Quadrise Fuels International plc

Company Registration No. 05267512

Interim Report and Consolidated Financial Statements

For the 6 month period to 31 December 2018

Quadrise Fuels International plc ("Quadrise", "QFI", the "Company" and together with its subsidiaries the "Group") presents its unaudited interim results for the six months ended 31 December 2018

Chairman's Statement

Introduction

As I outlined in the 2018 Annual Report, the Group's focus over the past year has been on rebuilding shareholder confidence and demonstrating that their long-term support continues to be justified. During this period, we have evolved and diversified our approach to business development, achieving and announcing a number of important initiatives. In November 2018, we announced the signature of the Co-Marketing and Project Development Agreement ("CMPDA") with Freepoint Commodities LLC ("Freepoint"), and also the memorandum of understanding ("MoU") and MSAR® test programme with a European oil major. We continue to work with Japan Gas Corporation ("JGC") to access major customers in Japan, and are also using agents in certain key markets. In Kuwait, a territory under the CMPDA, Quadrise is now working with Aleph Commodities Ltd ("Aleph") and in Morocco the Company is being assisted by Younes Maamar, a former CEO of the Moroccan state-owned utility ONEE.

In December 2018, we launched the open offer which closed successfully on 21 January 2019, raising £1.51 million of gross proceeds. I would like to thank all of the shareholders who supported Quadrise in this critical fundraising. With careful management of resources, this provides Quadrise with the ability to continue its business development activities through to early October 2019.

To enable the business to progress to sustainable commercial operations, we are very clear on the requirement for near-term business development milestones and for additional funding. We are actively engaged in delivering on both fronts during 2019.

The positive shifts in the liquid fuel markets continued throughout 2018. The combination of a positive macro environment and improved MSAR® economics, driven by the widening spread between Heavy Fuel Oil ("HFO") and Gas Oil as well as significant changes in the way marine operators plan to comply with the International Maritime Organization ("IMO") 2020 regulation, provide a very positive backdrop for Quadrise to work with refiners and fuel consumers in the power, marine and industrial markets to progress MSAR® projects.

Our Research, Development and Innovation ("RDI") activities remain central to our technology-led offering and work has continued to further develop the testing facilities at the Quadrise Research Facility ("QRF"), in order to handle those more challenging residues that require much higher working temperatures and pressures for MSAR® manufacture. We were pleased to have hosted a number of visits by shareholders to QRF recently and these have proven helpful in demonstrating to shareholders the depth and breadth of both QFI's offering and the team at QRF, who are responsible for both RDI activities and operational support for active MSAR® projects.

We retain a close working relationship with our technology partner, Nouryon, and on 26 November 2018 we announced the extension, for one year of the Joint Development Agreement and a Co-Operation and Exclusive Purchase and Supply Agreement for the chemicals used to create MSAR®. The agreements were renewed with previous AkzoNobel entities that transferred with the formation of Nouryon on 1 October 2018, following the acquisition of AkzoNobel's speciality chemicals business by The Carlyle Group. During 2019, these agreements will be replaced with a new Exclusive Purchase and Supply Agreement with a new Nouryon entity. We are continuing to work closely with Nouryon to ensure that plans for MSAR® additives demand can match global supply by Nouryon facilities.

Power Generation MSAR® Fuel

The announcements on 26 February 2019 and 6 March 2019 of representation agreements with Aleph and Younes Maamar respectively highlight the progress we are making in two important markets. Firstly, in Kuwait, our agreement with Aleph has positioned Quadrise to build on the work we had already successfully undertaken in 2018 to demonstrate our technology to key participants in the local refining market and we look forward to being able to build on this substantially during 2019. Secondly, our agreement with Younes Maamar to access the power market in Morocco provides further opportunities.

Under the terms of both agreements, Quadrise has agreed a success based incentive structure, with material rewards only due upon the delivery of relevant disclosable project milestones and contracts that lead to the establishment of MSAR® projects and commercial sales. Alongside these, we are continuing to pursue power market opportunities in a number of regions under our MoU with a European oil major and through our existing relationships with Freepoint, JGC and YTL Power Seraya. In addition, we continue to seek to address the market in the Kingdom of Saudi Arabia and are progressing a number of initiatives to reengage in the country and evaluate other regional opportunities for fuel oil substitution with MSAR®.

