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**Appendix 4E (Rule 4.3A)**

**Final Report for The Year Ended 31 December 2018 RESULTS**

**FOR ANNOUNCEMENT TO THE MARKET**

**Reporting Period**

Report for financial year ended December 31, 2018. All comparisons are made to financial year ended December 31, 2017.

**Results for announcement to the market**

	€'000	31 Dec 2018	31 Dec 2017	movement
Revenue from ordinary activities		579	347	up 67%
Profit (loss) after tax from ordinary activities attributable to members		(4,810)	(21,595)	down 77,7%
Net profit (loss) attributable to members		(4,810)	(21,595)	down 77,7%

**Dividends**

No interim dividend was paid in relation to the half-year ended 30 June 2018. No final dividend was paid in relation to the full-year ended 31. December 2018.

**Net tangible assets**

	€ per share	31 Dec 2018	31 Dec 2017	movement
Net tangible assets backing per ordinary share:		0.39	0.28	up 39.3%

The calculation of net tangible assets per ordinary share uses the total number of shares on issue as at December 31, 2018 being 5,960,869 shares.

**Review of results:**

The year 2018 was dominated by the continuation of construction of the first production plant in Terre Haute, Indiana, USA which will allow the Company to achieve operational profitability. The facility is as of date of reporting 85% complete and on track to begin production on July 1, 2019. By our market insights the rCB production facility will be the largest of its kind in the world. Due to strong demand plans have begun to do the engineering and planning work for Plant 2.

Revenues increased 67%, predominantly driven by recovered Carbon Black sales out of the Stegelitz, Germany, facility. This increase is still generated by volumes. Net after tax loss compared to prior year greatly reduced due to restructuring and reorganization of the Munich headquarters (minus 78%).

Net tangible assets per share have increased by 39.3% due to the construction activities related to Plant 1.

The AGM is scheduled for June 2019.

The company is not proposing to pay dividends.

The report is based on accounts which are audited without any qualification.

**Changes in control over entities:**

Pyrolyx International GmbH decreased its stake in Pyrolyx USA, Inc. from 94% to 90.7% as part of a financing transactions in Q2 and Q4, 2018.

In April 2018, Pyrolyx Indiana Rail, LLC was incorporated, as a wholly owned subsidiary of Pyrolyx USA, Inc and the borrowing company for the rail infrastructure for the Terre Haute, Indiana plant.

**Details of associates and joint ventures:**

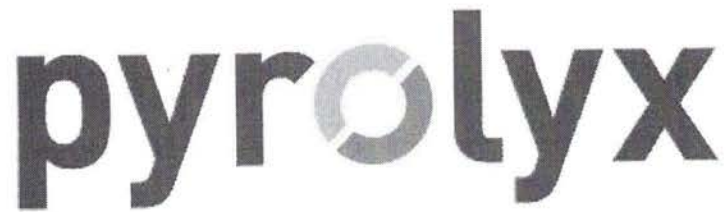
In February 2019, Pyrolyx USA entered into an agreement to acquire J&R Used Tire Service Inc. (Newport, Indiana) as part of the group's vertical integration strategy. J&R will provide sourcing of tire shreds to the plant in Terre Haute.

**Set of accounting standards used in compiling the report:**

The consolidated financial statements have been prepared in accordance with IFRS International Financial Reporting Standards and are currently being audited.

**Details of review modifications:**

Not applicable.



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**Pyrolyx AG**  
**Munich**

**Directors' Report**  
**for the year ended December 31, 2018**

**Pyrolyx AG**  
**Landshuter Allee 8-10**  
**(previously Nymphenburger Str. 70)**  
**D-80335 Munich**  
**[www.pyrolyx.com](http://www.pyrolyx.com)**

## **Directors' Report for the period January 1 to December 31, 2018**

The directors present their report together with the financial report of the Pyrolyx Group (**Pyrolyx**) being Pyrolyx AG and its subsidiaries for the financial year ended 31 December 2018 and the auditor's report thereon. Terms that are defined appear in bold the first time they are used.

### **1. Director's roles and profiles**

In accordance with German law, Pyrolyx has both a Supervisory Board and a Management Board. These Boards are separate; an individual may not be a member of both. The Supervisory Board appoints the members of the Management Board and supervises the activities of this Board. The Management Board represents Pyrolyx and is responsible for the management of its affairs.

#### **1.1 Supervisory Board (Non-Executive Directors)**

Names and profiles of the people who served on the Supervisory Board during fiscal year 2018:

**Alexis Gurdjian** is the founder and managing partner of Galaxis Capital LLP, t/a Skylar UK, a UK based private equity and corporate finance advisory firm. Mr Gurdjian is a member of the supervisory board of ETAM Group in Clichy, France and previously worked for Citigroup Paris and New York in the corporate finance department. Mr Gurdjian's term as a Director expired on 20 July 2018. Mr Gurdjian was not granted discharge from his Board responsibilities.

**Robert Machinist** is a private equity investor and chairman of the Board of Advisors of MESA, a US based merchant bank. Mr Machinist has served on the board of a number of publicly listed companies in the United States and Hong Kong. Mr Machinist was previously head of investment banking and co-head of capital markets at The Bank of New York Mellon, Inc. Mr Machinist's term as a Director expired on 20 July 2018. Mr Machinist was not granted discharge from his Board responsibilities.

**Michael Triguboff, Vice Chairman**, is director of numerous public and private companies in Asia, the US and Australia. Mr Triguboff is a former founder and managing director of boutique funds manager MIR Investment Management which specialized in Asia-Pacific equities and was previously founder and managing director of Lazard Asset Management Pacific and global partner of Lazard Freres. Mr. Triguboff resigned from the Supervisory Board effective 15. December 2018 and was elected to become Chief Executive Officer (CEO) at that date.

**Michael Carapiet** is chairperson of Link Administration Holdings Limited and Smartgroup Corporation Limited, both ASX listed entities. He is also chair of Insurance & Care NSW (icare) and a board member of Infrastructure Australia. Mr Carapiet retired from Macquarie Group in 2011 as Chairman

## **Pyrolyx AG**

Directors' Report for the year ended December 31, 2018

of Macquarie Capital and Macquarie Securities. Mr Carapiet announced his resignation from the Supervisory Board effective April 6, 2018.

**Amelia Salter** serves as Managing Director of Moelis Australia and has been co-leading Moelis Australia's advisory efforts in emerging and small to mid-cap companies. She was formerly an Executive Director at UBS and ran the firm's Alternative Capital Group in Australia. Mrs. Salter announced her resignation from the Supervisory Board effective 5 April 2018.

**David F. Groves, Chairman** (appointed July 20, 2018) is a private investor holding various directorships in ASX listed and private companies. Mr. Groves is also a Council Member at the University of Wollongong.

**David A. Steele** (appointed July 20, 2018) is the Chairman of Central Earthmoving Company Pty Ltd. He recently served as Group Managing Director of WorleyParsons, an international engineering company, based in Houston.

**Dr. Lars Franken** (appointed July 20, 2018) is a Partner and member of the Managing Board of Independent Valuation and Consulting IVC corporation. Mr. Franken has since resigned his position – see 'Events after balance sheet date'.

**Guido Veit** (appointed April 17, 2018) has more than twenty years of international project and plant engineering experience. Mr. Veit is currently responsible for the global rubber, plastics and mixing business of Zeppelin Systems. Mr. Veit has since resigned his position – see 'Events after balance sheet date'.

On December 15, 2018, Mr. William Best and Mr. Stephen Roberts were appointed the Supervisory Board until the next Annual General Meeting (AGM).

1. **Stephen Roberts** is an experienced company director and board chair with listed and private commercial enterprises and large not for profit organizations. He has 30 years' experience as MD & CEO in global businesses particularly with extensive direct leadership experience in Asia Pacific including Japan and the Middle East.
2. **Mr. William Best** was previously a long time Hill Samuel /Macquarie Bank executive director and retiring in 2010 after over 27 years with the investment bank. During this time, he held a variety of senior management positions culminating as Managing Director of Macquarie Equities and joint head of Macquarie Underwriting Limited.

## 1.2 Management Board (Officers)

Names and profiles of the people who served on the Management Board during fiscal year 2018:

**Niels Raeder, Chief Executive Officer and Founder** has experience in managing and investing in early stage technology companies. Mr. Raeder was previously a business consultant and managing director in the media industry at publishers and advertising marketing companies in Munich, Hamburg and London. Mr. Raeder resigned as CEO on June 14, 2018.

Mr. Raeder was not granted discharge of his management responsibilities.

**Fikret Dülger, Chief Technology Officer and Founder** has held managerial positions at several waste energy companies, including the role of managing director at a specialist company for biomass gasification. In 2001, Mr. Dülger began initial development phases in recycling rubber granulates which ultimately grew into the Pyrolyx technology. Mr. Dülger resigned as CTO effective August 3, 2018.

**Sven Eric Molzahn, Chief Financial Officer** (appointed February 1, 2018), spent 15 years with the US industrial conglomerate Honeywell heading regional and international businesses as CFO and most recently served as General Manager of the global fine chemicals business. Mr Molzahn was terminated for cause effective 28. August 2018.

**Bernhard Meder, Chief Executive Officer** (effective July 16, 2018), is an entrepreneur and founder of the Meder Electronics Group (MEG). MEG is a market leader in the field of electromagnetic component production. Mr Meder is also founder of M-Invest GmbH in Germany. Mr Meder resigned on December 15, 2018.

**Michael Triguboff, Chief Executive Officer.** (see vitae under *Supervisory Board*). Mr. Triguboff was elected CEO on December 15, 2018.

## 1.3 Supervisory Board meetings

Supervisory Board meetings held, and attendance are set out in the table below.

Director	5 Jan	30 Jan	15 Feb	22 Mar	17 Apr	5 Jun	14 Jun	20 Jul	28 Aug	20 Sept	15 Nov	15 Dec
Gurdjian	X	X	X	X	X	X	X	n/a	n/a	n/a	n/a	n/a
Machinist	X	X	X	X	X	X	X	n/a	n/a	n/a	n/a	n/a
Triguboff	X	X	X	X	X	X	X	X	X	X	X	X
Carapiet	--	X	X	X	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Salter	X	X	X	X	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Groves	n/a	n/a	n/a	n/a	n/a	n/a	n/a	X	X	X	X	X
Steele	n/a	n/a	n/a	n/a	n/a	n/a	n/a	X	X	X	X	X
Franken	n/a	n/a	n/a	n/a	n/a	n/a	n/a	X	X	X	X	X
Veit	n/a	n/a	n/a	n/a	n/a	X	X	X	X	X	X	X

## **1.4 Nomination and Remuneration Committee meetings**

The Nomination and Remuneration Committee did not meet in 2018.

## **1.5 Audit and Risk Committee meetings**

The Audit and Risk Committee was chaired by Robert Machinist. Members were Michael Carapiet, Alexis Gurdjian and Michael Triguboff. The audit committee met on March 22, 2018 to review the year end reporting for 2017.

Mr. Machinist and Mr. Gurdjian were not re-appointed Supervisory Board at the AGM in July 2018. The committee has since consisted of David Steele and Dr Lars Franken, until his resignation effective March 1, 2019. The audit committee met on August 22, 2018 to review the half-year reporting for fiscal year 2018.

## **1.6 Remuneration Practices**

### **1.6.1 Supervisory Board (Non-Executive Directors)**

Members of the Supervisory Board are remunerated with a yearly cash fee of €4,000, with exception of the Chairman, whose remuneration is €28,000 p.a., and the Vice Chairman, whose remuneration is €6,000 p.a., reflecting the role as key liaison to the Management Board.

For Supervisory Board meetings, in person or by phone, there is an attendance feed of €500 per person; associated travel expenses are reimbursed as to company policy.

### **1.6.2 Management Board (Officers)**

Members of the Management Board were remunerated with

- A market-oriented fixed base salary that is reviewed yearly plus applicable fringes like company car (allowance), healthcare and pension insurance contributions
- Short-term cash-bonus based on achieved objectives, mainly EBITDA and share price, incl. a minimum threshold
- Cash settled share based virtual shares, executable within five years
- Equity settled stock option plan (Long Term Incentive Plan) executable after three years if a certain EBITDA target and share price development had been.

## **2. Operating result**

**Pyrolyx** reported full year revenue of €579K an increase of around 67% on the prior year revenues. Loss before interest, taxes, depreciation and amortization was minus €6,2M. The result is due to lack of scale operational efficiency of the Stegelitz plant, additional expenses associated with the North American plant and market development strategy and restructuring costs in Germany. Net tangible assets backing per ordinary share improved to €0.35/share (2017: €0.28/share).

## **3. Review of operations**

During the calendar year 2018 the focus of **Pyrolyx** was completing a commercial plant in Indiana, USA while reducing operating costs wherever possible. The previous management board composed of CEO Niels Raeder and CFO Sven Eric Molzahn was relieved of all responsibilities as noted above. CEO Mr. Bernhard Meder analyzed weaknesses in the company's cost structure and inefficiencies in processes. As a result, Pyrolyx headquarter office space and staff was significantly downsized and the office moved to a less expensive location, still situated in the city of Munich. In parallel an operational audit was undertaken for the rCB manufacturing location, cct Stegelitz GmbH, in Stegelitz. The outcome of this audit is still under review for options how to improve the performance of this unit.

**Pyrolyx USA** has added depth to their management team. CFO Andy Stecher, a US/German national from Chicago, joined in fall of 2018. Mr. Stecher, who is bilingual (German/English), has built a career as an executive for multi-national manufacturers. COO Jim van Laar joined with a strong background in engineering and operations within the oil and gas industry in early 2019.

The US team has focused on the construction of the first US plant in Terre Haute, Indiana, and testing at the laboratory in Burg (Germany) in preparation for a timely US plant commissioning. Start of operations for plant #1 is July 1, 2019. A contract for a Front-End Engineering Design (FEED) study to prepare for construction of plant #2 (same location in Terre Haute) has been awarded.

To date financing German operational improvements and the buildup of the new US location present significant challenges to Pyrolyx. Cash Flow from operations has improved after implementation of restructuring measures but is still negative. Cash Flow from investing activities is affected by large expenditures in the USA. Most of the needed funds are covered through a municipal revenue bond but construction budget overages totaling >\$6M are being debt-financed through tranches with private investors (see cash flow statements for further details). The company expects a strong positive result from operational cash flow once Indiana Plant #1 is fully operational.

## **4. Significant Changes in the state of affairs**

Pyrolyx USA signed a Letter of Intent to acquire J&R Tire Recycling Inc. (Indiana) as part of the company's vertical integration strategy.



## **5. Principal activities**

**Pyrolyx** has developed and operates a specialized process that transforms end-of-life tires into high-grade, valuable raw materials, primarily recovered carbon black (**rCB**).

No significant change these activities occurred during the year.

## **6. Events after balance sheet date**

In January the company filed an approximate €5 million lawsuit against former management board members Niels Raeder and Sven Eric Molzahn. A final decision on the outcome of the legal proceedings is not expected until 2020 or the following year.

Effective March 1, 2019, Dr. Lars Franken and Mr. Guido Veit resigned their Supervisory Board positions.

