Quadrise Fuels International plc

Company Registration No. 05267512

Interim Report and Consolidated Financial Statements

For the 6 month period to 31 December 2016

Chairman's Statement

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 2016

Business Overview

This interim report updates shareholders on developments during the six months ended 31 December 2016, together with material events and activities taking place after the balance sheet date.

Quadrise's Unique Offer

Quadrise has developed MSAR® as a less expensive, cleaner synthetic heavy fuel oil ("HFO"). Produced using QFI's proprietary technology and services, MSAR® offers both producers and consumers of the fuel significant economic and environmental advantages. MSAR®, an oil in water emulsion, is made by mixing the residual streams from an oil refinery with water and specialised chemicals in a proprietary production process – instead of diluting the residuals with high value distillate products typically used in the production of HFO.

MSAR® has superior characteristics compared with HFO:

- MSAR® can be stored and used at lower temperatures than HFO.
- The small particle size (5-10 microns) of the residue in MSAR® results in virtually complete combustion – leading to improvements in engine efficiency and significant reductions in carbon particulates in the exhaust gases.
- The presence of water in MSAR® reduces the combustion temperatures – leading to significant reductions in nitrogen oxide ("NOx") emissions.
- MSAR® is provided at a lower price than HFO for the equivalent energy output.
- Producing MSAR® allows the refiner to sell the higher value distillates products that would otherwise be used to dilute the residue in order to create HFO.

Quadrise is the technology and service partner to both the producer and the consumer and aims to create value through licence revenues from the production of fuel and the sale of the chemicals and MSAR® manufacturing systems. The core technology has been developed jointly with AkzoNobel Surface Chemistry – one of the world's leading suppliers of speciality chemicals.

For the refiner, the production of MSAR® upgrades the low value residue that is inherent in any oil refining process by treating it with speciality chemicals and water in a proprietary production process, rather than diluting it with high value distillate to create HFO. This releases material volumes of high value distillate for sale (typically increasing from 50% to 70% of the overall refinery output) – providing the potential to significantly increase refining margins. For the consumer, MSAR® is offered at a discount (on an energy equivalent basis) and also offers environmental and handling benefits, compared with HFO.

The two largest markets for the use of MSAR® as a low-cost, efficient synthetic HFO with environmental advantages are the marine bunkering and power generation markets. In both cases, it is necessary to engage with both the producers (refiners) and consumers (shipping companies and power utilities) to develop the significant market opportunities. Significant work has been carried out to demonstrate the proof of concept in these two key end-user markets and current work is focused on commercial scale trials, the successful delivery of which will be key milestones towards QFI developing sustainable commercial revenues.

Marine Bunker Fuel Market

The market for marine bunker fuel is approximately 200 million tons per annum, with a current value of approximately US$60 billion (at US$300/mt), with the majority of product delivered via five large regional bunkering hubs, of which Singapore is the largest. These hubs are also major regional refining and petrochemical centres. The demand side is dominated by a relatively small number of very large shipping companies, with the global leader in container shipping being Maersk Line A/S ("Maersk"). Quadrise has been working with Maersk since 2009 and this culminated in the current operational and letter of no objection ("LONO") trial that commenced in July 2016, with MSAR® being produced at the Compania Espanola de Petroleos S.A.U. ("Cepsa") Gibraltar San Roque Refinery in Spain.

During the period, the International Maritime Organization ("IMO") reached a decision on the implementation of new, reduced, open ocean fuel sulphur standards. These will now be reduced to 0.5% sulphur from 1 January 2020, unless an exhaust gas scrubber is used. The previous implementation of the 0.1% sulphur standards in the two designated emission control areas in North America and Europe in 2015 was generally effected by the use of low-sulphur marine diesel or derivatives. For the new 2020 open ocean standards, it is currently anticipated that for most operators, the most economic compliance option will be the use of "high" sulphur fuel and exhaust gas scrubbers. However, even relatively modest increases in demand for low-sulphur marine diesel will lead to an increase in the spread between diesel and HFO which is the primary economic driver for MSAR® and so will, we believe, be beneficial for Quadrise, as it will offer increased savings over the use of HFO with equivalent sulphur content.

