

**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 2019

Financial statement and review  
for Quantafuel AS

## Summary of the third quarter 2019

*In the third quarter, Quantafuel negotiated a breakthrough partnership agreement with BASF, the world largest chemical company, investing 20 MEUR in Quantafuel's strive to become the leading provider of chemical recycling on a global basis. At the same time the company was working to complete the Skive plant with expected mechanical completion within the fourth quarter and start of operation in first quarter 2020.*

Following a rising concern for the environmental consequences of plastic waste entering the oceans, changes in the European legislation regarding recycled hydrocarbons, and tougher demands for recycling of plastic waste, the interest for Quantafuel's unique solutions reached new proportions during the quarter.

### **Agreement with BASF**

Following a thorough technical, financial and legal due diligence conducted by several companies in parallel, Quantafuel chose to sign a partnership agreement with BASF, the world largest chemical company with more than 122,000 employees on a global basis. In addition to the 20 MEUR investment, in equity and a convertible loan (concluded in Q4), the main reason for selecting BASF as a partner, was access to BASF's industrial-, technical- and chemical resources and know-how. BASF's vast experience will contribute to a safe and controlled start-up in Skive, and further development of the technology towards an industrial scalable solution with the clear intention to build out production capacity together in a 50/50 JV structure.

BASF, as one of the founding members of the Alliance to End Plastic Waste (AEPW), has stated a strong commitment to engage in chemical recycling of plastic waste, and publicly announced that their ambition is to

turn 1.6 million tons of their annual consumption of 20 million ton of naphtha to recycled naphtha. This is equivalent to 100 times the production capacity of the Skive plant.

An important aspect of the partnership agreement with BASF is that it is exclusive only with regard to joint development of improved technology, and entered in understanding with Quantafuel's long-standing partner, Vitol, that still has an ambition to build out large production capacity together with Quantafuel, starting in Antwerp. As part of this understanding Vitol converted its 3 MUSD loan plus accrued interests to shares in Quantafuel in the third quarter.

Furthermore, with the support from BASF, Quantafuel has maintained the discussions with other major petrochemical companies with the aim to agree terms for one or more commercial partnership in the near future.

### **Skive progress**

All technical resources have through the quarter been directed at completing the plant in Skive, Denmark, now in collaboration with recourses with extensive experience from starting chemical process facilities which BASF has made available to Quantafuel.

While completing the last remaining systems in the plant, we have been running pre-commissioning on those production steps already completed. Through this process we have encountered several issues that needed to be addressed and corrected. Most of these issues have been minor, but some have required more extensive rework, before another pre-commissioning run could be performed. Our ambition has all the way been to have completed pre-commissioning on as many parts of the process facility as possible, while working towards mechanical completion.

This has in periods been challenging, and we had to reassess the balance between resources used and efficiency on site on a number of occasions. Extensive rework on some parts of the system and the installation of additional safety and utility systems have delayed the process, but by the end of November we are only weeks away from mechanical completion.

While completing the plant, we are now preparing for a safe and controlled start-up of operations, in a close working relationship with experts from BASF. Operating procedures are being implemented, safety and emergency procedures are being controlled and retested and our local operators are being trained in all aspects of plant operations.

After mechanical completion we will start final commissioning of the complete process facility before entering hot commissioning with plastic waste. We will start with clean and uniform plastic in one reactor before gradually implementing more capacity, more challenging raw materials and the different upgrading steps throughout the first quarter next year.

The plant in Skive has become more advanced and sophisticated than the one we initially set out to build one and half year ago as new features and upgrading steps have been introduced along the way. As we reach mechanical completion, Quantafuel is proud to state that we have built a state-of-the-art production plant for chemical recycling of waste plastic, which we strongly believe, as several major petrochemical companies already have discovered, is unmatched in terms of flexibility and capabilities. We believe that the plant in Skive, despite its many challenges in the building process, will set us apart from the competition in a market expected to grow from zero to 75 BUSD (Mc Kinsey) over the next 10 years.

Rework, changes in scope, double shifts and an extended commissioning period have resulted in a cost increase of MNOK 59 (MUSD 6.5), bringing the total CAPEX to MUSD 37.7 from MUSD 31.2, which was predicted in the second quarter 2019 report. (Given the current currency exchange at the date of this report, comparable CAPEX would be 36,1 MUSD (MNOK 332)).