Based on the resolution of the AGM of July 20, 2018 and following his resignation as CEO on December 15, 2018, Mr. Bernhard Meder (M-Invest) re-joined the Supervisory Board effective March 1, 2019.

On March 22, 2019 Pyrolyx announced that it was converting 916,590 of the outstanding 1,005,817 warrants into fully paid ordinary registered Pyrolyx shares. In 2019 the conversion of the warrants will decrease net liabilities by €10.4M of Pyrolyx AG standalone (German GAAP (HGB)) and by €4.5M of Pyrolyx consolidated Group (IFRS basis). Pyrolyx has agreed to compensate AVIV for costs and damages in the amount of €760K for past management's failure to honor its contractual obligations to convert the warrants. The compensation amount will not be paid to AVIV in cash but will remain outstanding as a loan which will accrue interest at 10% per annum and be payable in September 2020.

## **7. Environmental issues**

The operations of Pyrolyx are managed in compliance with all relevant local and national laws and regulations in relation environmental performance, management and reporting.

No reportable incident was recorded in 2018.

## **8. Dividends**

**Pyrolyx** did not pay any dividends in 2018.

## **9. Share options**

### **9.1 Executive Stock Option Program**

A stock option plan for employees and members of the management board (equity settled share-based payments) had been set up in August 2013 (tranche 2013) and August 2014 (tranche 2014). The two performance hurdles have not been met within the given time period thus none of the granted were executable by December 31, 2018 any longer.

Effective 2019 the company started a new equity-settled program based on operational and financial targets pertaining to business development in the United States. Initially entitled will be the members of Pyrolyx USA executive management only. To support this program the management board intends to introduce a proposal for the creation of conditional capital during the Annual General Meeting in 2019.

### **9.2 Shareholder options (warrant) agreement**

Pyrolyx, AVIV Investments Pty Ltd, Galaxis Advisory SA. and M-Invest GmbH entered into a Novation Agreement in 2016 to convert their existing warrants into 1,005,817 new shares (AVIV Investments Pty Ltd, 899,657 new shares; Galaxis Advisory SA 89,227 new shares; and M-Invest GmbH, 16,933 new shares). This agreement was subject to several conditions precedent, which were all satisfactorily met. In accordance with IFRS 7.8 the liability assessment with these shareholder options was value adjusted by €5,225K (to fair value) to the amount of €4,989K (2017: € 10,214K with the income taken to interest and other income.

The Company anticipates the conversion of a part of 1,022,750 shares of these warrants into shares during the fiscal year 2019.

## **10. Indemnifying director, officer or auditor**

During the financial year 2018, Pyrolyx has paid insurance premiums in respect of a director's and officers' liability insurance contract (**D&O**). The contract insures each person who is or has been a director or officer of the company against certain liabilities arising in the course of their duties to the company and its subsidiaries.

## **11. Proceedings of behalf of the company**

No person has applied for leave of the Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

**Pyrolyx** was not party of any such proceedings during the year.

**Sydney, March 27, 2019**

**For the Supervisory Board:** David Groves (Chairman) 

**For the Management Board:** Michael Triguboff (CEO) 

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**Pyrolyx AG**  
**Munich**

**Appendix 4E Final Report**  
**for the year ended December 31, 2018**

**Pyrolyx AG**  
**Landshuter Allee 8-10**  
**D-80335 Munich 80637**  
*(formerly Nymphenburger Str. 70 D-80335 Munich)*

[www.pyrolyx.com](http://www.pyrolyx.com)

## **Group Management Report for the period January 1 to December 31, 2018**

### 1. Principles and Introduction

1.1. Business Model

1.2. Research and Development

1.3. Control and Risk Management System

### 2. Course of the Business in 2018

2.1. Course of the Business and Economic Environment

2.2. Development of the Asset and Capital Structure

2.3. Earnings and Financial Position

2.4. Cash Flow Statement

### 3. Outlook, Opportunities and Risks

### 4. Other Reporting Items

**1. Principles and introduction**

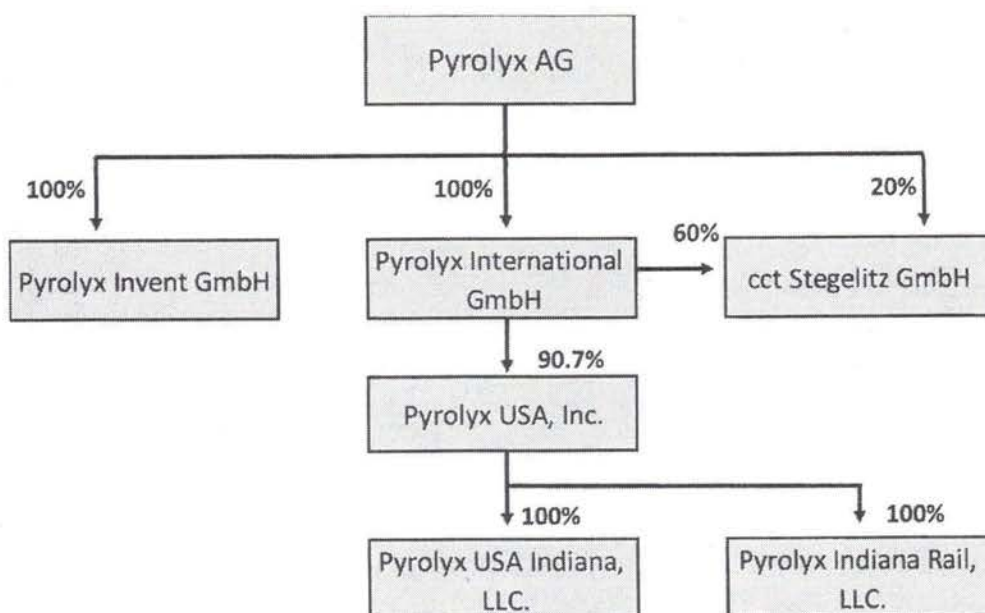
Pyrolyx AG is the parent company of a group of entities (the **Group**) that developed and operates a specialized process which transforms end-of-life tires (ELT) into high-grade, valuable raw materials, primarily recovered carbon black (**rCB**). Carbon black is used in the manufacture of tires, and mechanical rubber products, as well as plastics and pigments. Pyrolyx's process delivers compelling benefits when compared to the traditional manufacture of carbon black, including reduced carbon dioxide emissions.

**1.1 Business model**

Pyrolyx's objective is to establish its technologies globally for the sustainable recycling of end-of-life tires. The aim is for commercial industrial plants to be built and run by Pyrolyx and/or licensees throughout the world.

Pyrolyx AG currently holds interests directly or indirectly in Pyrolyx Invent GmbH, Pyrolyx International GmbH, Pyrolyx USA, Inc., Pyrolyx Indiana LLC, Pyrolyx Indiana Rail LLC and cct Stegelitz GmbH (referred to together as the 'Pyrolyx Group'). Pyrolyx holds no other investments in any other companies. Pyrolyx AG is not included in the scope of consolidation of any other company and is the management holding company at the helm of the Pyrolyx Group.

The following chart shows the corporate structure of the Pyrolyx Group as of December 31, 2018:



Pyrolyx Invent GmbH was founded in August 2013 and holds the intellectual property and patents of the group.

Pyrolyx International GmbH was founded in 2015 in connection with the acquisition of cct Stegelitz GmbH and is intended to be the parent company of all other future subsidiaries engaged in the production of rCB. On December 5, 2016, Pyrolyx International GmbH and Reclaim, Inc. signed a joint venture agreement and established Pyrolyx USA, Inc. The joint venture agreement outlines collaboration between the signatories with the aim of erecting and operating one or more production facilities for rCB in the USA and Canada as well as selling the resulting products (rCB, pyrolysis oils and steel), Pyrolyx Indiana LLC was set up as the operating company for the Pyrolyx production plant in Terre Haute, Indiana, USA, the construction of which began in August 2017.

In June 2018, 70 shares of Pyrolyx USA, Inc. were sold from Pyrolyx International GmbH to TSAL Pty LTD at a share price €11.6K for a total of €815K. In December 2018 AVIV Investments Pty Ltd. received 58 shares, and TSAL Pty LTD 1 share as an inducement to facilitating a new shareholder loan of €2M. Reclaim received 3 shares in an anti-dilutive measure. Consequentially Pyrolyx International ownership of Pyrolyx USA dropped to 90.7%.

Pyrolyx Indiana Rail LLC was founded in April 2018 to facilitate the linkage of the factory to rail infrastructure. This allows Pyrolyx to supply customer demand via rail car. For this purpose in April 2018 Pyrolyx Indiana Rail entered into the Financing and Covenant Agreement with the City of Terre Haute, Indiana, as issuer of bonds designated "Taxable Economic Development Revenue Bonds of 2018" securing the loans related to the borrowing, by Pyrolyx Indiana Rail, of an aggregate of \$1.7M.

## **1.2 Research & Development**

Pyrolyx's research and development in 2018 concentrated on the following areas:

- Production trials with US tire shreds to pave the way for production in Indiana, USA.
- Material tests with leading companies in the tire, technical rubber, plastics and masterbatch industries with the aim of acquiring new key accounts and securing existing ones.
- Assisting in the establishment of a global ASTM\* (ASTM International is an international standards organization that develops and publishes voluntary consensus technical standards for a wide range of materials, products, systems, and services) standard for rCB including the identification of unambiguous test methods to analyze the behavior of rCB in various industrial applications so that internationally recognized test methods and specifications can be developed and defined on this basis.

- \*References:

- Recycling, W. (2017, 04 27). *ASTM BACKS TIRE PYROLYSIS*. Retrieved from Weibold Tire Recycling Consulting: <https://weibold.com/astm-backs-tire-pyrolysis/>

## **1.3 Control system**

Risk management involves identifying the types of risk exposure within the company, measuring those potential risks, proposing means to control, transfer, hedge, insure or mitigate some of the risks and estimating the impact of various risks on the future earnings of the company.

For Pyrolyx the key focus areas are in particular

- Terre Haute construction as the main investment object is closely monitored with project management processes and financial reviews.
- cct Stegelitz production as an operational site for supply and Research & Development is systematically reviewed based on an integrated management system (EN ISO 9001 and 14001 certified).
- Liquidity and cost management given the current dependency on external funding with a high frequency of reporting and reviews as well as tight cost control.

System support is being further strengthened to adequately accommodate the expected growing volume of business.



The Management team only assumes reasonable, manageable and controllable risks if they are likely to result in an increase in the company's value. Important decisions are only taken after consulting the Supervisory Board.

If specific risks are identified, a tailored risk assessment is provided, and financial and non-financial performance indicators are reported to the Chairman of the Supervisory Board and then assessment is provided to the Supervisory Board to ensure a transparent and solid basis for the assessment of risks and opportunities. As a result, the Management Board and other executives can take appropriate action to ensure the stable control of the company.

## **2. Course of business in 2018**

### **2.1 Course of business and economic environment**

The year 2018 was dominated by the continuation of construction of the first production plant in Terre Haute, Indiana, USA which will allow the Company to achieve operational profitability.



2019-03-12 03:59:59  
Pyrolysis\_Room



*The Pyrolyx production facility under construction in progress in Terre Haute, Indiana (USA) March 2019*

When operational, the Indiana plant will process some 40,000 metric tons of end-life-tires annually and have an annual output of approximately 13,000 metric tons of rCB, 17,500 metric tons of pyrolysis oil and 6,200 metric tons of steel. At the reporting date, March 27, 2019, the facility is 85% complete and on track to commence production on July 1, 2019. Work has also commenced on the definition and approvals for the second plant in Terre Haute.

The sales development was disappointing. Revenues from customers through cct/ Stegelitz operations were expected to reach or exceed €1M in 2018. The company missed that target as sales ended at €580K. Many research and development projects with potential customers absorbed valuable production capacity. On the other side extended repair and maintenance schedules further reduced available production resources. This will dramatically change once Terre Haute plant is in full operation later in 2019, as sales for the full year are expected to grow to over €8.3M.

### **Interest in other entities**

Pyrolyx International GmbH decreased its stake in Pyrolyx USA, Inc. from 94% to 90.7% as part of a financing transaction in Q2 2018 and Q4 2018. For further explanation see Notes 4.11c.

In April 2018, Pyrolyx Indiana Rail, LLC was incorporated, as a wholly owned subsidiary of Pyrolyx USA, Inc and the borrowing company for the rail infrastructure for the Terre Haute, Indiana plant.

### **Liquidity management and financing**

Pyrolyx does not yet generate positive cash flow and invests significant funds in the construction of the Indiana plant. This is expected to continue until the first plant is fully operational.

Project financing for Terre Haute was secured in 2017 and is held as restricted cash with payments following an audited process agreed with the lender. Additional restrictions for cash on Pyrolyx USA accounts apply as a reserve funding change orders and cost overruns. As previously disclosed it is expected that the original budget will be exceeded; current estimate net of reserves is USD 6M to USD 7M, for which funds have been reserved.

### **Patents**

Pyrolyx was granted patents related to “blending of rCB directly in the furnace CB” and “Pyrolyx process and cleaning system” in various countries, notably USA, China, and Russia (US 14/411,405 and US 15/589,425), Russia (RU 2015100232) and China (CN 201380034851). Patents are pending in other jurisdictions.

### **Economic**

The global carbon black market is attractive with opportunities in the transportation, industrial, and building & construction, and packaging sectors. The global carbon black market is expected to reach an estimated \$20.2 billion by 2023 with a CAGR of 5.6% from 2018 to 2023. The major growth drivers for this market are increasing tire production, and rising demand for specialty carbon black in plastic, ink, and coating applications<sup>\*</sup>.

\*References:

Newswire, C. P. (2018, 06 18). CISION PR Newswire. Retrieved from PR Newswire: <https://www.prnewswire.com/news-releases/the-global-carbon-black-market-is-expected-to-reach-an-estimated-20-2-billion-by-2023-with-a-cagr-of-5-6-from-2018-to-2023--300660814.html>

### **Supervisory Board**

The Supervisory Board has the following members:

- David Groves was elected to the Board and elected Chair effective July 20, 2018.
- Dave Steele was elected effective July 20, 2018.

- Stephen Roberts was appointed effective December 15, 2018.
- William Best was appointed effective December 15, 2018.
- Bernhard Meder joined March 1, 2019.

There are two active committees with the Supervisory Board:

- Audit & Risk Committee: Dave Steele, Chair, and Stephen Roberts
- Remuneration Committee: David Groves, Chair, and William Best

There were the following changes to the membership of the Supervisory Board during 2018:

- Professor Christian Langbein resigned effective 03 January 2018. (correction of previously stated 31 December 2017).
- Amelia Salter resigned effective April 5, 2018.
- Michael Carapiet resigned effective April 6, 2018.
- Alexis Gurdjian, former Chairman, was not re-elected at the AGM in July 2018.
- Robert Machinist did not stand for reelection at the AGM.
- Dr. Lars Franken was elected effective July 20, 2018. He resigned effective March 1, 2019
- Guido Veit was appointed effective May 5, 2018. He resigned effective March 1, 2019
- Michael Triguboff resigned on December 15, 2018 to allow him to be appointed to the Management Board and as Chief Executive Officer the same day.

## **Management Board**

The Management Board has the following member:

- Mr. Michael Triguboff, Chief Executive Officer (CEO).