Power Generation Market

The use of HFO and crude oil for power generation is a market worth around US$28 billion per annum and the largest consumers are in the Middle East and Asia. Quadrise's development in the power generation market has been focused on the Kingdom of Saudi Arabia ("KSA"), as the scale and nature of the oil and power generation industries offers an enormous opportunity for both conversion from fuel oil to MSAR® production in very large refineries, and for the substitution of crude oil and HFO currently used in thermal power and other large scale applications. Quadrise has been actively involved with the oil industry in KSA since 2008 and this culminated with the signing of a memorandum of understanding ("MoU") in August 2016 for a production to combustion trial commencing in 2017, with production at a designated refinery and combustion at a designated boiler in a major power station.

Operational Highlights

During the period under review, continued positive progress has been made on the marine operational trial with the nominated Maersk vessel successfully burning MSAR® on its regular scheduled route, whilst outside the European Emission Control Area. Around the beginning of 2017, the vessel was placed on a new route that initially saw a more rapid accumulation of run hours compared with 2016. Whilst the feedback from Maersk continues to remain positive, recent operational issues with the trial vessel, totally unrelated to MSAR®, resulted in Quadrise making two announcements, on 2 March 2017 and 13 March 2017 respectively. The first of these announcements confirmed that there had been an incident that would require the trial vessel to undergo an unscheduled dry dock visit. The second announcement, on 13 March 2017, provided a further update after Quadrise was advised by Maersk that it would not be possible for the trial to continue on the vessel following the dry dock visit as it would then be redeployed on a different service that would not permit further bunkering at Algeciras. As a result, it was confirmed that the current trial on this vessel would be suspended once the remaining MSAR® fuel on board had been consumed.

The 13 March 2017 announcement went on to state that Maersk had confirmed that the trial has been successful to date and that Wärtsilä would carry out a detailed interim inspection of the trial vessel's engine to document the performance of MSAR® fuel to date.

Maersk has confirmed that the trial has progressed well and, subsequent to the last announcement, Wärtsilä has recently completed the interim inspection of the engine and is now preparing a report which is currently expected to be issued next month. A positive conclusion to the Report will enable QFI and Maersk to progress the issuance of the interim LONO by Wärtsilä to confirm that the fuel is safe for use in Wärtsilä 2-stroke engines. Maersk is also reviewing options for continuing the trial aboard another vessel, although this is unlikely to commence before Q4 2017. So, whilst the interim inspection was completed in line with the timetable and an interim LONO should be issued shortly, the completion of the full LONO trial will now be delayed. It is important to emphasise that this is due to Maersk's operational constraints rather than issues with MSAR® use - an unavoidable consequence of operational testing on a commercial vessel in live service.

Given the current situation, based on all the positive progress made to date, Quadrise has been working closely with Maersk and Wärtsilä since 13 March 2017 to obtain clarity around the timing and scope of the interim LONO from Wärtsilä and the plans and scope for the resumption of the trial. Maersk has confirmed that an interim LONO will provide them with sufficient comfort to progress discussions regarding commercialisation of MSAR®, taking into account a variety of operational and economic factors in addition to the technical performance of MSAR®.

The production of MSAR® at the Cepsa refinery has progressed well during the period – with incremental enhancements to the MSAR® Manufacturing Unit ("MMU") being made which are proving to be helpful as we build up our operational experience within a refinery that processes a variety of different crude oils. In January 2017, we were successfully able to move to a 2-shift production – operating the MMU on a 24-hour basis to produce the largest single batch of MSAR® to date.

Since the beginning of 2017, we have also been working with Cepsa to review new opportunities for maximising the MSAR® production capacity at the facility for new customers in the marine and power sectors and these discussions are progressing well.

In power generation, since the signing of the MoU in the KSA in August 2016, we have significantly increased our activities in support of this large-scale production to combustion trial. This has included regular meetings with all parties and significant technical and engineering input to our clients and their advisors, to ensure that they have appropriate and up to date information on which to base their decisions. An important element of this engagement has been the ability to host a visit to the MSAR® facility at Cepsa's refinery – demonstrating the ability of Quadrise to successfully design, procure, commission and operate a commercial scale MMU in an operating refinery environment. Our input accelerated sharply from December 2016 onwards and we believe that this is having a positive impact on project progress, with the timetable still being based on the KSA trial commencing during the final quarter of 2017.