With the investment from BASF, Quantafuel is in a strong financial position and has the necessary resources to complete the plant in Skive, strengthen the organization as planned and fully engage in all further development activities to rapidly industrialize the technology with the keen ambition to become the leading provider of chemical recycling of plastic waste on a global basis.

#### **Next steps**

The Skive plant is where we demonstrate our technology in scale in a commercial operation, and where we invite current and potential new partners and other key stakeholders to see how chemical recycling of plastic waste can be done.

The next steps for the Company are to implement the experience to date from the Skive process into a generic module that can be deployed in scale through an EPC strategy.

At the same time, we do take the organization through a transition phase from a start-up to an industrial company capable of delivering standardized, high performing process facilities. As part of this process will we over the next few month's welcome between 10 and 15 new colleagues, many with a long and extensive track records from the process industry. We are also proud that many of these new colleagues find it meaningful and have motivation to work for Quantafuel at reduced salaries from previous positions, and that they bring with them the drive, attitude and competence that we are certain will help

Quantafuel in becoming the leading provider of chemical recycling of plastic waste on a global scale.

## 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 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 37.7 (MNOK 332), (Q219; MUSD 31.2).

## Financial review

### Income statement

<b>Quantafuel financial highlights</b> unaudited figures in USD if not stated otherwise	<b>Q3 2019 Company</b>	<b>YTD Q3 2019 Company</b>	<b>Q3 2019 Group</b>	<b>YTD Q3 2019 Group</b>
Operating income	308,834	5,465,533	2,742	57,817
EBITDA	-8,837,536	-15,397,694	-2,462,541	-7,487,467
Net result	-10,348,866	-18,570,354	-3,997,270	-10,916,421
Total assets	12,438,786	12,438,786	28,248,810	28,248,810
Cash and cash equivalents	3,529,957	3,529,957	4,447,893	4,447,893

As the company foresee an increased cost for concluding the Skive project, a provision of MUSD 6.5 (MNOK 59) is booked in the Company accounts ("cost of sales"). In total provisions of MUSD 25.7 (MNOK 225) is accounted for in the Company for the delivery (loss) of the Skive plant to the Danish subsidiary. No further accruals are done on consolidated level in Q3 based on a preliminary assessment of the value for the plant on Group level. A final assessment of the book value on Group and Company level will be done at finalization of the plant.

Payroll expenses of MUSD 1.6 (MNOK 14.2) includes accrual for the company employee option program of MUSD 1.2 (MNOK 10.6). The cost of the option program is recognised in the accounts on a continuous basis based on the actual share price, as the options are fully vested.

Average G&A cost ("Other operating & payroll expenses") for the period has been MUSD 0.3 (MNOK 2.7) per month (Q2 MUSD 0.25 per. month). This represent a slight increase due to increased activity in the Company.

As there are increased activity in Skive towards the start-up of the plant, MUSD 0.35 (MNOK 3.2) is recognized as operation expenses / cost of sales for Q3, an increased from last quarter where MUSD 0.25 (MNOK 2.1) was used for the quarter.

This gives an EBITDA of MUSD -8.8 (Company) and MUSD -2.5 for the Group.

Net financial items include MNOK 11 in currency adjustments under the Skive delivery due to increased cost in NOK for committed cost items denominated in foreign currency.

#### Balance Sheet

As major changes in the quarter, the non-current assets on Group level have increased with MNOK 70, of which MNOK 66 is related to the building of the Skive plant. On the liability side, the Vitol loan of MUSD 3.3 (including accrued interest) was converted into equity in the period.

#### Cash flow

<b>Statement of Cash flow</b> unaudited figures in kUSD	<b>Q3 2019</b> <b>Company</b>	<b>Q2 2019</b> <b>Company</b>	<b>Q3 2019</b> <b>Group</b>	<b>Q2 2019</b> <b>Group</b>
Cash flow from operations	-7,564	-10,525	-405	-7,871
Cash flow from investing	-521	-301	-7,485	-3,246
Cash flow from financing	1,459	2,849	1,459	2,849
Effect of exchange rate change	-504	430	-574	445
Net change in cash & cash eq.	-7,129	-7,547	-7,005	-7,823
Cash and cash eq. EOQ	<b>3,530</b>	<b>10,659</b>	<b>4,448</b>	<b>11,453</b>

Net cash flow from operating activities was MUSD -7.6 (MUSD -0.4 Group).