Marine MSAR® Bunker Fuel

The market background for Quadrise has been increasingly positive in the marine market, with an increasing uptake of exhaust gas cleaning systems ("EGCS" or "scrubbers") combined with the use of high sulphur fuel representing the most economic IMO 2020 compliance option across the container, tanker and dry bulk markets, as planning for implementation on 1 January 2020 gathers pace during the second half of 2019. Quadrise is benefiting from this market dynamic and is in discussion with a number of market participants regarding work to progress trials ahead of making decisions on the adoption of MSAR® alongside EGCS.

Work is also progressing at the IMO to build a policy framework to support compliance of global regulations by banning the carriage of non-compliant fuels unless EGCS are installed on vessels. In parallel, there are growing concerns regarding the availability and compatibility of blended 0.5% Sulphur HFO based on a recent spate of marine fuel oil quality issues from incompatible blendstocks and resulting engine failures. As a consequence of this, many owners are expected to use more expensive Gas Oil if they do not have EGCS installed. These developments are impacting the forward price differential between Gas Oil and HFO for 2020, which now stands at US$310-US$330/tonne, providing a sound economic backdrop for both MSAR® and EGCS. Quadrise and many market analysts continue to believe that high sulphur fuel and EGCS will be the lowest cost option compared with low sulphur alternatives.

Cost control

We continue to operate with a streamlined senior management team, with our Head of Projects Mark Whittle working alongside the Chief Operating Officer Jason Miles and myself to progress business development activities in the refining, power and marine markets. QRF is managed by our Head of Operations Bernard Johnston, who is based at our new lower cost premises that we moved into during Q2 2018. During the period under review, our programme of work and formal agreement with the University of Surrey came to an end, with the outcomes of this work now being progressed in-house at QRF under the supervision of our Head of RDI and Quality, Patrick Brunelle, with further resultant cost savings.

As part of the measures taken to conserve cash resources, with effect from 1 September 2017, I agreed to defer 50% of my salary and the Non-executive Directors deferred approximately 30% of their fees (reducing these temporarily to £24k per annum). The deferral was for an initial 12-month period and then extended further to 31 March 2019. Following the successful open offer, the deferred portion of my salary and the Non-executive Directors' fees will be repaid before the end of the financial year. The Directors and I have agreed that the previously announced 25% uplift portion (as compensation for this contribution to cost control) will now only apply to the period up to 31 December 2018, and will not be payable unless and until the Group is demonstrably funded to the point of commercial revenues.

Financial Position

The Group held cash and cash equivalents of approximately £1.0 million as at 31 December 2018 and raised approximately £1.5 million in gross proceeds from the successful open offer in January 2018. The Group continues to operate on a debt free basis whilst maintaining a stringent control of costs.

The Group recorded a loss of £1.7m for the six months to 31 December 2018 (2017: £2.0m). This included production and development costs of £0.9m (2017: £1.1m) and administration expenses of £0.7m (2017: £0.8m).

Basic and diluted loss per share was 0.19p (2017: 0.23p).

The Group's total assets amounted to £5.1 million as at 31 December 2018 (£7.8 million as at 31 December 2017). Apart from the cash and cash equivalents, this included fixed tangible assets (mainly plant and equipment) of £0.8 million and MSAR® trade name of £2.9 million.

A provision of £189k for the costs of decommissioning the MSAR® manufacturing facility at the Cepsa refinery in Spain has been recognised. Decommissioning is expected to be completed during Q2 2019.

The Group has accumulated tax losses of approx. £48.7 million (2017: £47.0 million) available to be carried forward against future profits.

Outlook – Current trading and prospects.

We are now building significant momentum across a broad range of opportunities in the power and marine markets, and our efforts remain focused on moving these forward at pace through the remainder of 2019. Our evolved business development approach is reducing risk through having a broader portfolio of opportunities. Alongside this, our proven project management expertise enhances our ability to engage with leading companies and reduces the delivery risk to project activities.