Migration to Commercial Operations

It remains our plan to migrate the business to commercial operations during 2017, pending positive decisions by our clients. Our base-case planning has always been focused on working with Maersk to commence early commercial MSAR® delivery from the Cepsa refinery to an expanding number of ships following the issuance of the LONO by Wärtsilä. Whilst this still remains our key objective, the recent events highlighted above will have an impact on this timetable.

For Maersk, it remains the case that a positive interim inspection and LONO respectively by Wärtsilä is the trigger point for commencing commercial discussions – with the balance of the hours to the issue of the full LONO being essentially confirmatory. A commercial framework has been drafted, and is being used for outline planning purposes to form the likely basis for any future discussions and agreements between Quadrise, Cepsa and Maersk. Maersk's decision will ultimately be taken on several factors, primarily economic and operational, that will include the economic and environmental advantages of MSAR® in addition to their chosen approach to compliance with the new IMO open ocean sulphur standards that come into force in 2020.

In addition to the continuing discussions with Maersk, we have been increasing our activities with other shipping operators and we believe that, subject to its scope, an interim LONO from Wärtsilä, will be a very positive attribute in progressing those activities. Alongside this, we will be continuing our discussions with a number of other producers in the major European and Asian bunker hubs and regional refining centres to provide additional sourcing opportunities.

Our knowledge of operating on a commercial scale at the Cepsa refinery is also enabling us to further refine our operating, quality and development activities to support migration to commercial operations during 2017. During the period, we continued to make targeted investments in engineering, operational, laboratory and business development staff to ensure a smooth migration to early-stage commercial operations alongside our various trial activities.

We extended our agreement with the University of Surrey in November 2016 and this will, in collaboration with our in-house activities at the Quadrise Research Facility ("QRF"), ensure that we are able to continue to further improve our understanding of the complexities of emulsion chemistry so that we can optimise MSAR® formulations to deliver the best balance of cost, shelf-life and operating performance. The extension of our commercial, supply, intellectual property and development arrangements with our technology partner, AkzoNobel Surface Chemistry, to November 2018 are also important in underpinning our early-stage commercial activities.

Targeted Business Development Programme

Whilst the key trial programmes are an important element of our business development activities – as they demonstrate our technology in use on commercial-scale applications – we have an active business development programme to raise the profile of Quadrise with refiners, power utilities and shippers in our targeted markets in Europe, the Middle East and Asia. This includes a co-ordinated programme of attendance/speaking at relevant industry conferences and seminars – alongside a series of meetings with specific companies – co-ordinated by our General Managers in the refining, marine and power segments. In addition to working directly with potential producers and consumers, we are also raising the profile of Quadrise through engagement with key financial and trade media. To maximise impact and reduce costs, these meetings/interviews are co-ordinated with attendance at conferences and prospective client meetings.

As outlined previously, in Asia we continue our relationship with YTL PowerSeraya and extended the MoU for a further year in October 2016. Whilst the prospective benefits remain material, unlocking value is dependent on MSAR® production by a major regional refiner and this is only likely to start when there is a market for Marine MSAR® through the Singapore bunker hub. This opportunity is being investigated as an integral part of the commercial roll-out in the marine market.

Our discussions with a number of oil majors and refiners in Europe, the Middle East and Asia are continuing and plans for evaluation of sample residues at the QRF from a number of refineries are an integral part of this process and these are expected to be progressed during the remainder of 2017. These cover a range of applications including marine, power and refinery refuelling.

We have also progressed discussions with several parties looking to use our technology in novel upstream applications that have significant long-term potential. We are careful to limit the resources that we commit to these longer-term applications.

Financial Position

The Group recorded a loss of £2.4 million for the six months to 31 December 2016, including a non-cash share option charge of £0.2 million and consultancy revenue of £0.1 million (H1 2015: £2.4 million loss). The production and development costs for the period under review amounted to £1.3 million, most of which related to the ongoing Marine LONO trial with Maersk.

The Group held cash and cash equivalents of £7.0 million as at 31 December 2016. This includes £5.0 million (net of costs) raised through a placing and open offer during the six months' period then ended. The Group continues to operate on a debt free basis and continues to maintain a stringent control of costs.