There were the following changes to the membership of the Management Board during 2018:

- Niels Raeder resigned as Chief Executive Officer, effective June 14, 2018.
- Sven Eric Molzahn was appointed as Chief Financial Officer, effective February 1, 2018. Mr Molzahn was terminated for cause effective August 28, 2018.
- Filkret Duelger left as CTO on August 3, 2018.
- Bernhard Meder was appointed as Chief Executive Officer, effective June 14, 2018 and resigned effective 15. December 2018 to allow him to rejoin the Supervisory Board in 2019.
- Michael Triguboff left as Vice Chair of the Supervisory Board effective December 15, 2018 to join the management board as Chief Executive Officer.

## **2.2 Development of the asset and capital structure**

At 31 December 2018, the subscribed share capital of the company totaled € 5,960,869.00, divided into 5,960,869 no-par-value registered shares each with a notional value of € 1.00 per share capital. All 5,960,869 shares issued are fully paid-up.

The company held its Annual General Meeting on July 20, 2018, where

- the annual report and the results for 2017 were presented
- the management board was not granted discharge.
- Mr. Alexis Gurdijan and Mr. Robert Machinist left the supervisory board. They were not granted discharge.
- The remaining members of the supervisory board were granted full discharge
- Mrs. Jeanette Lichtenstern (Landsberg/Lech (Germany)) was appointed as group auditor for 2018.
- New members of the new supervisory board were elected.
  - David Groves, Director and Chairman of the Board
  - Lars Franken, Director
  - Dave Steele, Director
  - Guido Veit, Director
- The authorized capital 2017/II was revoked and a new authorized capital of Euro 2,8 Mio. (2018/I) was approved.

### **Authorized Capital 2018/I**

The Management Board was empowered by the Annual General Meeting held on July 20, 2018 to increase the share capital of the company on one or more occasions by June 19, 2023 subject to the approval of the Supervisory Board by a total of up to € 2,800,000,00 by issuing up to 2,800,000 new no-par-value registered shares in return for cash and/or contributions in kind.

Subject to the approval of the Supervisory Board, the Management Board is authorized to exclude shareholders' preemptive rights in the following cases:

- a) if the capital increase in return for cash contributions does not exceed 10% of the share capital and the issue price is not significantly below the market price of shares in the company,
- b) in connection with fractional amounts resulting from the subscription ratio
- c) if the new shares are issued in connection with a capital increase in return for contributions in kind by creditors for investments, assets or receivables against the company.

**Pyrolyx AG**

Appendix 4E – Financial Report for the year ended December 31, 2018

The Management Board is authorized, subject to the Supervisory Board's approval, to decide the conditions under which shares are issued, including the issue price and the content of share rights.

In 2018 three capital increases from authorized capital were executed, all against cash contributions respectively. As a result, the company's share capital was increased by a total of € 346,333. The following table provides an overview of these capital increases:

Basis	Capital increase	Increase in subscribed capital		Entered in the Commercial Register
		By	To	
Resolution adopted 05.06.2018 based on Authorized Capital 2017/II as per AGM resolution dated 09.10.2017	Capital increase against contribution in cash	€ 83,333.00	€ 5,697,869.00	03.08.2018
Resolution adopted 05.06.2018 based on Authorized Capital 2017/II as per AGM resolution dated 09.10.2017	Capital increase against contribution in cash	€ 13,000.00	€ 5,710,869.00	03.08.2018
Resolution adopted 07.09.2018 based on Authorized Capital 2018/I as per AGM resolution dated 20.07.2018	Capital increase against contribution in cash	€ 250,000.00	€ 5,960,869.00	29.10.2018

The cash capital increases from Authorized Capital 2018/I and from Authorized Capital 2017/II respectively took place to the exclusion of shareholders' pre-emptive rights pursuant to Section 186(3), sentence 4 AktG German Stock Corporation Act.

Basis	Issue price	Proceeds
Resolution adopted on 05.06.2018 based on authorization by the AGM on 09.10.2017	€ 9.00	€ 866.997.00
Resolution adopted on 07.09.2018 based on authorization by the AGM on 20.07.2018	€ 6.00	€ 1,500,000.00

### Capital at 31 December 2018

At 31 December 2018, Pyrolyx AG held the following **contingent capitals**:

- Contingent Capital 2013/I amounting to € 23,255.00 comprising not yet converted bonds from the 2013/18 Convertible Bond issued by Pyrolyx in October 2013. (Note: No bonds are outstanding, thus this capital cannot be used any longer.)
- Contingent Capital 2013/II amounting to € 179,850.00 to cover stock options under the 2013 Share Option Program (Note: Performance parameters were not achieved within the allotted time therefore no stock options can be exercised)
- Contingent Capital 2017/I amounting to € 895,207 to cover convertible bonds and/or bonds with warrants with a total nominal value of up to € 90 million issued with the authorization of the company EGM on 21 February 2017 (Note: No bonds were issued to date)

At 31 December 2018, Pyrolyx AG held the following **authorized capital**:

- The Authorized Capital 2018/I was resolved by the annual general meeting (AGM) on 20 July 2018 with € 2,800,000.00. Capital remaining on 31.12.2018 is 2,550,000.00 The previous Authorized Capital 2017/II amounting to € 2,064,030.00 was revoked at the same time.

## Development of the asset and capital structure

(figures rounded up or down to the nearest €1,000 may result in discrepancies)

### Consolidated balance sheet

As of 31 December 2018

€'000	31 December 2018	%	31 December 2017	%
<b>A S S E T S</b>				
<b>Current assets</b>				
Cash and cash equivalents	3,648	6%	5,502	9%
Trade receivables	152	0%	108	0%
Inventories	80	0%	512	1%
Other current assets	153	0%	83	0%
Prepaid expenses	152	0%	65	0%
<b>Total current assets</b>	<b>4,185</b>	<b>7%</b>	<b>6,270</b>	<b>11%</b>
<b>Non-current assets</b>				
Restricted cash and cash equivalents	8,322	14%	22,509	39%
Intangible assets	6,046	10%	6,282	11%
Fixed assets	40,096	68%	23,230	40%
<b>Total non-current assets</b>	<b>54,464</b>	<b>93%</b>	<b>52,021</b>	<b>89%</b>
<b>Total assets</b>	<b>58,649</b>	<b>100%</b>	<b>58,291</b>	<b>100%</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Trade payables	565	1%	834	1%
Project financing loan	1,792	3%	1,712	3%
Convertible bonds	-	-	472	1%
Liabilities due to banks	340	1%	411	1%
Other financial liabilities	8,986	15%	12,207	21%
Other non-financial liabilities	1,675	3%	1,129	2%
Provisions	-	-	846	1%
<b>Total current liabilities</b>	<b>13,358</b>	<b>23%</b>	<b>17,611</b>	<b>30%</b>
<b>Non-current liabilities</b>				
Trade payables	-	0%	113	0%
Project financing loan	21,548	37%	20,244	35%
Convertible bonds	-	0%	-	0%
Liabilities due to banks	719	1%	1,060	2%
Other financial liabilities	11,934	20%	8,992	15%
Other non-financial liabilities	255	0%	-	0%
Provisions	129	0%	-	0%
Deferred income	2,546	4%	2,433	4%
<b>Total non-current liabilities</b>	<b>37,131</b>	<b>63%</b>	<b>32,842</b>	<b>56%</b>
<b>Equity</b>				
Share capital	5,961	10%	5,615	10%
Treasury shares	-	0%	0	0%
Additional paid-in capital	43,221	74%	39,755	68%
Retained earnings	-42,163	-72%	-37,353	-64%
Other components of equity	-469	-1%	-1340	-2%
<b>Equity attributable to shareholders of Pyrolyx AG</b>	<b>6,550</b>	<b>11%</b>	<b>6,677</b>	<b>11%</b>
<b>Equity attributable to non-controlling interests</b>	<b>1,610</b>	<b>3%</b>	<b>1,161</b>	<b>2%</b>
<b>Total equity</b>	<b>8,160</b>	<b>14%</b>	<b>7,838</b>	<b>13%</b>
<b>Total liabilities and equity</b>	<b>58,649</b>	<b>100%</b>	<b>58,291</b>	<b>100%</b>



Fixed Assets (+73%) grew significantly as the plant building project in Indiana continued. That project is aiming for a completion by 1. July 2019. Total investment volume for this project is exceeding \$40Million. Financing is completely secured.

The continued investment activity has also reduced restricted cash funds (€-14.2M/-63%) within project financing - MRB Bond. Other Financial Liabilities reflect additional debt financing at Pyrolyx USA, Inc. Two Shareholders, TSAL Pty LTD and RPSCO Pty LTD, offered new total lines of credit in the amount of €6M Euros. The loan facilities were installed at Pyrolyx USA. This money is targeted to help fund the Plant 1 project cost overages. As of 31.12.2018 the total amounts drawn against these lines of credit were €3.3M. Meanwhile the company continued to amortize the bank loans associated with cct Stegelitz. One shareholder loan from TSAL was fully paid back in the amount of €400K to TSAL in December 2018.

Share capital increased by €346.000 through cash contributions to 5.960.869 total registered shares. On 31. December 2018 Pyrolyx AG (XETRA German stock listing) listed closed at €5.10. Pyrolyx CDI shares of (PLX) Australian Exchange (ASX) closed at AUD \$0.50.

## 2.3 Earnings and Financial Position

### Consolidated income statement

For the financial years ended 31 December 2018

€'000	2018	2017	Change (€)	C
Sales revenues	579	347	232	
Increase or decrease of finished goods and work in progress	-151	59	-210	
Own work capitalised	1,004	198	806	
Other operating income	176	3,062	-2,886	
Material expenditure	-518	-505	-13	
a) Expenses for raw materials, consumables and supplies and for purchased goods	-518	-452	-66	
b) Cost of purchased services		-53	53	
Personnel expenses	-3,227	-4,544	1,317	
a) Wages and salaries	-2,799	-4,213	1,414	
b) Social charges, old age pension costs and welfare expenses	-428	-331	-97	
Depreciation and amortisation	-1,798	-1,838	40	
Impairment of inventory	-132	-560	428	
Other operating expenses	-4,015	-5,118	1,103	
Finance, Interest and similar income	5,232	1	5,231	
Finance, Interest and similar expenses	-2,086	-12,727	10,641	
<b>Loss before income tax expense</b>	<b>-4,936</b>	<b>-21,625</b>	<b>16,689</b>	
Income tax expense	-	-	-	
<b>Loss after income tax expense</b>	<b>-4,936</b>	<b>-21,625</b>	<b>16,689</b>	
Thereof attributable to shareholders of Pyrolyx AG	-4,810	-21,595	16,785	
Thereof attributable to non-controlling interests	-126	-30	-96	
Earnings per share in € (basic)	-0.84	-5.29	4.45	
Earnings per share in € (diluted)	-0.84	-5.29	4.45	

Sales year over year increased by €232K as shipments from the cct facility in Stegelitz grew by 67%. Due to a concerted restructuring effort personnel and operating costs were significantly reduced both in Stegelitz manufacturing operations and related to a move and downsizing of Munich headquarters. Interest and similar income were positively affected by a reduction in valuation of shareholder warrants by €4.9M (see notes 4.11).

Other operating income decreased by 94%. Currency gains decreased year over year by 99% (-€917K). In 2017 the contingent purchase price liability resulting from the acquisition of cct GmbH had been reduced by €2.07M whilst in 2018 it was increased by €87K.

## 2.4 Cash Flow Statement

Cash flows must be analyzed between operating, investing and financing activities. [IAS 7.10] IAS 7 distinguishes between an indirect and direct cash flow methods. The indirect method whereby profits, or loss

is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments and items of income or expense associated with investing or financing cash flows. Through 2018 Pyrolyx has used the indirect cash flow method. The direct method shows each major class of gross cash receipts and gross cash payments and it then categorizes each payment to each relevant activity. Starting in 2019 Pyrolyx will begin to use the direct cash flow method. Main reason is the quarterly 4C Appendix (Reporting of Cash Flows) reporting to the Australian Stock Exchange (ASX).

**Consolidated cash flow statement**

For the years ended 2018 and 2017

€'000	Note	2018	2017
<b>Cash flows from operating activities</b>			
Loss after income tax expense	2	-4,936	-21,625
Adjustments for		-	
Depreciation and amortisation of non-current assets	2	1,798	1,838
Expenses on equity settled share-based payments		-	117
Other non-cash income and expenses		-113	11
Interest expenses / income		65	12,884
Changes in		-	-
Inventories, trade receivables and other assets not attributable to investing or financing activities		223	-483
Trade and other liabilities not attributable to investing or financing activities		-267	-1,061
Provisions		-	846
<b>Net cash flows from operating activities</b>		<b>-3,230</b>	<b>-7,473</b>
<b>Cash flows from investing activities</b>			
Disbursements for investments in intangible assets		-634	-237
Proceeds from disposals of fixed assets		-	-
Disbursements for investments in fixed assets		-16,589	-13,810
Interest received		6	1
<b>Net cash flows from investing activities</b>		<b>-17,217</b>	<b>-14,046</b>
<b>Cash flows from financing activities</b>			
Proceeds from equity increase by shareholders of Pyrolyx AG		2,367	24,523
Proceeds from borrowings	5	5,138	24,305
Proceeds from government grants	4.8		2,478
Repayments of borrowings	5	-1,720	-2,294
Interest paid	5	-2,350	-326
<b>Net cash flows from financing activities</b>		<b>3,435</b>	<b>48,686</b>
<b>Net increase / decrease in cash and cash equivalents</b>		<b>-17,012</b>	<b>27,167</b>
Cash and cash equivalents at the beginning of the period <sup>*)</sup>	4.1	28,011	1,132
Effect of changes in foreign currency rates on cash and cash equivalents		971	-288
<b>Cash and cash equivalents at the end of the period<sup>*)</sup></b>	<b>4.1</b>	<b>11,970</b>	<b>28,011</b>

\*) Cash and cash equivalents include restricted cash and cash equivalents.

During 2018 Cash Flow decreased by €16.0M. €16.6M of funds were invested into the new plant in Indiana. These cash flows were largely funded by restricted cash from the Municipal Revenue Bond (MRB). Operating activities produced negative cash flows as in the prior year and required €3.2M in cash, a decrease of €4.2M compared to 2017. The company is expecting positive cash flows from the plant in Indiana which is due to start production on July 1, 2019.

In financing activities, the company secured additional funds through debt financing in the amount of €5.1M through shareholder loans. The company also successfully increased equity through a combined capital investment of €2.3M.

### **3. Opportunities, Risks and Outlook**

#### **Opportunities**

A joint study by the CRI Copenhagen Resource Institute (2009), FORCE Technology (both Denmark) and the IFEU Institute for Energy and Environmental Research, Heidelberg<sup>†</sup>, on the question of whether it would be better to recycle used tires mechanically or energetically has been published with the result that to recycle used tires mechanically is the more environmentally friendly option in all respects. This situation represents a great market opportunity for Pyrolyx as no other company globally has successfully managed to build a large-scale, profitable pyrolysis production operation.