MUSD 7.5 is invested in the Skive plant.

Net financing activities of MUSD 1.5 include the conversion of the Vitol loan, together with the increased accrual for options program (increase in the equity and reflected in "Cashflow from financing "(while the cost of the increase is booked through the P&L and included in "Cashflow from operations"))).

The Company's holding of cash and cash equivalents was MUSD 3.5 at the end of the period, and MUSD 4.5 at Group level.

## Financial statements

Third Quarter 2019 (July-September)

Quantafuel Statement of Operations	Q3 2019	YTD Q3 2019	Q3 2019	YTD Q3 2019	YTD Q3 2019
	Company	Company	Group	Group	Group
(Unaudited figures, NOK/USD exchange rate quarter 8,8634)	(kNOK)	(kNOK)	(kNOK)	(kNOK)	(kUSD)
Revenues	2 713	46 668	0	0	0
Other income	24	497	24	497	58
<b>Total revenues and other income</b>	<b>2 737</b>	<b>47 164</b>	<b>24</b>	<b>497</b>	<b>58</b>
Cost of sales	-62 403	-123 770	-1 538	-1 586	-179
Payroll expenses	-14 183	-46 713	-15 488	-49 747	-5 713
Other operating expenses	-4 482	-11 688	-4 825	-14 378	-1 653
Depreciation	-51	-104	-51	-104	-12
<b>Total operating expenses</b>	<b>-81 119</b>	<b>-182 275</b>	<b>-21 901</b>	<b>-65 815</b>	<b>-7 557</b>
<b>Operating profit (/loss)</b>	<b>-78 381</b>	<b>-135 111</b>	<b>-21 877</b>	<b>-65 319</b>	<b>-7 499</b>
Net financial items	-13 345	-21 735	-13 828	-23 287	-1 373
<b>Net financial gain (/loss)</b>	<b>-13 345</b>	<b>-21 735</b>	<b>-13 828</b>	<b>-23 287</b>	<b>-1 373</b>
<b>Profit (/loss) before taxes</b>	<b>-91 726</b>	<b>-156 846</b>	<b>-35 705</b>	<b>-88 605</b>	<b>-8 872</b>
Tax on ordinary result	0	0	0	0	0
<b>Net profit (/loss)</b>	<b>-91 726</b>	<b>-156 846</b>	<b>-35 705</b>	<b>-88 605</b>	<b>-8 872</b>
<b>Other comprehensive income</b>					
Foreign currency translation	0	0	275	-471	-2 044
<b>Total comprehensive income for the year</b>	<b>-91 726</b>	<b>-156 846</b>	<b>-35 430</b>	<b>-89 076</b>	<b>-10 916</b>