The Group's total assets amounted to £11.5 million as at 31 December 2016 (£10.8 million as at 31 December 2015). Apart from the cash and cash equivalents, this included fixed tangible assets (mainly plant and equipment) of £1.1 million and MSAR® trade name of £2.9 million.

Outlook

As endorsed by Maersk in the announcement on 13 March 2017, the performance of MSAR® fuel on the trial vessel in normal commercial service has been positive and we expect the interim inspection by Wärtsilä to confirm this in the near future. We are now closely engaged with Maersk and Wärtsilä to expedite the issue of the report and interim LONO, given the completion of the interim inspection, as well as defining the scope and plans for the resumption of the trial on another vessel to achieve a full LONO. This should put us in a good position to progress discussions with Maersk on commercialisation of MSAR® within the shipping industry.

We continue to plan to migrate the business to commercial operations during 2017, pending positive decisions by our clients and the ability to reach appropriate commercial terms with all parties for continued production and supply from the Cepsa San Roque refinery in Spain. The recent events concerning the Maersk trial vessel may have an impact on the timetable; however, we are also increasing our activities with other shipping operators as a result of the positive trial progress to date, and the potential issuance of an interim LONO.

Alongside this we are also planning for the commencement of the production to combustion trial in KSA in late 2017 – which will require significant engineering and operational support during the design, procurement and commissioning stages – in addition to the continued support during the extended production campaign to produce the significant quantities of MSAR® fuel required for the combustion trial.

The generally more stable oil price environment and a predicted future widening of the marine gas oil/HFO spread is further underpinning the value that our technology can deliver. Alongside the general improvement in the oil and product price macro environment, the IMO decision on the implementation of the lower open-ocean sulphur standards has resulted in an emerging consensus that non-compliant fuel and exhaust gas scrubbers are the lowest cost compliance option for the industry as a whole. This, we expect, will provide further support to the developing market for marine MSAR® in the medium term. In KSA, the use of MSAR® is closely aligned with the objectives of the Vision 2030 programme – to increase value delivered within the Kingdom and reduce the reliance on domestic crude oil consumption.

Whilst the recent challenges in the marine operational and LONO trial are unfortunate, pending the issuance of the interim LONO, the ability to fuel and operate a commercial vessel on MSAR® has been established. We have an experienced and committed board and senior management team that are responding positively to the challenges and we remain well positioned to deliver value from our unique technology. We expect our activities during the remainder of the financial year to provide the firm foundations for this value to begin to be realised during the second half of 2017.

Mike Kirk
Executive Chairman
24 March 2017

Condensed Consolidated Statement of Comprehensive Income

For the 6 months ended 31 December 2016

	Note	**6 months ended 31 December 2016 Unaudited £'000**	6 months ended 31 December 2015 Unaudited £'000	Year ended 30 June 2016 Audited £'000
Continuing operations				
Revenue		**68**	2	2
Production and development costs		**(1,297)**	(834)	(2,156)
Other administration expenses		**(1,029)**	(1,083)	(1,965)
Share option charge		**(162)**	(460)	(802)
Foreign exchange gain/(loss)		**(6)**	7	(18)
Operating loss		**(2,426)**	(2,368)	(4,939)
Finance costs		**(5)**	(4)	(8)
Finance income		**6**	19	41
Loss before tax		**(2,425)**	(2,353)	(4,906)
Taxation		**-**	-	149
Total comprehensive loss for the period from continuing operations		**(2,425)**	(2,353)	(4,757)
Loss per share – pence				
Basic	4	**(0.29)p**	(0.29)p	(0.59) p
Diluted	4	**(0.29)p**	(0.29)p	(0.59) p