We continue to believe that our MSAR® technology has significant potential, and recent announcements demonstrate that an increasing number of participants in the energy, power and marine markets are aligned to this view and are incentivised to deliver value for Quadrise and our shareholders. We look forward to being able to provide updates as appropriate as we progress through 2019.

Mike Kirk
Executive Chairman
22 March 2019

Condensed Consolidated Statement of Comprehensive Income

For the 6 months ended 31 December 2018

	Note	**6 months ended 31 December 2018 Unaudited £'000**	6 months ended 31 December 2017 Unaudited £'000	Year ended 30 June 2018 Audited £'000
Continuing operations				
Revenue		**-**	-	9
Production and development costs		**(934)**	(1,107)	(2,002)
Other administration expenses		**(738)**	(830)	(1,518)
Share option charge		**(6)**	(40)	(53)
Foreign exchange loss		**11**	(5)	(3)
Operating loss		**(1,667)**	(1,982)	(3,567)
Finance costs		**(3)**	(4)	(7)
Finance income		**1**	16	18
Loss before tax		**(1,669)**	(1,970)	(3,556)
Taxation		**-**	-	294
Total comprehensive loss for the period from continuing operations		**(1,669)**	(1,970)	**(3,262)**

Loss per share – pence				
Basic	4	**(0.19)p**	(0.23)p	(0.38) p
Diluted	4	**(0.19)p**	(0.23)p	(0.38) p

Condensed Consolidated Statement of Financial Position

As at 31 December 2018

	Note	As at 31 December 2018 Unaudited £'000	As at 31 December 2017 Unaudited £'000	As at 30 June 2018 Audited £'000
Assets				
Non-current assets				
Property, plant and equipment	5	**811**	1,024	961
Intangible assets	6	**2,924**	2,924	2,924
Non-current assets		**3,735**	3,948	3,885
Current assets				
Cash and cash equivalents		**967**	3,437	2,229
Trade and other receivables		**166**	245	188
Prepayments		**163**	98	122
Stock		**61**	61	61
Current assets		**1,357**	3,841	2,600
TOTAL ASSETS		**5,092**	7,789	6,485
Equity and liabilities				
Current liabilities				
Trade and other payables		**481**	425	400
Provision for decommissioning		**189**	-	-
Current liabilities		**670**	425	400
Equity attributable to equity holders of the parent				
Issued share capital		**8,622**	8,622	8,622
Share premium		**73,642**	73,642	73,642
Share option reserve		**3,346**	3,420	3,432
Reverse acquisition reserve		**522**	522	522
Accumulated losses		**(81,710)**	(78,842)	(80,133)
Total shareholders' equity		**4,422**	7,364	6,085
TOTAL EQUITY AND LIABILITIES		**5,092**	7,789	6,485

Condensed Consolidated Statement of Changes in Equity

For the 6 months ended 31 December 2018

	Issued share capital £'000	Share premium £'000	Share option reserve £'000	Reverse acquisition reserve £'000	Accumulated losses £'000	Total £'000
As at 1 July 2018	**8,622**	**73,642**	**3,432**	**522**	**(80,133)**	**6,085**
Loss and total comprehensive loss for the period	-	-	-	-	**(1,669)**	**(1,669)**
Share option charge	-	-	**6**	-	-	**6**
Transfer of balances relating to expired share options	-	-	**(92)**	-	**92**	-
Shareholders' equity at 31 December 2018	**8,622**	**73,642**	**3,346**	**522**	**(81,710)**	**4,422**
As at 1 July 2017	8,622	73,642	3,704	522	(77,196)	9,294
Loss and total comprehensive loss for the period	-	-	-	-	(1,970)	(1,970)
Share option charge	-	-	40	-	-	40
Transfer of balances relating to expired share options	-	-	(324)	-	324	-
Shareholders' equity at 31 December 2017	8,622	73,642	3,420	522	(78,842)	7,364
As at 1 January 2018	8,622	73,642	3,420	522	(78,842)	7,364
Loss and total comprehensive loss for the period	-	-	-	-	(1,292)	(1,292)
Share option charge	-	-	13	-	-	13
Transfer of balances relating to expired share options	-	-	(1)	-	1	-
Shareholders' equity at 30 June 2018	8,622	73,642	3,432	522	(80,133)	6,085