#### <sup>†</sup> References

Nanja Hedal Kløverpris, Anders Schmidt et al. (2009). *Comparative life cycle assessment of two options for waste tyre treatment: material recycling vs civil engineering applications*. Heidelberg: IFEU Institut für Energie- und Umweltforschung Heidelberg GmbH.

Emerging trends, which have a direct impact on the dynamics of the carbon black industry, include growing usage of recycled and bio-based carbon black, and shifting focus from commodity to more specialize grade carbon black. Lucintel Research (≠) in a comprehensive research report predicts that carbon black demand in tire will remain the largest application over the forecast period supported by continuously increasing fleet size of passenger cars and light commercial vehicle. Within the global carbon black market, transportation will remain the largest end use industry during the forecast period supported by increasing demand for the tire and mechanical rubber goods.

#### <sup>≠</sup> References:

LUCINTEL. (2016). *Growth Opportunities in the United States Carbon Black Market*. Dallas: Lucintel.

Establishing global product and a leading market role via owned and operated plant facilities, joint ventures with key industry partners and licensing agreements offers significant business prospects for Pyrolyx. The threshold to market entry is high based on process based intellectual property, financing requirements as well as the company's know-how in building and operating manufacturing plants.

The company is also exploring opportunities through vertical integration. In 2019 Pyrolyx has already identified acquisition targets to improve her logistics and access to key material supplies.

## **Risks**

Leading-edge technology and business concepts always contain risks in the introductory phase which may hamper or delay the medium and long-term establishment of new projects. The company always takes a preventive approach to such risks or mitigates them by for instance working closely together with a high-quality network of plant engineers, technology experts and market players with the strong support of financially powerful partners, enabling any barriers to be overcome jointly, quickly and effectively.

Recovered carbon black (rCB) is not a mature but an evolving market. Design-in cycles into products of industry can take years affected by expansive and rigorous testing regimes. For testing rCB products accepted standards such as ASTM have not been fully developed. But Pyrolyx has developed a global leader\* for this product group. We have taken a leadership role at ASTM standardization processes and are in testing with most leading tire manufacturers and many high quality masterbatch and compound producers.

\*Bibliography:

McKenzie, B. (2017, 08 17). *Baker McKenzie Newsroom*. Retrieved from Baker McKenzie: <https://www.bakermckenzie.com/en/newsroom/2017/08/pyrolyx-ag-list-on-the-asx>

The first US plant is scheduled to start production on 1. July 2019. As with any technical or construction projects, delays in finishing installations can occur and push out the first day of operations. Any such delays risk budgeted sales, achieving profit targets as well as expected deliveries to customers. Pyrolyx has several high-quality partners it is working with including Zeppelin operating under a PMC Agreement, Thompson Thrift LLC for civil construction, which includes liquidated damages provisions, and E3 Consulting, to help prevent or mitigate any such risks. Management of Pyrolyx AG believes that Plant 1 production scope of rCB on a very large industrial scale rivals any such facility around the globe. Plans are to build additional plants in the future. The company expects to finish the project and start production at the planned start date.

Beginning to operate a brand-new plant bears risks of start-up failures. Certain errors and omissions during construction may only be come noticeable and have an impact when the plant ramps up to full capacity. In order to best deal with these risks, the company has added a Chief Operating Officer to their management team. COO Mr. Jim van Laar is an experienced executive with many years of operational experience in project delivery and consulting services to the resources and energy sectors, and complex process industries. He joined Pyrolyx USA in February 2019. Mr van Laar has been assembling a team and undertaking diligent preparations for smooth and in time start of manufacturing operations in Terre Haute. Pyrolyx continues to focus on improving its products and processes and thereby also increasing the barriers to entry of rCB production.

Securing enough liquidity continues to be a risk until plant operations in Indiana are in full operations and generate cash flow. Financing both capital expenditures and operating expenses until production denote a significant undertaking also affected by unforeseen charges and unplanned events. Should this prove difficult for the company, it could have substantial repercussions for the company's net assets, financial position and results of operations and might jeopardize its going concern. However, Pyrolyx has developed into a formidable opportunity for both equity and debt financing. The company is publicly listed on XETRA (Germany) and ASX (Australia) stock exchanges which avails the opportunity through raising funds through capital increase and selling shares. We also have several sources who have provided funds through loans on aggressive but acceptable financing terms. The aim is to become operationally profitable mid-term and self-financing to facilitate further growth.

The company is currently involved a variety of lawsuits. Most of this litigation stems from reorganization efforts involving former service providers, staff and management. Pyrolyx has made enough provisions in its balance sheet for potential losses that where it sees a likelihood for these losses to occur. Overall the financial impact for these potential losses must be seen as negligible.

### **Outlook**

Pyrolyx was established with the vision of providing a sustainable, economic and environmentally friendly solution to the material and growing problem of disposing of end-of-life tires. Based on the view of management and the supervisory board of Pyrolyx, the company is developing a significant first mover advantage and scalable technology that enables it to develop strong growth opportunities.

Pyrolyx is now focusing on the following areas:

- Completion of Plant 1 in Terre Haute and development of subsequent plants.

- The development of existing key customer accounts by (i) increasing customer tonnages and (ii) joint product (further) development. This applies to all three core markets: tires, industrial rubber and plastics.
- Operational profitability.
- Pursuing vertical integration targets for the procurement of feedstock.
- Continued product and operating process development.

In 2019 Pyrolyx is expecting total sales of €8.3M. Once Plant 1 is fully operating after July 1, 2019, based on strong current customer demand forecast (incl. signed off-take agreements) for rCB, oil, steel and gas. To finance capital and operational expenditures before starting up plant 1 and to begin the plant 2 project, Pyrolyx plans to raise funds through a capital increase (sales of shares) and through further debt financing (private placement loans, plus a new revolving line of credit through a bank).

Munich, March 27, 2019



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Michael P. Triguboff, Chief Executive Officer

**Consolidated income statement**

For the financial years ended December 31, 2018 and 2017

€'000	Note	2018	2017
Sales revenues		579	347
Increase or decrease of finished goods and work in progress		-151	59
Own work capitalised		1,004	198
Other operating income	3.1	176	3,062
Material expenditure			
a) Expenses for raw materials, consumables and supplies and for purchased goods		-518	-452
b) Cost of purchased services		-	-53
Personnel expenses			
a) Wages and salaries		-2,799	-4,213
b) Social charges, old age pension costs and welfare expenses		-428	-331
Depreciation and amortisation		-1,798	-1,838
Impairment of inventory		-132	-560
Other operating expenses	3.2	-4,015	-5,118
Finance, interest and similar income	3.3	5,232	1
Finance, interest and similar expenses	3.4	-2,086	-12,727
<b>Loss before income tax expense</b>		<b>-4,936</b>	<b>-21,625</b>
Income tax expense	3.5	-	-
<b>Loss after income tax expense</b>		<b>-4,936</b>	<b>-21,625</b>
Thereof attributable to shareholders of Pyrolyx AG		-4,810	-21,595
Thereof attributable to non-controlling interests		-126	-30
Earnings per share in € (basic)	3.6	-0.84	-5.29
Earnings per share in € (diluted)	3.6	-0.84	-5.29

**Consolidated statement of comprehensive income**

For the financial years ended December 31, 2017 and 2016

€'000	Note	2018	2017
<b>Loss after income tax expense</b>		<b>-4,936</b>	<b>-21,625</b>
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		904	-1,421
<b>Other comprehensive income after tax for items that will be reclassified to profit or loss</b>		<b>904</b>	<b>-1,421</b>
Other comprehensive income net of tax		904	-1,421
<b>Total comprehensive income</b>		<b>-4,032</b>	<b>-23,046</b>
Thereof attributable to shareholders of Pyrolyx AG		-3,939	-22,935
Thereof attributable to non-controlling interests		-93	-111



€'000	Note	31 December 2018	31 December 2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4.1	3,648	5,502
Trade receivables	4.3	152	108
Inventories	4.4	80	512
Other current assets		153	83
Prepaid expenses		152	65
<b>Total current assets</b>		<b>4,185</b>	<b>6,270</b>
<b>Non-current assets</b>			
Restricted cash and cash equivalents	4.2	8,322	22,509
Intangible assets	4.5	6,046	6,282
Fixed assets	4.6	40,096	23,230
<b>Total non-current assets</b>		<b>54,464</b>	<b>52,021</b>
<b>Total assets</b>		<b>58,649</b>	<b>58,291</b>

€'000	Note	31 December 2018	31 December 2017
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade payables	4.7	565	834
Project financing loan	4.8	1,792	1,712
Convertible bonds	4.9	-	472
Liabilities due to banks	4.10	340	411
Other financial liabilities	4.11	8,986	12,207
Other non-financial liabilities	4.12	1,675	1,129
Provisions	4.13	-	846
<b>Total current liabilities</b>		<b>13,358</b>	<b>17,611</b>
<b>Non-current liabilities</b>			
Trade payables	4.7	-	113
Project financing loan	4.8	21,548	20,244
Liabilities due to banks	4.10	719	1,060
Other financial liabilities	4.11	11,934	8,992
Other non-financial liabilities		255	-
Provisions		129	-
Deferred income	4.14	2,546	2,433
<b>Total non-current liabilities</b>		<b>37,131</b>	<b>32,842</b>
<b>Equity</b>			
Share capital	4.15	5,961	5,615
Additional paid-in capital	4.15	43,221	39,755
Retained earnings		-42,163	-37,353
Other components of equity		-469	-1,340
<b>Equity attributable to shareholders of Pyrolyx AG</b>		<b>6,550</b>	<b>6,677</b>
<b>Equity attributable to non-controlling interests</b>		<b>1,610</b>	<b>1,161</b>
<b>Total equity</b>		<b>8,160</b>	<b>7,838</b>
<b>Total liabilities and equity</b>		<b>58,649</b>	<b>58,291</b>

**Pyrolyx AG**  
Appendix 4E – Financial Report for the year ended December 31, 2018

Attributable to shareholders of Pyrolyx AG

€'000	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other components of equity	Total	Non-controlling interests	Total equity
<b>Balance at December 31, 2016</b>	3,165	-112	7,290	-16,378	-	-6,035	-8	-6,027
Issuance of shares, net of transaction costs and tax	2,450	-	33,574	-	-	36,024	-	36,024
Treasury shares sold	-	-112	675	-	-	787	-	787
Equity-settled share-based payment	-	-	-504	620	-	116	-	116
Loss after tax	-	-	-	-21,595	-	-21,595	-30	-21,565
Acquisition of non-controlling interests without change in control	-	-	-1,280	-	-	-1,280	1,280	0
Net exchange differences recognised in other comprehensive income	-	-	-	-	-1,340	-1,340	-81	-1,421
<b>Balance at December 31, 2017</b>	5,615	-	39,755	-37,353	-1,340	6,677	1,161	7,838
Issuance of shares, net of transaction costs and tax	346	-	2,561	-	-	2,908	56	2,964
Treasury shares sold	-	-	-	-	-	0	-	0
Equity-settled share-based payment	-	-	520	-	-	520	56	576
Loss after tax	-	-	-	-4,810	-	-4,810	-126	-4,936
Acquisition of non-controlling interests without change in control	-	-	385	-	-	385	430	815
Net exchange differences recognised in other comprehensive income	-	-	-	-	871	871	33	904
<b>Balance at December 31, 2018</b>	5,961	-	43,221	-42,163	-469	6,550	1,610	8,160

**Consolidated cash flow statement**

For the years ended 2018 and 2017

€'000	Note	2018	2017
<b>Cash flows from operating activities</b>			
Loss after income tax expense		-4,936	-21,625
Adjustments for			
Depreciation and amortisation of non-current assets		1,798	1,838
Expenses on equity settled share-based payments	8.1	-	117
Other non-cash income and expenses	3.2/3.3	-113	11
Interest expenses / income	3.4	65	12,884
Changes in			
Inventories, trade receivables and other assets not attributable to investing or financing activities	4.4	223	-483
Trade and other liabilities not attributable to investing or financing activities	4.7	-267	-1,061
Provisions	4.13	-	846
<b>Net cash flows from operating activities</b>		<b>-3,230</b>	<b>-7,473</b>
<b>Cash flows from investing activities</b>			
Disbursements for investments in intangible assets		-634	-237
Disbursements for investments in fixed assets		-16,589	-13,810
Interest received		6	1
<b>Net cash flows from investing activities</b>		<b>-17,217</b>	<b>-14,046</b>
<b>Cash flows from financing activities</b>			
Proceeds from equity increase by shareholders of Pyrolyx AG		2,367	24,523
Proceeds from borrowings	4.11	5,138	24,305
Proceeds from government grants	4.8	-	2,478
Repayments of borrowings	4.10	-1,720	-2,294
Interest paid	3	-2,350	-326
<b>Net cash flows from financing activities</b>		<b>3,435</b>	<b>48,686</b>
<b>Net increase / decrease in cash and cash equivalents</b>		<b>-17,012</b>	<b>27,167</b>
Cash and cash equivalents at the beginning of the period <sup>*)</sup>	4.1	28,011	1,132
Effect of changes in foreign currency rates on cash and cash equivalents		971	-288
Changes of cash and cash equivalents due to changes in basis of consolidation			-
<b>Cash and cash equivalents at the end of the period<sup>*)</sup></b>	<b>4.1</b>	<b>11,970</b>	<b>28,011</b>

\*) Cash and cash equivalents include restricted cash and cash equivalents.

Notes to the consolidated financial statements (continued)

## **1 Basis of preparation**

Pyrolyx AG (the Company or Pyrolyx) is a listed stock company incorporated under German law with its registered office in Munich, Germany. Pyrolyx AG's legal address was Nymphenburger Str. 70, Munich/Germany until 28. February 2019 and is now as follows: Landshuter Str. 8-10, Munich, Germany. Pyrolyx AG is listed with its shares on the OTC market in Germany and with CDI's on the Australian securities exchange (ASX).

Pyrolyx AG is the parent company of a group of entities (the Group) that has developed and operates a specialised process that transforms waste tires into high-grade, valuable raw materials, primarily recovered carbon black (rCB). Carbon black is used in the manufacture of tires and mechanical rubber products, as well as plastics and pigments. Pyrolyx's process delivers compelling benefits compared to the traditional manufacture of carbon black, including reduced carbon dioxide emissions.

The Group prepares its consolidated financial statements in accordance with the rules of the International Accounting Standards Board (IASB), London, United Kingdom, applicable on the reporting date. It complies with the International Financial Reporting Standards (IFRS) as well as the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC), as adopted by the European Union, as well as with the supplementary commercial law regulations of Article 315a (1) of the German Commercial Code (HGB).

The accounting policies used in these consolidated financial statements are based on the accounting policies used in the prior fiscal year 2017 consolidated financial statements, where these policies are discussed in detail. Except for the amendments to and new requirements of IFRS effective starting in 2018, these accounting policies have been applied consistently in these consolidated financial statements. Please see the discussion on IFRS 16 Leases, which is applicable effective 1 January 2019.

In compiling financial statements in accordance with IFRS, management exercises judgment in making estimates and assumptions. Such estimates and judgments are unchanged from the matters described in the consolidated financial statements of the Pyrolyx Group as at and for the year ended 31 December 2017.