Condensed Consolidated Statement of Financial Position

As at 31 December 2016

	Note	**As at 31 December 2016 Unaudited £'000**	As at 31 December 2015 Unaudited £'000	As at 30 June 2016 Audited £'000
Assets				
Non-current assets				
Property, plant and equipment	5	**1,086**	1,043	1,156
Intangible assets	6	**2,924**	2,924	2,924
Non-current assets		**4,010**	3,967	4,080
Current assets				
Cash and cash equivalents		**7,048**	6,495	4,268
Trade and other receivables		**263**	230	297
Prepayments		**130**	81	120
Stock		**69**	-	-
Current assets		**7,510**	6,806	4,685
TOTAL ASSETS		**11,520**	10,773	8,765
Equity and liabilities				
Current liabilities				
Trade and other payables		**638**	522	576
Current liabilities		**638**	522	576
Equity attributable to equity holders of the parent				
Issued share capital		**8,622**	8,096	8,096
Share premium		**73,646**	69,216	69,216
Share option reserve		**4,398**	4,605	4,704
Reverse acquisition reserve		**522**	522	522
Accumulated losses		**(76,306)**	(72,188)	(74,349)
Total shareholders' equity		**10,882**	10,251	8,189
TOTAL EQUITY AND LIABILITIES		**11,520**	10,773	8,765

The interim accounts, accompanying policies and notes 1 to 12 (forming an integral part of these interim accounts), were approved and authorised for issue by the Board on [24] March 2017 and were signed on its behalf by:

M. Kirk
Chairman

H. Thanawala
Finance Director

Condensed Consolidated Statement of Changes in Equity

For the 6 months ended 31 December 2016

	Issued share capital £'000	Share premium £'000	Share option reserve £'000	Reverse acquisition reserve £'000	Accumulated losses £'000	Total £'000
As at 1 July 2016	**8,096**	**69,216**	**4,704**	**522**	**(74,349)**	**8,189**
Loss and total comprehensive loss for the period	-	-	-	-	**(2,425)**	**(2,425)**
Share option charge	-	-	**162**	-	-	**162**
New shares issued net of issue costs	**526**	**4,430**	-	-	-	**4,956**
Transfer of balances relating to expired share options	-	-	**(468)**	-	**468**	-
Shareholders' equity at 31 December 2016	**8,622**	**73,646**	**4,398**	**522**	**(76,306)**	**10,882**

	Issued share capital £'000	Share premium £'000	Share option reserve £'000	Reverse acquisition reserve £'000	Accumulated losses £'000	Total £'000
As at 1 July 2015	8,096	69,216	4,210	522	(69,900)	12,144
Loss and total comprehensive loss for the period	-	-	-	-	(2,353)	(2,353)
Share option charge	-	-	460	-	-	460
Transfer of balances relating to expired share options	-	-	(65)	-	65	-
Shareholders' equity at 31 December 2015	8,096	69,216	4,605	522	(72,188)	10,251

	Issued share capital £'000	Share premium £'000	Share option reserve £'000	Reverse acquisition reserve £'000	Accumulated losses £'000	Total £'000
As at 1 January 2016	8,096	69,216	4,605	522	(72,188)	10,251
Loss and total comprehensive loss for the period	-	-	-	-	(2,404)	(2,404)
Share option charge	-	-	342	-	-	342
Transfer of balances relating to expired share options	-	-	(243)	-	243	-
Shareholders' equity at 30 June 2016	8,096	69,216	4,704	522	(74,349)	8,189

Condensed Consolidated Statement of Cash Flows

For the 6 months ended 31 December 2016

	Note	**6 months ended 31 December 2016 Unaudited £'000**	6 months ended 31 December 2015 Unaudited £'000	Year ended 30 June 2016 Audited £'000
Operating activities				
Loss before tax from continuing operations		**(2,425)**	**(2,353)**	(4,906)
Finance costs		**5**	**4**	8
Finance income		**(6)**	**(19)**	(41)
Depreciation	5	**106**	**64**	148
Loss on disposal of fixed assets		**-**	**2**	2
Share option charge		**162**	**460**	802
Working capital adjustments				
Decrease in trade and other receivables		**34**	**103**	36
(Increase)/decrease in prepayments		**(10)**	**157**	118
Increase in trade and other payables		**62**	**100**	154
Increase in stock		**(69)**	**-**	-
Cash utilised in operations		**(2,141)**	**(1,482)**	(3,679)
Finance costs		**(5)**	**(4)**	(8)
Taxation received		**-**	**-**	149
Net cash outflow from operating activities		**(2,146)**	**(1,486)**	(3,538)
Investing activities				
Finance income		**6**	**19**	41
Purchase of fixed assets	5	**(36)**	**(399)**	(596)
Net cash outflow from investing activities		**(30)**	**(380)**	(555)
Financing activities				
Issue of ordinary share capital		**4,956**	**-**	-
Net cash inflow from financing activities		**4,956**	**-**	-
Net increase/(decrease) in cash and cash equivalents		**2,780**	**(1,866)**	(4,093)
Cash and cash equivalents at the beginning of the period		**4,268**	**8,361**	8,361
Cash and cash equivalents at the end of the period		**7,048**	**6,495**	4,268

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 2016, 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 2016, 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 full financial statements for the year ended 30 June 2017.