Condensed Consolidated Statement of Cash Flows

For the 6 months ended 31 December 2018

	Note	**6 months ended 31 December 2018 Unaudited £'000**	6 months ended 31 December 2017 Unaudited £'000	Year ended 30 June 2018 Audited £'000
Operating activities				
Loss before tax from continuing operations		**(1,669)**	(1,970)	(3,556)
Finance costs paid		**3**	4	7
Finance income received		**(1)**	(16)	(18)
Loss on disposal of fixed assets	5	**25**	-	-
Depreciation	5	**130**	106	230
Share option charge		**6**	40	53
Working capital adjustments				
Decrease in trade and other receivables		**22**	57	114
(Increase)/decrease in prepayments		**(41)**	55	31
Increase in trade and other payables		**81**	178	153
Increase in provision for decommissioning		**189**	-	-
Cash utilised in operations		**(1,255)**	(1,546)	(2,986)
Finance costs paid		**(3)**	(4)	(7)
Taxation received		**-**	-	294
Net cash outflow from operating activities		**(1,258)**	(1,550)	(2,699)
Investing activities				
Finance income received		**1**	16	18
Purchase of fixed assets	5	**(5)**	(74)	(135)
Net cash outflow from investing activities		**(4)**	(58)	(117)
Net decrease in cash and cash equivalents		**(1,262)**	(1,608)	(2,816)
Cash and cash equivalents at the beginning of the period		**2,229**	5,045	5,045
Cash and cash equivalents at the end of the period		**967**	3,437	2,229

Notes to the Group Condensed Financial Statements

1. General Information

Quadrise Fuels International plc ("QFI", "Quadrise", or the "Company") and its subsidiaries (together with the Company, the "Group") are engaged principally in the manufacture and marketing of emulsified fuel for use in power generation, industrial and marine diesel engines and steam generation applications. The Company's ordinary shares are quoted on the AIM market of the London Stock Exchange.

QFI was incorporated on 22 October 2004 as a limited company under UK Company Law with registered number 05267512. It is domiciled and registered at Gillingham House, 38-44 Gillingham Street, London, SW1V 1HU.

2. Summary of Significant Accounting Policies

2.1 Basis of Preparation

The interim accounts have been prepared in accordance with IAS 34 'Interim financial reporting' and on the basis of the accounting policies set out in the annual report and accounts for the year ended 30 June 2018, which have been prepared in accordance with International Financial Reporting Standards as adopted for use by the European Union. The interim accounts are unaudited and do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006.

The same accounting policies, presentation and methods of computation have been followed in these unaudited interim financial statements as those which were applied in the preparation of the Group's annual statements for the year ended 30 June 2018, upon which the auditors issued an unqualified opinion, and which have been delivered to the registrar of companies.

The interim accounts have been drawn up using accounting policies and presentation expected to be adopted in the Group's annual financial statements for the year ended 30 June 2019.

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and in some cases have not yet been adopted by the European Union. The Directors do not expect that the adoption of these standards will have a material impact on the financial information of the Group in future periods.

The interim accounts for the six months ended 31 December 2018 were approved by the Board on 22 March 2019.

The directors do not propose an interim dividend.

3. Segmental Information

For the purpose of segmental information the reportable operating segment is determined to be the business segment. The Group principally has one business segment, the results of which are regularly reviewed by the Board. This business segment is a business to produce emulsion fuel (or supply the associated technology to third parties) as a low cost substitute for conventional HFO for use in power generation plants and industrial and marine diesel engines.

The Group's only geographical segment during the period was the UK.

4. Loss Per Share

The calculation of loss per share is based on the following loss and number of shares:

	6 months ended 31 December 2018 Unaudited	6 months ended 31 December 2017 Unaudited	Year ended 30 June 2018 Audited
Loss for the period from continuing operations (£'000s)	**(1,669)**	(1,970)	(3,262)
Weighted average number of shares:			
Basic	**862,204,976**	862,204,976	862,204,976
Diluted	**862,204,976**	862,204,976	862,204,976
Loss per share:			
Basic	**(0.19)p**	(0.23)p	(0.38)p
Diluted	**(0.19)p**	(0.23)p	(0.38)p

Basic loss per share is calculated by dividing the loss for the period from continuing operations of the Group by the weighted average number of ordinary shares in issue during the period.