Processes and systems of group companies ensure appropriate recognition of income and expenses on the accrual basis. As amounts (in €'000 = €K) and percentages have been rounded, rounding differences may occur.

The effects of applying IFRS 9 and IFRS 15 effective 1 January 2018, which are discussed below, have resulted in a change in accounting policy. The Group has chosen the modified retrospective transition approach for both IFRS 9 and IFRS 15. With respect to IFRS 9 the only impact was the classification of financial instruments as outlined below.

## Notes to the consolidated financial statements (continued)

The carrying amounts of financial instruments by class of the consolidated statement of financial position and by category per IFRS 9 can be reconciled to the categories previously used under IAS 39 as follows:

## Financial instruments by class and category in accordance with IFRS 7.8

€'000	Category IFRS 7.8 per IFRS 9	December 31, 2018		December 31, 2017	
		Carrying amount	Carrying amount	Category IFRS 7.8 per IAS 39	Carrying amount
<b>Financial assets, by class</b>					
Cash and cash equivalents	Amortised cost	3,648	5,502	LAR	5,502
Trade receivables - current 1)	Amortised cost	152	108	LAR	108
Restricted cash and cash equivalents - non-current	Amortised cost	8,322	22,509	LAR	22,509
<b>Financial liabilities, by class</b>					
Trade payables - current	FLAC	565	834	FLAC	834
Project financing loan - current	FLAC	1,792	1,712	FLAC	1,712
Convertible bonds - current	FLAC	-	472	FLAC	472
Liabilities due to banks - current	FLAC	340	411	FLAC	411
<b>Other financial liabilities - current</b>		<b>8,986</b>	<b>12,207</b>	-	<b>12,207</b>
Shareholder options - current	FVTPL	4,989	10,214	FLaFViPLD	10,214
Other other financial liabilities - current	FLAC	3,997	1,993	FLAC	1,993
Trade payables - non-current	FLAC	-	113	FLAC	112
Project financing loan - non-current	FLAC	21,548	20,244	FLAC	20,244
Liabilities due to banks - non-current	FLAC	719	1,060	FLAC	1,060
<b>Other financial liabilities - non-current</b>		<b>11,934</b>	<b>8,992</b>	-	<b>8,992</b>
Contingent purchase price liabilities	FVTPL	1,076	989	n/a	989
Arena bond - non-current	FVTPL	1,252	-	n/a	0
Other other financial liabilities	FLAC	9,606	8,004	FLAC	8,004
<b>Financial assets at amortised cost (Amortised cost)</b>					
Loans and receivables (LaR)	Amortised cost	12,123	28,120	LAR	28,120
<b>Financial liabilities at amortised cost (FLAC)</b>					
Financial liabilities at amortised cost (FLAC)	FLAC	38,569	34,842	FLAC	34,842
<b>Financial liabilities at fair value through profit or loss (FVTPL)</b>					
Financial liabilities at fair value through profit or loss (FVTPL)	FVTPL	7,317	10,214	FLaFViPLD	10,214
<b>Summary by category</b>		<b>58,008</b>	<b>73,175</b>		

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies in Note 16, shareholder options (warrants) in Note 4.11 a) and cash-settled share-based payments (Note 4.13).

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

IAS 10.17: These statements were first published on March 27, 2019. They were approved by the Supervisory Board of Pyrolyx AG on March 27, 2019.

## 2 Interest in other entities

### 2.1 Subsidiaries

Pyrolyx is the ultimate parent entity of the following fully consolidated subsidiaries:

## Notes to the consolidated financial statements (continued)

## List of subsidiaries

in %	Place of business / country of incorporation	Equity interest held by the group	
		December 31 2018	December 31 2017
<b>Subsidiaries</b>			
Pyrolyx Invent GmbH	Munich, Germany	100%	100%
Pyrolyx International GmbH	Munich, Germany	100%	100%
cct Stegelitz GmbH	Moeckern, Germany	80% <sup>1)</sup>	80% <sup>1)</sup>
Pyrolyx USA, Inc.	Wilmington, USA	90.7%	94.3%
Pyrolyx USA Indiana, LLC	Indianapolis, USA	90.7%	94.3%
Pyrolyx Indiana Rail, LLC	Indianapolis, USA	90.7%	-

- 1) As of the reporting date Pyrolyx holds 80% of the shares on issue in cct Stegelitz GmbH. The remaining 20% shares on issue currently held by cct AG are to be transferred to Pyrolyx upon payment of final amounts under the loan agreement and respective share purchase agreement. Considering all facts and circumstances, all material opportunities and risks lie with Pyrolyx and Pyrolyx has 100% power to affect the amount of its returns from cct Stegelitz GmbH. Therefore, cct Stegelitz GmbH is included in the consolidated financial statements based on a 100% interest.

In April 2018, Pyrolyx Indiana Rail, LLC was set-up as a wholly owned subsidiary of Pyrolyx USA Indiana, LLC established to contract and manage the rail infrastructure for the plant in Terre Haute, Indiana, USA.

In June 2018 the Company sold 70 shares in Pyrolyx USA, Inc. for a consideration of €815K to TSAL Pty Ltd, a company associated with Michael Triguboff (Director). In November 2018 Pyrolyx USA, Inc., increased authorized capital to 4,000 shares. Furthermore, AVIV Investments Pty Ltd (58), TSAL (1) and Reclaim (3) received additional shares. These shares were awarded as an inducement to offer debt financing to Pyrolyx USA. These transactions reduced the equity interest of Pyrolyx International in Pyrolyx USA to 90.7%. For more explanations on these transactions please read Notes 4.15.

## 2.2 Non-controlling interests

As per December 31, 2018 a significant accumulated amount of the net assets held by Pyrolyx subsidiaries is attributable to non-controlling interests in an amount of €2,778K (2017: €1,161K) as well as a portion of the total comprehensive income is attributable to non-controlling interest in an amount of minus €93K (2017: minus €111K). As set out in below summarised financial information the amounts disclosed include intercompany eliminations within the USA subgroup including Pyrolyx USA, Inc., Pyrolyx USA Indiana, LLC and Pyrolyx Indiana Rail, LLC, however, do not include intercompany eliminations between the USA subgroup and other group companies of the Group.

## Notes to the consolidated financial statements (continued)

## Non-controlling interests

€'000	31 December 2018	31 December 2017
<b>Summarised balance sheet</b>		
Current assets	4,265	9,902
Non-current assets	57,747	36,160
Current liabilities	2,965	2,919
Non-current liabilities	29,242	22,810
<b>Net assets</b>	<b>29,805</b>	<b>20,333</b>
Accumulated non-controlling interests	2,778	1,161

€'000	2018	2017
<b>Summarised statement of comprehensive income</b>		
Revenue	-	-
<b>Profit after tax</b>	<b>-1,349</b>	<b>-530</b>
Other comprehensive income	894	-1,421
<b>Total comprehensive income</b>	<b>-455</b>	<b>-1,951</b>
Profit allocated to non-controlling interests	-93	-111

Notes to the consolidated financial statements (continued)

### 3 Income statement items

#### 3.1 Other operating income

€'000	2018	2017
Revaluation contingent purchase price	-	2,070
Foreign currency gains	4	950
Rents and leases	56	30
Insurance compensation	20	11
Subsidies	-	-
Other	96	1
<b>Total</b>	<b>176</b>	<b>3,062</b>

The revaluation gains of the contingent purchase price in 2017 relates to the contingent purchase price for cct Stegelitz GmbH. In 2018 the company recorded an expense. For further details see Note 4.11 b).

For more information on Rents and Leases see our explanation regarding IFRS 16 based analysis see Note 17.

"Other" pertains to a refund received from a vendor and a reversal from non-periodic charge from the prior year.



## Notes to the consolidated financial statements (continued)

**3.2 Other operating expenses**

€'000	2018	2017
Public Listings' costs	188	1,744
Consulting fees	994	1,016
Financial reporting costs	377	329
Travel expenses	293	266
Maintenance costs	208	235
Insurance	178	223
Rent and incidental rental costs	-4	216
Production costs	221	186
Directors remuneration	129	148
Marketing	117	133
Vehicle costs	115	115
Other administration costs	136	110
Communication	62	97
Recruitment	49	85
Foreign currency losses	341	46
Patent costs	3	13
Revaluation contingent purchase price	87	-
Other	520	156
<b>Total</b>	<b>4,015</b>	<b>5,118</b>

Public Listings' costs (2018: €188K; 2017: €1,744K) pertain to expenses to listing costs and maintenance at XETRA (Germany) and ASX (Australia). Travel costs are affected by frequent trips between Germany (Munich, Stegelitz) and the USA (Terre Haute). In 2018 the company reclassified occupancy costs associated with the Terre Haute plant project to construction capital costs. Without the reclassification rental/occupancy costs would €215K. The revaluation gains of the contingent purchase price in 2017 relates to the contingent purchase price for cct Stegelitz GmbH. In 2018 the company recorded an expense. For further details see Note 4.11 b). The increase in Dollar vs Euro currency development has led to foreign currency losses.

**3.3 Interest and similar income**

In accordance with IFRS 7.8 shareholder options were value adjusted by €5.225K (to fair value) to the amount of €4,989K (2017: €10,214K with the income taken to interest and similar income).

Other interest in the amount of €6K was earned on deposits at Pyrolyx USA.

Notes to the consolidated financial statements (continued)

### 3.4 Interest and similar expenses

€'000	2018	2017
Financial liabilities at fair value through profit and loss		
- Designated on initial recognition	7,317	10,214
Financial liabilities measured at amortised cost - interest expense	38,569	2,513
	<b>45,886</b>	<b>12,727</b>

Shareholder Warrants, Shareholder Options and the Arena & TSAL loan are measured at Fair Value (FVTPL), the rest of the liabilities are valued to historical costs less amortization. Interest expenses are incurred for bank loans, shareholder loans and the obligations out the amortization of the Municipal Revenue Bond.

### 3.5 Income taxes

#### a) Current tax Germany

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before income tax expense as reported in the consolidated statement of profit or loss because of items of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

The Company and its German subsidiaries are subject to corporate income tax, solidarity surcharge and trade tax.

#### b) Deferred Tax

Deferred tax was calculated based on the following rates for 2018 and 2017:

## Notes to the consolidated financial statements (continued)

in %	Place of business / country of incorporation	Tax rate 2018	Tax rate 2017
<b>Subsidiaries</b>			
Pyrolyx AG	Munich, Germany	32.98 %	32.98 %
Pyrolyx Invent GmbH	Munich, Germany	32.98 %	32.98 %
Pyrolyx International GmbH	Munich, Germany	32.98 %	32.98 %
cct Stegelitz GmbH	Moeckern, Germany	28.25 %	28.25 %
Pyrolyx USA Inc.	Wilmington, USA	27.50 %	28.10 %
Pyrolyx USA Indiana, LLC	Indianapolis, USA	26.88 %	27.00 %
Pyrolyx Indiana RailLLC	Indianapolis, USA	27.50 %	n/a

As a result of the losses incurred by the Group companies, so far no income taxes were incurred. As of December 31, 2018, the Group companies had cumulative tax loss carry forwards in Germany amounting to €51,885K (2017: € 42,063K) and in the USA of € 3,678K (2017: € 1,195K). The Group's loss carry-forwards hence totalled € 55,563K (2017: € 43,258K), of which € 18.527K was accounted for by cct Stegelitz GmbH (2017: € 15,094K). As of December 31, 2017, the Group companies cumulative tax loss carry forwards have been changed in the context of the actual income tax return.

From 2004 onwards, German tax law restricts the offset of taxable income against existing tax loss carry forwards to an annual amount of € 1M plus 60% of taxable income above € 1M. According to the German Corporation Tax Act (Körperschaftsteuergesetz (KStG)), taxes may be carried forward indefinitely. The deduction of tax losses carried forward is excluded if the Company loses its economic identity. A company is deemed to have lost its economic identity if both the following criteria are met simultaneously:

- More than 50% of the shares in the company have been transferred
- The company continues or relaunches its operations with predominantly new assets

Regarding equity transfers, this provision is to be replaced by Section 8c KStG to reflect the reform of corporation tax. Any transfer of more than 50% of the subscribed capital triggers total of tax losses carried forward. The continuation of operations with predominantly new assets is no longer relevant. The regulation on tax loss carry forwards (both Section 8(4) KStG and Section 8c KStG) is generally regarded as uncertain for companies taxable in Germany. Under German tax law, loss carry forwards can be subject to tax audits.

## Notes to the consolidated financial statements (continued)

€'000	31 December 2018	31 December 2017
Loss before income tax expense	-4,936	-21,625
<b>Income tax expenses recognised in profit or loss</b>		
Income tax expense calculated at 32.98 % (2017: 32.98%)	-1,628	-7,131
Effect of income that is exempt from taxation	110	35
Effect of expenses that are not deductible in determining taxable profit	217	10
Effect of different tax rates of subsidiaries operation in toher jurisdictions	308	236
Effect of convertible loans	-1,719	208
Effect of equity costs	0	-244
Effect of PPA	269	-434
Effect of unused tax losses and tax offsets not recognised as deferred tax	3,466	7,383
Effect of project financing loan	-529	-63
Effect of local GAAP provisions	-535	0
Others	41	0
<b>Total of income tax expense recognised in profit or loss</b>	<b>0</b>	<b>0</b>

**c) Current tax USA**

The company has not owed or paid any incomes taxes in the United States to date.

From 2018 onwards, federal tax loss carry-forwards in the United States for Pyrolyx USA et al are available to carry forward indefinitely and do not expire. They are available to offset future income by up to 80% in any future year. The usage of loss carry-forwards is limited if a company undergoes an ownership change. An ownership change for purposes of this limitation is defined as a shift in owners or equity structure after which there is a greater than 50% change in the value of stock owned by five percent shareholders during a defined testing period.

Notes to the consolidated financial statements (continued)

### 3.6 Earnings per share

The following table shows the calculation of basic and diluted earnings per ordinary share attributable to shareholders of Pyrolyx. Due to a net loss for the year (negative profit after tax (PAT)), dilutive loss per share is the same as basic.

#### Earnings per share

		2018	2017
Loss after income tax expense attributable to shareholders of Pyrolyx AG	€'000	-4,809,848	-21,595,125
Weighted average number of ordinary shares to calculate earnings per share			
Basic	Number	5,698,224	4,078,717
Diluted	Number	6,704,041	4,078,717
Earnings per share			
Basic	€	-0.84	-5.29
Diluted	€	-0.84	-5.29

Due to existing Warrants for 1,005,817 potential shares for the full year may have a dilutive effect on existing shareholders upon conversion. The Warrants carry no interest but had a positive effect from revaluation per year end on the annual result in an amount of € 5.2M. This capital had no dilutive effect during fiscal 2018.

## 4 Balance sheet items

### 4.1 Cash and cash equivalents

#### Reconciliation cash: Balance Sheet to Cash Flow Statement

€'000	December 31 2018	December 31 2017
Cash and cash equivalents - Current	3,648	5,502
Restricted cash and cash equivalents - Non Current	8,322	22,509
<b>Cash and cash equivalents in the cash flow statement</b>	<b>11,970</b>	<b>28,011</b>

### 4.2 Restricted cash and cash equivalents

Restricted cash relates to the project financing loan agreement entered into with the City of Terre Haute, Indiana, USA (for details on the project financing loan agreement see Note 4.8).

