows from financing activities	-97	0	-832	0
Cash flows provided by (/used in) financing activities	**17,389**	**24,626**	**149,168**	**203,370**
Effect of exchange rate changes	64	-606		
Cash balance				
Net increase (/decrease) in cash and cash equivalents	10,081	6,603	85,925	58,109
Cash and cash equivalents at the beginning of the period	8,126	1,523	70,600	12,492
Cash and cash equivalents at the end of the period	**18,207**	**8,126**	**156,525**	**70,601**

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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