<b>Quantafuel Balance sheet</b> (Unaudited figures, NOK/USD exchange rate 30.09: 9,0874)	<b>Q3 2019</b> <b>Company</b> (kNOK)	<b>Q2 2019</b> <b>Company</b> (kNOK)	<b>Q3 2019</b> <b>Group</b> (kNOK)	<b>Q2 2019</b> <b>Group</b> (kNOK)	<b>Q3 2019</b> <b>Group</b> (kUSD)
<b>Assets</b>					
Property, plant and equipment	1 638	287	181 911	115 001	20 018
Investment in Associates	17 156	17 156	0	0	0
Intangible assets	17 991	14 777	18 181	14 967	2 001
Other non-current assets	0	0	3 245	3 180	357
<b>Total non-current assets</b>	<b>36 784</b>	<b>32 220</b>	<b>203 336</b>	<b>133 148</b>	<b>22 376</b>
Accounts receivables	0	4 000	0	4 000	0
Other receivables	42 594	7 580	12 952	19 715	1 425
Other current assets	0	0	0	0	0
Cash and cash equivalents	32 078	90 798	40 420	97 558	4 448
<b>Total current assets</b>	<b>74 672</b>	<b>102 378</b>	<b>53 372</b>	<b>121 273</b>	<b>5 873</b>
<b>Total assets</b>	<b>111 457</b>	<b>134 598</b>	<b>256 708</b>	<b>254 421</b>	<b>28 249</b>
<b>Equity and Liabilities</b>					
Shareholders' equity	448 235	409 383	439 340	401 147	48 346
Retained earnings	-407 666	-315 940	-359 254	-323 824	-39 533
-Non-controlling interests	0	0	9 766	8 895	1 075
<b>Total equity</b>	<b>40 569</b>	<b>93 443</b>	<b>89 852</b>	<b>86 218</b>	<b>9 887</b>
Loans to financial institutions	0	0	16 796	16 460	1 848
<b>Total non-current liabilities</b>	<b>0</b>	<b>0</b>	<b>16 796</b>	<b>16 460</b>	<b>1 848</b>
Accounts payable	30 374	7 225	31 414	42 581	3 457
Trace, other payables and provisions	23 644	1 560	24 200	1 928	2 663
Finance debt	0	25 917	0	25 917	0
Other current liabilities	16 870	6 453	94 446	81 317	10 393
<b>Total current liabilities</b>	<b>70 888</b>	<b>41 155</b>	<b>150 061</b>	<b>151 743</b>	<b>16 513</b>
<b>Total equity and liabilities</b>	<b>111 457</b>	<b>134 598</b>	<b>256 708</b>	<b>254 421</b>	<b>28 249</b>

<b>Quantafuel Statement of Cash flow</b>	<b>Q3 2019</b>	<b>Q2 2019</b>	<b>Q3 2019</b>	<b>Q2 2019</b>	<b>Q3 2019</b>
(Unaudited figures, NOK/USD exchange rate quarter 8,8634)	<b>Company</b>	<b>Company</b>	<b>Group</b>	<b>Group</b>	<b>Group</b>
	(kNOK)	(kNOK)	(kNOK)	(kNOK)	(kUSD)
<b>Cash flows from operation</b>					
<b>Net profit (/loss)</b>	<b>-91 726</b>	<b>-52 724</b>	<b>-35 430</b>	<b>-38 156</b>	<b>-3 997</b>
Depreciations, amortisations and net impairment losses	51	27	51	27	6
Adjustments to net income	-13 543	-27 614	-4 707	-20 735	-531
Adjustments to Accrued expenses	37 335	-13 640	37 335	-13 640	4 212
Changes in inventories, accounts payable and receivables	-4 577	10 428	-6 258	11 919	-706
Changes in other current balance sheet items	5 420	-4 230	5 420	-4 230	612
<b>Cash flows provided by (/used in) operating activities</b>	<b>-67 040</b>	<b>-87 753</b>	<b>-3 588</b>	<b>-64 814</b>	<b>-405</b>
<b>Cash flows from investing activities</b>					
Net investments in tangible fixed assets	-4 615	-2 599	-66 345	-28 066	-7 485
<b>Cash flows used in investing activities</b>	<b>-4 615</b>	<b>-2 599</b>	<b>-66 345</b>	<b>-28 066</b>	<b>-7 485</b>
<b>Cash flows from financing activities</b>					
Issuing (/repurchase) of shares	29 535	0	29 535	0	3 332
Increase (/repayment) of finance debt	-25 917	24 626	-25 917	24 626	-2 924
Other cash flows from financing activities	9 317	0	9 317	0	1 051
<b>Cash flows provided by (/used in) financing activities</b>	<b>12 935</b>	<b>24 626</b>	<b>12 935</b>	<b>24 626</b>	<b>1 459</b>
Effect of exchange rate changes	0	0	-140	-303	-574
<b>Cash balance</b>					
Net increase (/decrease) in cash and cash equivalents	-58 720	-65 727	-57 138	-68 556	-7 005
Cash and cash equivalents at the beginning of the period	90 798	156 525	97 558	166 114	11 453
<b>Cash and cash equivalents at the end of the period</b>	<b>32 078</b>	<b>90 798</b>	<b>40 420</b>	<b>97 558</b>	<b>4 448</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 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](http://www.quantafuel.com)*