## Notes to the consolidated financial statements (continued)

Under such loan agreement all loan proceeds are restricted in use for the construction of the USA plant in Terra Haute, Indiana, USA and for debt services under the loan agreement. Restrictions will expire with the last payment under the loan agreement in 2028. As such restricted cash is classified as non-current and not available for general use by the Company.

**4.3 Trade receivables**

The following table shows the carrying amount of trade receivables:

**Carrying amounts of trade receivables**

€'000	December 31 2018	December 31 2017
Gross carrying amount	170	109
Allowance for doubtful accounts charged to expense	-18	-2
<b>Carrying amount trade receivables, net</b>	<b>152</b>	<b>108</b>

The table below shows the maturity structure of trade receivables that were not impaired as of the reporting date:

€'000	December 31 2018	December 31 2017
Not past due and not individually impaired	60	60
<b>Past due but not individually impaired</b>		
Past due 1 to 30 days	5	14
Past due 31 to 120 days	6	34
Past due 121 to 365 days	22	-
Past due over 365 days	77	-
<b>Total past due but not individually impaired</b>	<b>170</b>	<b>48</b>
Individually impaired, net of allowances	-18	-
<b>Carrying amount of trade receivables, net</b>	<b>152</b>	<b>108</b>

Where trade receivables are neither impaired nor past due, there are no indications as of the reporting date that the debtors would not meet their payment obligations. With regards to the trade receivables that were past due as of the reporting date but not impaired, based on the customers' credit history and current credit rating, there are no indications that they are not able to meet their obligations.

The allowances on trade receivables report the following changes:

## Notes to the consolidated financial statements (continued)

**Movements in the provision for impairment of trade receivables**

<b>€'000</b>	
<b>31.12.2017</b>	<b>0</b>
Addition	18
<b>December 31, 2018</b>	<b>18</b>

The additions to and reversals of bad debt allowances for impaired receivables are presented under other operating expenses and other operating income. Utilisation covers the derecognition of former written down receivables.

**4.4 Inventories**

<b>€'000</b>	<b>December 31 2018</b>	<b>December 31 2017</b>
Raw materials, consumables and supplies	30	28
Work in progress	-	1
Finished goods	50	333
Prepayments	-	150
<b>Total</b>	<b>80</b>	<b>512</b>

The impairment of inventory in 2018 results from the probable deterioration of the products saleability and the respective write-down to its net realisable value.

All inventories in the amount of €80K are pledged under the liabilities to banks.

**4.5 Intangible assets**

Purchased rights, concessions and similar rights include fabrication technologies for the manufacturing of pyrolysis granulate. As of the reporting date the carrying amount of the production technologies is € 4,568K (31 December 2017: € 5,304K) with a remaining amortisation period of 6.5 years (31 December 2017: 7.5 years).

All intangible assets are being amortised on a straight-line basis over their respective estimated useful life.

In the reporting period amortisation of intangible assets amounted to €870K (2017: €882K) and they are recorded under "Depreciation".

Notes to the consolidated financial statements (continued)

Changes in intangible assets as of 31 December 2017 and 2018:

€'000	Purchased rights, concessions and similar rights	Self generated rights, concessions and similar rights	Prepayments and assets under development	Total
<b>Cost</b>				
Balance at 1 January 2017	7,906	695	-	8,601
Additions	1	-2	-236	235
Balance at 31 December 2017	7,907	693	-236	8,836
<b>Accumulated amortisation</b>				
Balance at 1 January 2017	-1,496	-178	-	-1,674
Additions	-812	-70	-	-882
Balance at 31 December 2017	-2,308	-248	-	-2,556
Net book amount as of 1 January 2017	6,410	517	-	6,927
Net book amount as of 31 December 2017	5,599	445	-236	6,280
<b>Cost</b>				
Balance at 1 January 2018	7,907	693	-236	8,837
Additions	28	-	605	634
Balance at 31 December 2018	7,921	695	841	9,457
<b>Accumulated amortisation</b>				
Balance at 1 January 2018	-2,308	-247	0	-2,555
Additions	-800	-70	0	-870
Balance at 31 December 2018	-3,094	-317	0	-3,412
Net book amount as of 1 January 2018	5,598	448	236	6,282
Net book amount as of 31 December 2018	4,826	378	841	6,046



## Notes to the consolidated financial statements (continued)

## 4.6 Fixed assets

€'000	Technical equipment and machinery	Land, land rights and buildings	Equipment and furniture	Prepayments and assets under construction	Total
<b>Cost</b>					
<b>Balance at 1 January 2017</b>	<b>8,911</b>	<b>965</b>	<b>470</b>	<b>1,381</b>	<b>11,727</b>
Currency translation differences	-	-5	-	-158	-162
Additions	26	248	27	13,972	14,273
Reclassifications	-	-48	0	-48	-
Disposals	-	-	3	0	3
<b>Balance at 31 December 2017</b>	<b>8,937</b>	<b>1,256</b>	<b>500</b>	<b>15,147</b>	<b>25,841</b>
<b>Accumulated amortisation</b>					
<b>1 January 2017</b>	<b>-1,366</b>	<b>-78</b>	<b>-210</b>	<b>-</b>	<b>-1,654</b>
Additions	-845	-49	-83	-	-977
Disposals	-2	-	-3	-	-1
<b>Balance at 31 December 2017</b>	<b>-2,209</b>	<b>-127</b>	<b>-276</b>	<b>-</b>	<b>-2,612</b>
<b>Net book amount as of 1 January 2017</b>	<b>7,545</b>	<b>887</b>	<b>260</b>	<b>1,381</b>	<b>10,073</b>
<b>Net book amount as of 31 December 2017</b>	<b>6,728</b>	<b>1,129</b>	<b>224</b>	<b>15,147</b>	<b>23,229</b>
<b>Cost</b>					
<b>Balance at 1 January 2018</b>	<b>8,937</b>	<b>1,257</b>	<b>494</b>	<b>15,149</b>	<b>25,837</b>
Currency translation differences	-	13	0	1,194	1,207
Additions	21	38	8	16,522	16,589
Reclassifications	-	-	51	-51	0
Disposals	-	-	-40	-	-40
<b>Balance at 31 December 2018</b>	<b>8,958</b>	<b>1,308</b>	<b>513</b>	<b>32,814</b>	<b>43,592</b>
<b>Accumulated amortisation</b>					
<b>Balance at 1 January 2018</b>	<b>-2,210</b>	<b>-127</b>	<b>-271</b>	<b>-</b>	<b>-2,607</b>
Additions	-830	-45	-54	-	-929
Disposals	0	0	39	-	39
<b>Balance at 31 December 2018</b>	<b>-3,039</b>	<b>-172</b>	<b>-285</b>	<b>-</b>	<b>-3,496</b>
<b>Net book amount as of 1 January 2018</b>	<b>6,727</b>	<b>1,130</b>	<b>224</b>	<b>15,149</b>	<b>23,230</b>
<b>Net book amount as of 31 December 2018</b>	<b>5,919</b>	<b>1,136</b>	<b>228</b>	<b>32,814</b>	<b>40,096</b>

Except for assets under construction fixed assets are being depreciated on a straight-line basis over their respective estimated useful life. For assets under construction depreciation will not begin until the assets are available for use.

In the reporting period prepayments and assets under construction mainly relate to the construction of the Group's first USA plant in Terre Haute, Indiana, USA.

As the borrowing costs for the project financing loan are directly attributable to the construction of the USA plant, all interest expense incurred in the reporting period for the project financing loan net of any investment income on the temporary investment of those borrowings has been capitalised. As such an amount of €2.093K in 2018 is included in assets under construction in 2018 that represents borrowing costs capitalised during the year.

In the reporting period depreciation on fixed assets amounted to €929K (2017: €957K).

All fixed assets in the reporting period in the amount of €40,096K (31 December 2017: €23,230K) are completely pledged for the project financing loan, liabilities due to banks, shareholder loans (TSAL and RPSCO) and the purchase price loan.

Notes to the consolidated financial statements (continued)

#### 4.7 Trade payables

As of the reporting date trade payables include current trade payables in the amount of €565K (December 31, 2017: €834K). All open payables were incurred during fiscal 2018.

#### 4.8 Project financing loan

In order to meet the project funding requirements for the construction of the first USA Plant, Pyrolyx USA Indiana, LLC has received a project financing loan from the city of Terre Haute, Indiana, USA on 21 August 2017. The city of Terre Haute issued tax-exempt project finance bonds with the proceeds loaned to Pyrolyx USA Indiana, LLC pursuant to a loan agreement (project financing loan). The senior project debt amount being €25,665K (US\$30,185K) – comprised of €25,508K (US\$ 30,000K) related to the Series 2017A bonds tranche and €157K (US\$185K) related to the Series 2017B bonds tranche.

The loan was recognized at fair value (€ 22,105K) on the date of acquisition on 21 August 2017. Transaction costs directly attributable to the issue of the bonds in the amount of €1,082K have been deducted from the fair value. The capitalization rate used to calculate the fair value of the bond is 10.38%. Due to the interest rate below market rate the loan is considered to include a government grant. Upon inception the amount of the government grant (€ 2,478K) has been determined by subtracting the fair value of the loan from the loan proceeds less transactions costs and has been recognized as deferred income. For accounting of the government grant see Note 9.

The loan was valued at the reporting date based on fair value less the corresponding transaction costs at the time of acquisition at amortized cost using the effective interest method.

The terms of that loan agreement correspond to the bond purchase agreement. The key terms are:

The proceeds of the senior project debt may only be used to: (i) acquire, construct, equip and install a tyre recycling facility that will reclaim carbon black from used tyres located in the City of Terre Haute (the facility); (ii) fund a debt service reserve fund for the bonds; (iii) finance capitalised interest in connection with the project; and (vi) pay the costs of issuing the bonds (collectively, the **project**).

The Series 2017A bonds tranche matures on 1 December 2028 and the Series 2017B bonds tranche on 1 December 2020. Principal payments must be made annual beginning 1 December 2020 through 1 December 2028 based on a 10-year level debt service schedule.

The nominal interest rate is 7.25% with interest accruing from the date of issue. Interest is payable semi-annually on 1 June and 1 December based on the outstanding balance of the

## Notes to the consolidated financial statements (continued)

senior project debt amount. The interest amounts are capitalized costs to the assets in constructions and will be amortized once the plant has begun operations.

The loan is secured by (i) a first lien security interest in all assets of the project; (ii) a pledge of a mortgage covering the project; (iii) a pledge of the limited liability company interests of Pyrolyx USA, Inc. in the Borrower; (iv) a collateral assignment of all agreements, contracts, warranties, licenses (including Pyrolyx technology licenses), permits and rights related to construction, ongoing operation, equipment, procurement, feedstock and offtake for/of the Project; and (v) gross revenue pledge: all revenues escrowed with debt service payable first.

The Series 2017A bonds tranche is to be repaid with a total of nine repayments. The Series 2017B bonds tranche is to be repaid in full at its maturity date.

Under the terms of the loan, Pyrolyx USA Indiana, LLC is required to adhere to certain debt covenants, such as debt service coverage, distribution test requirement and days cash on hand requirement. Pyrolyx USA Indiana, LLC has complied with all respective debt covenants during 2018.

### **4.9 Convertible bonds**

On 11 November 2013, the Company issued convertible bonds. The five-year convertible bonds bore interest at the rate of 10% p.a. from the date of issue, which is due in a lump sum at maturity.

The expiration date of the bond was 11. November 2018. 95% of the bondholders had converted to shares in previous years. The company has also agreed, in lieu of the forfeiture of accrued interest that occurs on early conversion, to pay an amount equivalent to 15% of the nominal value of the convertible bonds to the converting holders (the "early conversion fee"), shown in other financial liabilities (see Note 4.11). The early conversion fee became payable on the repayment date (November 11, 2018) but can be - at the request of the Company - and will be paid in shares of Pyrolyx AG as part of a capital increase of the Company. The capital increase as part of an in-kind contribution measure to convert the conversion fee liability to shares will be executed in 2019.

### **4.10 Liabilities due to banks**

Liabilities due to banks comprise the drawn amounts under the respective credit facilities.

The loans require monthly or quarterly repayment instalments and interest payments.

The loans are each secured by (amongst other things) uncertified land charges totalling €2,500K on the cct Stegelitz GmbH real property in Stegelitz and Burg, Germany, transfers by

## Notes to the consolidated financial statements (continued)

way of security of certain assets (e.g. pyrolysis machine) of cct Stegelitz GmbH and transfers of claims under bank guarantees totalling € 3,500K.

Under the terms of the loans, cct Stegelitz GmbH is required to maintain certain financial ratios. Furthermore, cct Stegelitz GmbH may not, without consent of the bank, sell material fixed assets or company parts or acquire companies or company parts. cct Stegelitz GmbH has complied with the financial covenants of its bank borrowing facilities during 2018 and 2017.

In the reporting period the Company entered into a prolongation agreement with respect to the MBG loan (June 30, 2018: €1,000K). Under this agreement the initial repayment date 30 June 2018 was prolonged to June 30, 2021 with repayment in monthly instalments of €14K and a last instalment of € 510K on repayment date.

**4.11 Other financial liabilities**

€'000	December 31 2018	December 31 2017
Shareholder options	4,989	10,214
Purchase price loan	4,808	5,000
Contingent purchase price liabilities	1,076	989
Shareholder loans including accrued interest	5,058	1,230
Third party loans including accrued interest	4,142	2,925
Early conversion fee	848	770
Other	-	71
<b>Total</b>	<b>20,920</b>	<b>21,199</b>
<i>thereof</i>		
<i>current</i>	8,986	12,207
<i>non-current</i>	11,934	8,992

**a) Shareholder options (warrant) agreement**

Pyrolyx, AVIV Investments Pty Ltd, Galaxis Advisory SA. and M-Invest GmbH entered into a Novation Agreement in 2016 to convert their existing warrants into 1.005.817 new shares, a shareholder options liability (AVIV Investments Pty Ltd, 899,657 new shares; Galaxis Advisory SA 89,227 new shares; and M-Invest GmbH, 16,933 new shares). This agreement was subject to several conditions precedent, which were all satisfactorily met. In accordance with IFRS 7.8 these shareholder options were value adjusted by €5.225K (to fair value) to the amount of €4,989K (2017: €10,214K with the income taken to interest and other income. The Company anticipates the conversion of a certain number of these warrants into shares during the fiscal year 2019.

Notes to the consolidated financial statements (continued)

**b) Purchase price loan and contingent purchase price liabilities**

The purchase price loan and the contingent purchase price liabilities relate to the acquisition of the interest in cct Stegelitz GmbH in 2015. The interest on the purchase price loan is payable on a quarterly basis.

The contingent purchase price liabilities are measured at fair value considering the forecast Group income after income tax expense in 2024 as well as an appropriate discount rate. Based on the Group plant roll-out plan, the fair value of the contingent purchase price liabilities was adjusted upward in 2018.

**c) Shareholder loans**

The Company is party to several shareholder loan agreements. Shareholder financing increased to €5.058K (2017: €1.230K). Primary reason was the support of building additional infrastructure in the United States, Terre Haute (IN).