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive options and warrants over ordinary shares. Potential ordinary shares resulting from the exercise of share options and warrants have an anti-dilutive effect due to the Group being in a loss position. As a result, diluted loss per share is disclosed as the same value as basic loss per share. The 22.0 million share options issued by the Company and which are outstanding at the period-end could potentially dilute earnings per share in the future if exercised when the Group is in a profit making position.

5. Property, plant and equipment

	Leasehold improvements £'000	Computer equipment £'000	Software £'000	Office equipment £'000	Plant and machinery £'000	Total £'000
Cost						
Opening balance – 1 July 2018	166	91	43	16	1,428	1,744
Additions	-	-	-	-	5	5
Disposals	-	-	-	-	(47)	(47)
Closing balance – 31 December 2018	**166**	**91**	**43**	**16**	**1,386**	**1,702**
Depreciation						
Opening balance – 1 July 2018	(109)	(63)	(36)	(16)	(559)	(783)
Depreciation charge for the period	(42)	(8)	(3)	-	(77)	(130)
Disposals	-	-	-	-	22	22
Closing balance – 31 December 2018	**(151)**	**(71)**	**(39)**	**(16)**	**(614)**	**(891)**
Net book value at 31 December 2018	**15**	**20**	**4**	**-**	**772**	**811**
Cost						
Opening balance – 1 July 2017	107	91	43	16	1,352	1,609
Additions	-	-	-	-	74	74
Closing balance – 31 December 2017	**107**	**91**	**43**	**16**	**1,426**	**1,683**
Depreciation						
Opening balance – 1 July 2017	(67)	(47)	(31)	(15)	(393)	(553)
Depreciation charge for the period	(12)	(8)	(2)	(1)	(83)	(106)
Closing balance – 31 December 2017	**(79)**	**(55)**	**(33)**	**(16)**	**(476)**	**(659)**
Net book value at 31 December 2017	**28**	**36**	**10**	**-**	**950**	**1,024**
Cost						
Opening balance – 1 July 2017	107	91	43	16	1,352	1,609
Additions	59	-	-	-	76	135
Closing balance – 30 June 2018	**166**	**91**	**43**	**16**	**1,428**	**1,744**
Depreciation						
Opening balance – 1 July 2017	(67)	(47)	(31)	(15)	(393)	(553)
Depreciation charge for the year	(42)	(16)	(5)	(1)	(166)	(230)
Closing balance – 30 June 2018	(109)	(63)	(36)	(16)	(559)	(783)
Net book value at 30 June 2018	**57**	**28**	**7**	**-**	**869**	**961**

6. Intangible Assets

	QCC royalty payments Unaudited £'000	MSAR® trade name Unaudited £'000	Technology and know-how Unaudited £'000	Total Unaudited £'000
Cost				
Balance as at 1 July 2018 and 31 December 2018	**7,686**	**3,100**	**25,901**	**36,687**
Amortisation and Impairment				
Balance as at 1 July 2018 and 31 December 2018	**(7,686)**	**(176)**	**(25,901)**	**(33,763)**
Net book value at 31 December 2018	**-**	**2,924**	**-**	**2,924**
Cost				
Balance as at 1 July 2017 and 31 December 2017	7,686	3,100	25,901	36,687
Amortisation and Impairment				
Balance as at 1 July 2017 and 31 December 2017	(7,686)	(176)	(25,901)	(33,763)
Net book value at 31 December 2017	-	2,924	-	2,924
Cost				
Balance at 1 July 2017 and 30 June 2018	7,686	3,100	25,901	36,687
	-	-	-	-
Amortisation and Impairment				
Balance at 1 July 2017 and 30 June 2018	(7,686)	(176)	(25,901)	(33,763)
Net book value at 30 June 2017	-	2,924	-	2,924

Intangibles comprise intellectual property with a cost of £36.69m, including assets of finite and indefinite life. QCC royalty payments of £7.69m and the MSAR® trade name of £3.10m are termed as assets having indefinite life as it is assessed that there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the Group. The assets with indefinite life are not amortised. The remaining intangibles amounting to £25.90m, primarily made up of technology and know-how, are considered as finite assets and are now fully amortised. The Group does not have any internally generated intangibles.