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 2016 were approved by the Board on [24] March 2017.

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.

Geographical Segments
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 2016 Unaudited	6 months ended 31 December 2015 Unaudited	Year ended 30 June 2016 Audited
Loss for the period from continuing operations (£'000s)	**(2,425)**	**(2,353)**	(4,757)
Weighted average number of shares:			
Basic	**830,088,926**	**809,585,162**	809,585,162
Diluted	**830,088,926**	**809,585,162**	809,585,162
Loss per share:			
Basic	**(0.29)p**	**(0.29)p**	(0.59)p
Diluted	**(0.29)p**	**(0.29)p**	(0.59)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 27.13 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 2016	**99**	**89**	**43**	**16**	**1,251**	**1,498**
Additions	**8**	**3**	**-**	**-**	**25**	**36**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**
Closing balance – 31 December 2016	**107**	**92**	**43**	**16**	**1,276**	**1,534**
Depreciation						
Opening balance – 1 July 2016	**(46)**	**(30)**	**(24)**	**(12)**	**(230)**	**(342)**
Depreciation charge for the period	**(10)**	**(9)**	**(4)**	**(2)**	**(81)**	**(106)**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**
Closing balance – 31 December 2016	**(56)**	**(39)**	**(28)**	**(14)**	**(311)**	**(448)**
Net book value at 31 December 2016	**51**	**53**	**15**	**2**	**965**	**1,086**

	Leasehold improvements £'000	Computer equipment £'000	Software £'000	Office equipment £'000	Plant and machinery £'000	Total £'000
Cost						
Opening balance – 1 July 2015	**99**	**70**	**43**	**16**	**682**	**910**
Additions	**-**	**5**	**-**	**-**	**394**	**399**
Disposals	**-**	**-**	**-**	**-**	**(6)**	**(6)**
Closing balance – 31 December 2015	**99**	**75**	**43**	**16**	**1,070**	**1,303**
Depreciation						
Opening balance – 1 July 2015	**(26)**	**(14)**	**(15)**	**(9)**	**(136)**	**(200)**
Depreciation charge for the period	**(9)**	**(8)**	**(4)**	**(2)**	**(41)**	**(64)**
Disposals	**-**	**-**	**-**	**-**	**4**	**4**
Closing balance – 31 December 2015	**(35)**	**(22)**	**(19)**	**(11)**	**(173)**	**(260)**
Net book value at 31 December 2015	**64**	**53**	**24**	**5**	**897**	**1,043**

	Leasehold improvements £'000	Computer equipment £'000	Software £'000	Office equipment £'000	Plant and machinery £'000	Total £'000
Cost						
Opening balance – 1 July 2015	99	70	43	16	682	910
Additions	-	19	-	-	577	596
Disposals	-	-	-	-	(8)	(8)
Closing balance – 30 June 2016	99	89	43	16	1,251	1,498
Depreciation						
Opening balance – 1 July 2015	(26)	(14)	(15)	(9)	(136)	(200)
Depreciation charge for the year	(20)	(16)	(9)	(3)	(100)	(148)
Disposals	-	-	-	-	6	6
Closing balance – 30 June 2016	(46)	(30)	(24)	(12)	(230)	(342)
Net book value at 30 June 2016	53	59	19	4	1,021	1,156

6. Intangible Assets

	QCC royalty payments Unaudited £'000	**MSAR® trade name Unaudited £'000**	**Technology and know-how Unaudited £'000**	**Total Unaudited £'000**
Cost				
Opening balance – 1 July 2016	**7,686**	**3,100**	**25,901**	**36,687**
Additions	**-**	**-**	**-**	**-**
Closing balance – 31 December 2016	**7,686**	**3,100**	**25,901**	**36,687**
Amortisation and Impairment				
Opening balance – 1 July 2016	**(7,686)**	**(176)**	**(25,901)**	**(33,763)**
Amortisation	**-**	**-**	**-**	**-**
Closing balance – 31 December 2016	**(7,686)**	**(176)**	**(25,901)**	**(33,763)**
Net book value at 31 December 2016	**-**	**2,924**	**-**	**2,924**