On December 4, 2018 Pyrolyx Group entered into a loan agreement with TSAL PTY LTD (the lender) a company associated with the Triguboff family. The credit facility of the loan amounts to €2M which can be drawn down by the Company (the borrower) in 3 instalments. As of the reporting date the Company had drawn down under the loan agreement two instalments totalling €1.2M.

The loan is due after five years from the first day of the agreement. The loan bears interest at the rate of 15% p.a. The interest payment is due in cash each calendar quarter but can be accrued at the discretion of the borrower. The Company has offered the following as inducement to providing this loan:

- 154 Warrants for share purchase at a strike price of \$11,010 in Pyrolyx USA to the benefit of AVIV Investments Pty Ltd (an organization associated with TSAL). These warrants have a term of 10 years.

As security and collateral for the this loan the Company has agreed to a comprehensive and all-inclusive pledge of assets of Pyrolyx USA. In addition, the lender entered into a Guaranty agreement with Pyrolyx AG and Pyrolyx International GmbH ("The Guarantor") whereas the Guarantor guarantees due, punctual and full payment and performance of, and covenants with connected with the TSAL loan.

The Company has the right to initiate the repayment of the loan without being obliged to pay any pre-payment penalty to TSAL ("callable loan"). A callable loan can be compared with a combination of a loan without any call option and a long position in a receiver swaption. Therefore, the TSAL loan represents a hybrid contract containing a call option. As the values of the loan component and the call option are closely related, the instrument must be measured at fair value.

## Notes to the consolidated financial statements (continued)

The fair value is determined in a first step by discounting the contractually agreed future payments of the loan with an interest rate customary for a comparable loan without any call option. In this context, the default risk of the issuer must also be considered. In a second step the fair value of the call option is determined by using a Hull-White model for a receiver swaption. This model considers strike interest rates and information about expected interest rate development (forward rates, interest rate volatilities).

The fair values at drawdown dates of the loan instalments including the call options amounted to €400K and €800K, respectively (in total € 1.2M). The capitalisation rate used to calculate the fair value of the loan (instalments) is 10.52 %.

At reporting date, the fair value of the loan instalments including the call options amounts to €1.263.809.

On 20 December 2018 Pyrolyx Group entered into a loan agreement with RPSCO PTY LTD (the lender). The credit facility of the loan amounts to \$4.55M which can be drawn down by the Company (the borrower) in 2 instalments. As of the reporting date the Company has drawn down under the loan agreement two instalments totalling €2.28M.

The loan is due after three years from the first day of the agreement. The loan bears interest at the rate of 15 % p.a. The interest payment is due in cash each calendar quarter but can be accrued at the discretion of the borrower. The loan can be prepaid without a penalty after a 24 months term. The Company has offered the following as inducement to providing this loan:

- 32 Warrants at a strike price of \$11,010 in Pyrolyx USA to the benefit of RPSCO  
These warrants have a term of 10 years.

To facilitate this loan TSAL PTY. LTD. agreed to a consent and subordination agreement of their own loan agreement described earlier.

As further security and collateral for the this loan the Company has agreed to a comprehensive and all-inclusive pledge of assets of Pyrolyx USA. In addition, the lender entered into a Guaranty agreement with Pyrolyx AG and Pyrolyx International GmbH ("The Guarantor") whereas the Guarantor guarantees due, punctual and full payment and performance of, and covenants with connected with the RPSCO loan. In addition, TSAL PTY. LTD agreed to subordinate her claims against the company vis-a-vis RPSCO PTY LTD loans.

### **Third Party Loans**

The third-party loans comprise of two parts. One part is related to the financing of cct Stegelitz GmbH and a previous pilot plant by various parties and the other part is related to a loan agreement with Arena Growth Holding, LLC, Wayne / USA (Arena loan) in which the Company entered within the reporting period.

The credit facility of the Arena loan amounts to €5M and which could be drawn down by the Company in instalments. As of the reporting date the Company has drawn down under the

**Notes to the consolidated financial statements (continued)**

Arena loan agreement two instalments totaling €1M. Each drawdown instalment under the Arena loan is due at its nominal value in a lump sum at maturity, which means five years after drawdown, respectively. The Arena loan bears interest at the rate of 14 % p.a. (first 24 months capitalized, then payable quarterly in arrears) from drawdown date.

As security and collateral for the Arena loan (instalments), the Company pledges its shares in Pyrolyx USA, Inc.

The Company has the right to initiate the repayment of the Arena loan (instalments) without being obliged to pay any pre-payment penalty to Arena Growth Holding, LLC ("callable loan"). A callable loan can be compared with a combination of a loan without any call option and a long position in a receiver swaption.

Therefore, the Arena loan represents a hybrid contract containing a call option. As the values of the loan component and the call option are closely related, the instrument has to be measured at fair value.

The fair value is determined in a first step by discounting the contractually agreed future payments of the Arena loan (instalments) with an interest rate customary for a comparable loan without any call option. In this context, the default risk of the issuer must also be considered. In a second step the fair value of the call option is determined by using a Hull-White model for a receiver swaption. This model considers strike interest rates and information about expected interest rate development (forward rates, interest rate volatilities).

At reporting date, the fair value of the Arena loan instalments including the call options amounts to €1,252K. The capitalization rate used to calculate the fair value of the Arena loan (instalments) at the reporting date is 9.32 %.

Despite numerous attempts by the Company to draw further tranches from this loan, Arena has refused to live up to their contractual agreements and are in breach. The Company is exploring legal options to see the contract obligations fulfilled.

**d) Early conversion fee**

For details on the early conversion fee see also Note 4.9.

Notes to the consolidated financial statements (continued)

#### 4.12 Other non-financial liabilities

The split of other non-financial liabilities is as follows:

##### Other non-financial liabilities

€'000	31 December 2018	31 December 2017
Liabilities to employees	706	638
Liabilities to suppliers	437	279
Liabilities to supervisory board members	101	129
Wage and church tax	29	45
Capital increase not yet registered	-	0
Other	657	38
	<b>1,930</b>	<b>1,129</b>
<i>thereof</i>		
<i>current</i>	1,675	1,129
<i>non-current</i>	255	0

"Liabilities to employees" include expenses amongst others costs related restructuring measures. 'Other' signifies an increase in accruals for pending litigation.

#### 4.13 Provisions

At December 31, 2018 provisions include liabilities in connection with the cash-settled share-based payments (virtual shares) to certain employees as outlined in Note 8.2.

€'000	Virtual shares
<b>1 January 2017</b>	-
Provisions made during the year	846
Provisions used during the year	-
Provisions reversed during the year	-
<b>31 December 2017</b>	<b>846</b>
Provisions made during the year	129
Provisions used during the year	-
Provisions reversed during the year	-846
<b>31 December 2018</b>	<b>129</b>

#### 4.14 Deferred income

The Group has been awarded a government grant in the form of the project financing loan from the City of Terre Haute, Indiana, USA bearing interest at below market rate. The amount of the government grant has been determined by subtracting the fair value of the loan upon inception



Notes to the consolidated financial statements (continued)

from the loan proceeds less transactions costs and been recognized as deferred income US\$2.914K (converted 2018: €2,546K; 2017: €2,433K).

Parts of the grant relating to the purchase of property, plant and equipment will be amortized over the useful life of the plant once operation of the plant has started. The parts of the grant that compensate the Group for expenses incurred will be recognized in profit or loss on a systematic basis in the periods in which the expenses are incurred.

#### **4.15 Equity**

**a) Share capital, treasury shares and additional paid-in capital comprise the following:**

Notes to the consolidated financial statements (continued)

	Attributable to shareholders of Pyrolyx AG					Non-controlling interests	Total equity
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other components of equity		
€'000							
Balance at December 31, 2016	3,165	-112	7,290	-16,378	-	-6,035	-6,027
Issuance of shares, net of transaction costs and tax	2,450	-	33,574	-	-	36,024	36,024
Treasury shares sold	-	-112	675	-	-	787	787
Equity-settled share-based payment	-	-	-504	620	-	116	116
Loss after tax	-	-	-21,595	-	-	-21,595	-21,565
Acquisition of non-controlling interests without change in control	-	-	-1,280	-	-	-1,280	0
Net exchange differences recognised in other comprehensive income	-	-	-	-	-1,340	-1,340	-1,421
<b>Balance at December 31, 2017</b>	<b>5,615</b>	<b>-</b>	<b>39,755</b>	<b>-37,353</b>	<b>-1,340</b>	<b>6,677</b>	<b>7,838</b>
Issuance of shares, net of transaction costs and tax	346	-	2,561	-	-	2,908	2,964
Treasury shares sold	-	-	-	-	-	0	0
Equity-settled share-based payment	-	-	520	-	-	520	576
Loss after tax	-	-	-	-4,810	-	-4,810	-4,936
Acquisition of non-controlling interests without change in control	-	-	385	-	-	385	815
Net exchange differences recognised in other comprehensive income	-	-	-	-	871	871	904
<b>Balance at December 31, 2018</b>	<b>5,961</b>	<b>-</b>	<b>43,221</b>	<b>-42,163</b>	<b>-469</b>	<b>6,550</b>	<b>8,160</b>

## Notes to the consolidated financial statements (continued)

### Share capital

#### • Issued shares AG

The annual general meeting on June 7, 2017 approved the change of Pyrolyx shares from bearer shares to registered shares.

The fully paid-in no-par-value registered shares each with a notional value of € 1 carry one vote per share and a right to dividends. The annual general meeting on June 7, 2017 approved the conversion at Pyrolyx from bearer shares to registered shares.

Since August 2017 Pyrolyx CHESS Depository Interests (**CDIs**) are quoted on the Australian securities exchange (ASX), with 15 CDIs represent 1 Pyrolyx registered share locked in a trust account. As per February 15, 2018 a total of 27,263,355 CDIs, which are equivalent to 1,817,557 ordinary registered shares.

#### • Issued shares USA

On November 5, 2018 the Board of Directors of Pyrolyx USA, Inc. with approval from Pyrolyx AG increased authorized shares from 3500 to 4000. In June 2018, 70 shares of Pyrolyx USA, Inc. were sold from Pyrolyx International GmbH to TSAL Pty LTD at a share price €11.642,86 for a total of €815.000.

AVIV Investments Pty Ltd. received 58 shares, and TSAL Pty, LTD 1 share as an inducement to offer a new shareholder loan to Pyrolyx USA. (see Note 12). Reclaim received 3 shares in an anti-dilutive measure. The value recognized for accounting was \$682K (€596K) with a charge to expense and the credit to equity, common stock.

Of the total authorized shares 3562 shares were outstanding as of the date of reporting.

#### • Authorized capital and contingent capital

At 31 December 2018, Pyrolyx AG held the following **contingent capitals**:

Contingent Capital 2013/I amounting to € 23,255.00 comprising not yet converted bonds from the 2013/18 Convertible Bond issued by Pyrolyx in October 2013. (Note: No bonds are outstanding, thus this capital cannot be used any longer.).

Contingent Capital 2013/II amounting to € 179,850.00 to cover stock options under the 2013 Share Option Program (Note: Performance parameters were not achieved within the allotted time therefore no stock options can be exercised.).

## Notes to the consolidated financial statements (continued)

Contingent Capital 2017/II amounting to € 895,207.00 to cover convertible bonds and/or bonds with warrants with a total nominal value of up to € 90 million issued with the authorization of the company EGM on 21 February 2017 (Note: No bonds were issued to date.).

At 31 December 2018, Pyrolyx AG held the following **authorized capital**:

The Authorized Capital 2018/I was resolved by the annual general meeting (AGM) on 20 July 2018 with € 2,800,000.00. Capital remaining on 31.12.2018 is 2,550,000.00. The previous Authorized Capital 2017/II amounting to € 2,064,030.00 was revoked at the same time.

In the reporting period three capital increases from authorized capital partly in exchange for cash contributions or contributions in kind were agreed and carried out by the management board. Furthermore, partly using Contingent Capital 2013/I, parts of the convertible bond issue 2013/18 were converted into equity. The following table provides an overview of these equity increases:

€'000	Increase in		Total capital increase
	Share capital	Additional paid-in capital	
<b>03 August 2018</b>			
Capital increase from Authorised Capital 2017/II (cash contribution)	96	771	<b>867</b>
<b>29 October 2018</b>			
Capital increase from Authorised Capital 2018/I (cash contribution)	250	1,250	<b>1,500</b>
<b>June 28, 2018</b>			
Sale of 70 Shares at Pyrolyx USA		541	541
<b>Total capital increase in 2018</b>	<b>346</b>	<b>2,561</b>	<b>2,908</b>

The capital increase against cash from Authorized Capital 2017/II and from Authorized Capital 2018/I took all place without shareholders' pre-emptive rights pursuant to Section 186(3), sentence 4 AktG German Stock Corporation Act and the company by laws.

- **Warrants**

As part of new shareholder loans, a total of 186 warrants to purchase shares in Pyrolyx USA became a condition precedent for granting these two senior secured loan and security agreements. Each warrant for shares carries a term of 10 years. See detailed notes 4.11 c). Since the warrants are tied to the respective draw against the loan facility, as of December

## Notes to the consolidated financial statements (continued)

31, 2018 a total of 93 Warrants were issued.

The term of the warrants begins on December 4 and December 22, 2018 respectively and ends on December 4 and December 23, 2028 respectively. The warrant can be exercised by the holder during the entire term. The exercise price for the purchaser of a share is USD 11,010.50, which is adjusted in accordance with §12 of the agreement.

A binomial model was used to value the warrant, which considers the warrant's exercisability during its term. Input parameters for the valuation model are the value and volatility of the value of Pyrolyx USA Inc., the risk-free return for the term of the warrant and the exercise price of the warrant.

Pyrolyx USA Inc. is not listed on the stock exchange. Therefore, the value of a share in the company must be estimated alternatively. For valuation the following considerations were made:

- The warrant agreements were concluded in December 2018. The exercise price agreed therein is USD 11,010.50. If one assumes that the warrant was not in the money when it was issued, i.e. the value of a share in Pyrolyx USA Inc. was at or below USD 11,010.50, the value of USD 11,010.50 forms the upper limit for a share in Pyrolyx USA Inc.
- Pyrolyx USA Inc. is, according to the information available, the value-determining element of Pyrolyx AG, whose shares are listed on the stock exchange. The market capitalization of the Pyrolyx shares amounts to approximately EUR 30 million. Considering 3,500 outstanding shares, Pyrolyx USA Inc. has a total value of approximately USD 38.5 million or approximately EUR 33.5 million per share of USD 11,010.50 (exchange rate EUR per USD as at 31 December 2018: 0.8710). Against this background, the company considers the exercise price agreed in the contract concluded shortly before the balance sheet date of December 31, 2018 to be a suitable estimator for the value of a stake in Pyrolyx USA Inc.

**Volatility:** As Pyrolyx USA Inc. is not listed on the stock exchange, the stock exchange price cannot be used to determine volatility. The company has therefore used the historical share price performance of the parent company, Pyrolyx AG, as an aid to estimating volatility. If the volatility is considered on the basis of (1) daily data for a period of 1080 days, an annualized volatility of 83.64 % results, (2) if the volatility is considered on the basis of weekly data for a period of 156 weeks, an annualized volatility of 77.36 % results, and (3) if the volatility is

Notes to the consolidated financial statements (continued)

considered on the basis of monthly data for a period of 36 months, an annualized volatility of 61.25 % results.