The Group tests intangible assets annually for impairment, or more frequently if there are indications that they might be impaired. As at 30 June 2018, the QCC royalty payments asset was fully impaired and the MSAR® trade name asset had a net book value of £2.924m. For the six month period to 31 December 2018, there was no indication that the MSAR® trade name asset may be impaired.

As a result, the Directors concluded that no impairment is necessary for the six month period to 31 December 2018.

7. Available for Sale Investments

At the statement of financial position date, the Group held a 20.44% share in the ordinary issued capital of Quadrise Canada Corporation ("QCC"), a 3.75% share in the ordinary issued capital of Paxton Corporation ("Paxton"), a 9.54% share in the ordinary issued capital of Optimal Resources Inc. ("ORI") and a 16.86% share in the ordinary issued capital of Porient Fuels Corporation ("Porient"), all of which are incorporated in Canada.

QCC is independent of the Group and is responsible for its own policy-making decisions. There have been no material transactions between QCC and the Group during the period or any interchange of managerial personnel. As a result, the Directors do not consider that they have significant influence over QCC and as such this investment is not accounted for as an associate.

The Group has no immediate intention to dispose of its available for sale investments unless a beneficial opportunity to realise these investments arises.

Given that there is no active market in the shares of any of above companies, the Directors have determined the fair value of the unquoted securities at 31 December 2018. The shares in each of these companies were valued at CAD $nil on 1 July 2018. Shareholder communications received during the period to 31 December 2018 indicate that the business models for each of these companies remain highly uncertain, with minimal possibility of any material value being recovered from their asset base. On that basis, the directors have determined that the investments should continue to remain valued at CAD $nil at 31 December 2018.

8. Related Party Transactions

QFI defines key management personnel as the Directors of the Company. There are no transactions with Directors other than their remuneration.

9. Seasonality

The operations of the Group are not affected by seasonal fluctuations.

10. Commitments and Contingencies

The Group and the Company have entered into commercial leases for the rental of operational and office premises. The leases expire on 28th February 2019 and 25th March 2019, and there are no restrictions placed on the Group or Company by entering into this lease. The minimum future lease payments for the non-cancellable leases are as follows:

	31 December 2018 £'000	31 December 2017 £'000	30 June 2018 £'000
Operational and Office premises:			
One year	**28**	106	96
Two to five years	-	25	-
After five years	-	-	-

On 6th February 2019, the lease for commercial premises was renewed for a period of 12 months.

On 20th February 2019, the lease for the rental of office premises was renewed for a period of 3.5 years.

Minimum non cancellable lease payments arising as a result of the lease renewals totalled £204k.

A contingent liability of £45k exists as at the statement of financial position date, comprising the 25% uplift on the portion of Directors salaries and fees deferred during the period from 1 September 2017 to 31 December 2018, together with the resulting employers National Insurance contributions. This sum will be payable in the event that the Group obtains the funding necessary to progress to commercial revenues.

11. Events After the End of the Reporting Period

On 21 January 2019 the Company announced that it had raised approximately £1.51 million in gross proceeds from an Open Offer. A total of 60,506,919 Open offer shares were admitted for trading on 22 January 2019.

On 26 February 2019, the Company announced that it had entered into a Services Agreement with Aleph Commodities Ltd. In accordance with this agreement, up to 40 million warrants over Ordinary Shares in the Company may be awarded to Aleph provided certain key milestones are achieved.

On 6 March 2019, the Company announced that it had entered into a Representation Agreement with a consultant. In accordance with this agreement, up to 13 million warrants over Ordinary Shares in the Company may be awarded to the consultant provided certain key milestones are achieved.

12. Copies of the Interim Accounts

Copies of the interim accounts are available on the Company's website at www.quadrisefuels.com and from the Company's registered office, Gillingham House, 38-44 Gillingham Street, London, SW1V 1HU.