	QCC royalty payments Unaudited £'000	MSAR® trade name Unaudited £'000	Technology and know-how Unaudited £'000	Total Unaudited £'000
Cost				
Opening balance – 1 July 2015	7,686	3,100	25,901	36,687
Additions	-	-	-	-
Closing balance – 31 December 2015	7,686	3,100	25,901	36,687
Amortisation and Impairment				
Opening balance – 1 July 2015	(7,686)	(176)	(25,901)	(33,763)
Amortisation	-	-	-	-
Closing balance – 31 December 2015	(7,686)	(176)	(25,901)	(33,763)
Net book value at 31 December 2015	-	2,924	-	2,924

	QCC royalty payments Audited £'000	MSAR® trade name Audited £'000	Technology and know-how Audited £'000	Total Audited £'000
Cost				
Opening balance – 1 July 2015	7,686	3,100	25,901	36,687
Additions	-	-	-	-
Closing balance – 30 June 2016	7,686	3,100	25,901	36,687
Amortisation and Impairment				
Opening balance – 1 July 2015	(7,686)	(176)	(25,901)	(33,763)
Amortisation	-	-	-	-
Closing balance – 30 June 2016	(7,686)	(176)	(25,901)	(33,763)
Net book value at 30 June 2016	-	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 2016, 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 2016, 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 2016.

7. Available for Sale Investments

	31 December 2016 Unaudited £'000	31 December 2015 Unaudited £'000	30 June 2016 Audited £'000
Unquoted securities			
Opening balance	-	-	-
Changes in fair value	-	-	-
Impairment charge	-	-	-
Closing balance	-	-	-

Unquoted securities represent the Group's investment in Quadrise Canada Corporation ("QCC"), Paxton Corporation ("Paxton"), Optimal Resources Inc. ("ORI") and Porient Fuels Corporation ("Porient"), all of which are incorporated in Canada.

At the statement of financial position date, the Group held a 20.44% share in the ordinary issued capital of QCC, a 3.75% share in the ordinary issued capital of Paxton, a 9.54% share in the ordinary issued capital of ORI and a 16.86% share in the ordinary issued capital of Porient.

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 2016. In this regard, the Directors considered other factors such as past equity placing pricing and assessment of risked net present value of the enterprises to arrive at their conclusion on any impairment for all of the unquoted securities.

The shares in each of these companies were valued at CAD $nil on 1 July 2016. Shareholder communications received during the period to 31 December 2016 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 2016.

8. Related Party Transactions

Non-Executive Director Laurence Mutch is also a director of Laurie Mutch & Associates Limited, which has provided consulting services to the Group. The total fees charged for the six month period to 31 December 2016 amounted to £28k (for the six month period to 31 December 2015: £23k). The balance payable at 31 December 2016 was £7.9k (as at 30 June 2016: £12k).

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

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 a commercial lease for office rental. This lease expires on 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 lease are as follows:

	31 December 2016 £'000	31 December 2015 £'000	30 June 2016 £'000
Office premises:			
One year	**106**	106	106
Two to five years	**131**	237	187
After five years	**-**	-	-

The Group has no contingent liabilities as at the statement of financial position date.

11. Events After the End of the Reporting Period

The Company put out 2 announcements on the 2nd and 13th March 2017, respectively. The first of these confirmed that there had been an incident that would require the Maersk trial vessel to undergo an unscheduled dry-dock visit and the second announcement on the 13th March provided a further update after Quadrise was advised by Maersk that:

- Maersk is continuing its efforts to move the trial vessel to a suitable dry dock;
- Following this dry dock, the new vessel route deployed would not permit further bunkering at Algeciras due to schedule limitations;
- The current trial on this vessel would be suspended once the remaining MSAR® fuel had been consumed.

Subsequent to the announcements above, an interim inspection of the engine has been carried out by Wärtsilä to document the performance of MSAR® fuel to date.

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.