Since the volatility tends to be lower when considering shorter historical periods, the company has taken the value of 61.25% at the lower end of the calculated range of volatilities into account when valuing the warrant.

The risk-free interest rate was 0.24 % as of 31 December 2018. This interest rate was derived using the Svensson method for a remaining term of the warrant of 9.9 years. The company obtained the necessary Svensson parameters from the Deutsche Bundesbank.

**Value of the warrants:** The value of each warrant, using a binomial model and considering the parameters presented, amounts to USD 7,368.75 or EUR 6,418.18 as at 31 December 2018 (EUR price per USD as at 31 December 2018: 0.8710).

**Financial impact:** The company recognized the value of each warrant and created a financial transaction expense with the credit going to equity ("additional paid in capital") in the total amount of \$685K (€598K).

Notes to the consolidated financial statements (continued)

## 5 Cash flow information

€'000	Non-cash changes					
	1 January 2018	Financing cash flow	Equity component of convertible loan notes	Fair value adjustments	other changes	31 December 2018
Convertible bonds	472	-490	-	-	18	-
Bank loans	1,471	-476	-	-	65	1,059
Project financing loan	21,956	-1,876	-	-	3,260	23,340
Other financial liabilities	21,199	3,910	-1,154	87	-3,121	20,921
<b>Total liabilities form financing activities</b>	<b>45,098</b>	<b>1,068</b>	<b>-1,154</b>	<b>87</b>	<b>223</b>	<b>45,322</b>

The Company paid out principal and interest of the non-converted bond holders of the Convertible Bond after bond became due on November 1, 2018. Bank loans reflect amortization payments according to the agreed upon schedule. The project financing loan pertains to the 2x annual interest payment within the Municipal Revenue Bond for Terre Haute. Other financial liabilities largely reflect new liquidity through the addition of new shareholder loans.

Notes to the consolidated financial statements (continued)

## 6 Segment reporting

Management has determined that the Group only has one reportable segment being the manufacture and supply of recovered carbon black and related recovered raw materials.

A breakdown of entity-wide information discloses revenues according to the domicile of the customer as well as non-current assets according to the registered office of each entity of Pyrolyx:

### Revenue external customers

€'000	Revenue sold to external customers		Non-current assets <sup>*)</sup>	
	2018	2017	31 December 2018	31 December 2017
Germany	203	173	19,125	15,905
Foreign	376	174	35,340	-
<b>Total</b>	<b>579</b>	<b>347</b>	<b>54,465</b>	<b>15,905</b>

<sup>\*)</sup> *wo restricted cash, as IFRS 8.33(b) defines "without financial instruments"*

\*) Non-current assets comprise intangible assets and fixed assets.

The revenue from external customers mainly consists of the sale of recovered carbon black (2018: 86%; 2017: 73%).

The top three customers accounted for 52% of the revenues in 2018 and for 54% in 2017.

## 7 Additional disclosures regarding financial instruments

The table below shows the carrying amounts of financial assets and liabilities as well as fair values in accordance with the levels of the fair value hierarchy. The three levels based on the input factors used for the determination of the fair value are defined as follows:

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2:** Inputs other than quoted market prices included within level 1 that are observable for the asset or liability either directly or indirectly.

**Level 3:** Inputs for the asset or liability that are not based on observable market data.

The table below shows the carrying amounts of financial assets and liabilities as well as fair values in accordance with the levels of the fair value hierarchy. The three levels based on the input factors used for the determination of the fair value are defined as follows:

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.



## Notes to the consolidated financial statements (continued)

**Level 2:** Inputs other than quoted market prices included within level 1 that are observable for the asset or liability either directly or indirectly.

**Level 3:** Inputs for the asset or liability that are not based on observable market data.

## Financial instruments by class and category in accordance with IFRS 7.8

€'000	December 31, 2018		December 31, 2017		per IFRS
	amount	Fair Value	amount	Fair Value	
<b>Financial assets, by class</b>					
Cash and cash equivalents	3,648	5,502	5,502	5,502	
Trade receivables - current <sup>1)</sup>	152	108	108	108	
Restricted cash and cash equivalents - non-current	8,322	22,509	22,509	22,509	
<b>Financial liabilities, by class</b>					
Trade payables - current	565	565	834	834	
Project financing loan - current	1,792	1,790	1,712	1,727	2
Convertible bonds - current	-	-	472	472	2
Liabilities due to banks - current	340	374	411	457	2
Other financial liabilities - current			12,207	-	
Shareholder options - current	4,989	4,989	10,214	10,214	1
Other other financial liabilities - current	3,997	4,020	1,993	2,059	2
Trade payables - non-current	-	-	112	113	
Project financing loan - non-current	21,548	21,355	20,244	21,850	2
Liabilities due to banks - non-current	719	672	1,060	1,015	2
Other financial liabilities - non-current			8,992	-	
Contingent purchase price liabilities	1,076	1,076	989	989	3
Arena loan - non-current	1,252	1,252	-	-	2
Other other financial liabilities	9,606	8,115	8,004	7,970	2

As of December 31, 2018, and 2017 the fair values of cash and cash equivalents, trade receivables, restricted cash and cash equivalents and trade payables were assumed to correspond to their book value.

On trade receivables Pyrolyx calculates bad debt allowances to reflect expected defaults based on the measurement results.

### Project financing loan

For the project financing loan, the fair value was calculated using the discounted cash flow method. The capitalisation interest rate applied at 31 December 2018 is 10.38%. The fair value can be assigned to level 2 of the fair value hierarchy according to IFRS 13.

### Liabilities due to banks

For fixed-interest loans, the fair value of liabilities to banks was calculated using the discounted cash flow method. The capitalization interest rates applied at 31 December 2018 is 8.05%. They are classified as level 2 fair values in the fair value hierarchy.

For variable-interest loans, the fair value of liabilities to banks was calculated only for disclosure purposes and carried at the value of the outstanding nominal amount.

In the measurement of the contingent purchase price liabilities the main unobservable input parameter is the expectation regarding the purchase price component still to be paid.

## Notes to the consolidated financial statements (continued)

**Contingent purchase price liability**

€'000	2018	2017
<b>Opening balance</b>	<b>989</b>	<b>3,059</b>
Total result for the period reported in income statement under "other operating income/expenses"	87	-2,070
<b>Closing balance</b>	<b>1,076</b>	<b>989</b>
Change in unrealised gains (-)/ losses (+) for the period included in the income statement under "other operating income/expenses" for contingent purchase price liabilities at the end of the reporting period	87	-2,070

**Other financial liabilities**

The fair value for the other financial liabilities (without the shareholder options and contingent purchase price liabilities) is based on discounted cash flow models using current market interest rates. The market interest rates used for liabilities 13.53%. The fair value can be assigned to level 2 of the fair value hierarchy according to IFRS 13.

The shareholder options are recognised and reported at fair value on the reporting date and can be assigned to level 1 of the fair value hierarchy according to IFRS 13. For details on the shareholder options see Note 4.11 a).

The contingent purchase price liabilities are recorded at fair value and are assigned to level 3 of the fair value hierarchy according to IFRS 13.

Notes to the consolidated financial statements (continued)

Financial instruments by class and category in accordance with IFRS 7.8

€'000	Category IFRS 7.8 per IFRS 9	December 31, 2018		December 31, 2017	
		Carrying amount	Carrying amount	Category IFRS 7.8 per IAS 39	Carrying amount
<b>Financial assets, by class</b>					
Cash and cash equivalents	Amortised cost	3,648	5,502	LAR	5,502
Trade receivables - current(1)	Amortised cost	152	108	LAR	108
Restricted cash and cash equivalents - non-current	Amortised cost	8,322	22,509	LAR	22,509
<b>Financial liabilities, by class</b>					
Trade payables - current	FLAC	565	834	FLAC	834
Project financing loan - current	FLAC	1,792	1,712	FLAC	1,712
Convertible bonds - current	FLAC	-	472	FLAC	472
Liabilities due to banks - current	FLAC	340	411	FLAC	411
<b>Other financial liabilities - current</b>		<b>8,986</b>	<b>12,207</b>	-	<b>12,207</b>
Shareholder options - current	FVTPL	4,989	10,214	FLaFVIPLD	10,214
Other other financial liabilities - current	FLAC	3,997	1,993	FLAC	1,993
Trade payables - non-current	FLAC	-	113	FLAC	112
Project financing loan - non-current	FLAC	21,548	20,244	FLAC	20,244
Liabilities due to banks - non-current	FLAC	719	1,060	FLAC	1,060
<b>Other financial liabilities - non-current</b>		<b>11,934</b>	<b>8,992</b>	-	<b>8,992</b>
Contingent purchase price liabilities	FVTPL	1,076	989	n/a	989
Arena bond - non-current	FVTPL	1,252	-	n/a	0
Other other financial liabilities	FLAC	9,606	8,004	FLAC	8,004
<b>Summary by category</b>					
Financial assets at amortised cost (Amortised cost)	Amortised cost	12,123	28,120	LAR	28,120
Loans and receivables (LaR)					
Financial liabilities at amortised cost (FLAC)	FLAC	38,569	34,842	FLAC	34,842
Financial liabilities at fair value through profit or loss (FVTPL)	FVTPL	7,317	10,214	FLaFVIPLD	10,214
<b>Summary by category</b>		<b>58,008</b>	<b>73,175</b>		

## 8 Share-based payments

### 8.1 Equity-settled share-based payments

The Company had set up a stock option plan for employees and members of the management board (Long Term Incentive Plan). The original grant dates being August 2013 (tranche 2013) and August 2014 (tranche 2014). None of the granted stock options can be exercised any longer, as the performance hurdles had not been met within the relevant time frame.

### 8.2 Cash-settled share-based payments

In 2017 and during the reporting period certain members of the management board of the Company have been granted entitlement to variable share-based remuneration (also known virtual stock options). The calculation of the potential payment is directly linked to the Company's share price performance and the instruments are exercisable until 31.12.2021.

Notes to the consolidated financial statements (continued)

The following table shows the maximum number the virtual shares issued by 31 December 2018, including the entitlement and the allocation date:

**Virtual shares issued by 31 December 2018**

	Number	Exercise Price
<b>Virtual shares</b>	138,330	
Granted between 1 January 2018 and 31 December 2018	99,904	€ 11.00
thereof outstanding at 1 January 2018	117,047	€ 11.00
thereof forfeited between 1 January 2018 and 31 December 2018	-	-
Exercised between 1 January 2018 and 31 December 2018	-	-
Lapsed between 1 January 2018 and 31 December 2018	-78,621	-
Outstanding at 31 December 2018	138,330	€ 11.00
Exercisable at 31 December 2018	138,330	€ 11.00

Certain members of the management board of the Company can claim a variable remuneration from the Company following the allocation of virtual shares but no later than midnight on 31 December 2021 (**exercise period**). Entitlements not claimed by this time shall be forfeited without compensation.

The underlying share price of one virtual share has been set at € 11.

The exercise price of a virtual share always corresponds to the average weighted market value of a company share determined for the 60 trading days preceding exercise.

As soon as variable remuneration is claimed, the underlying share price of virtual shares is compared to the exercise price. If the exercise price exceeds the underlying virtual purchase price per share, the variable remuneration entitlement equals the difference multiplied by the number of redeemed virtual shares after tax.

Notes to the consolidated financial statements (continued)

The fair value of the virtual shares was calculated using a binomial option pricing model. The following table provides an overview of the relevant measurement parameters:

**Virtual shares relevant measurement parameters**

	31 December 2018	1 January 2018
<b>Assessment parameters</b>		
Number of virtual share options	138,330	146,310
Shares for work already performed	138,330	117,047
Shares based on future work	0	29,263
Share price at the reporting date	€ 5.00	€ 10.25
Exercise price	€ 11.00	€ 9.93
Volatility	61%	86%
reporting date	-0.56%	-0.60%
Option term in years	3.0	4.0
Blocking period in years	–	–
Performance target	–	–
Fair value of virtual shares	€ 0.93	€ 5.78

**Volatility:** According to IFRS 2.B25, when estimating the expected volatility, the implied volatility from traded options, the historical volatility of the share price for the expected option term, the period since the shares of the company were traded, the tendency of the volatility towards its mean value and appropriate, regular intervals for price observations must be taken into account. Since no options are traded for the shares of Pyrolyx, implicit volatility cannot be considered. The company have therefore used historical data to estimate volatility. In doing so, the company considered various intervals in the price observations. When volatility is observed based on daily data for a period of 1080 days, an annualized volatility of 83.64% is obtained, when weekly data are observed on a basis of 156 weeks, an annualized volatility of 77.36% is obtained, and when monthly data are observed for a period of 36 months, an annualized volatility of 61.25% is obtained.

The virtual shares were recognised as provisions on the balance sheet with respective expenses in personnel expenses (wages and salaries). See Note 4.13 for further information.

## 9 Critical estimates and judgements

The preparation of the consolidated financial statements requires judgements, estimates and assumptions for certain items that have an impact on the recognition and measurement of recognised assets, liabilities, income, expenses and contingent liabilities. These estimates and assumptions are based on historical data and other

Notes to the consolidated financial statements (continued)

factors that are relevant and are reviewed on an ongoing basis. Actual amounts may differ from the estimates made.

Primary areas of application for judgements, estimates and assumptions are the following:

### **Consolidation decision on cct Stegelitz GmbH**

Note 2.1 describes that although the Group holds in cct Stegelitz GmbH only an 80% equity interest cct Stegelitz GmbH is included in the consolidated financial statements based on a 100% interest equity interest. Considering all facts and circumstances the management board of the Company concluded that all material opportunities and risks lie with Pyrolyx and Pyrolyx has 100% power to affect the amount of its returns from cct Stegelitz GmbH. See Note 2.1 for further information.

### **Warrants**

The company has a number of warrants outstanding which have been offered as additional inducements to attract debt financing in the past, as well as part of the terms of new recent shareholder loans. These warrants need to be valued at Fair Value at close of business of the financial year with considerable effort. These notes describe the financial impact involved associated with these warrants respectively.

### **Deferred tax accounting**

In determining the recoverability of the carrying amount of deferred tax assets significant judgement is required with respect to the availability of sufficient taxable profits. For further details see Note 3.3.

### **Subsequent accounting for intangible assets**

The Group's purchased rights, concessions and similar rights include production technologies for the manufacturing of pyrolysis granulate. As of the reporting date the Group estimates the remaining useful life of the production technologies to be at least 6.5 years based on the expected technical obsolescence of such assets. However, the actual remaining useful live may be shorter or longer than 6.5 years, depending on technical innovations and competitor actions. For further details see Note 4.5.

### **Accounting for project financing loan**

Upon receipt of the cash proceeds for the project financing loan from the City of Terre Haute the Group had to derive the fair value of the project financing loan at inception based on an appropriate market interest rate with the difference between the initial carrying value of the loan at fair value and the proceeds received being the government grant part of the proceeds received. Significant judgement is required to determine

## Notes to the consolidated financial statements (continued)

such appropriate market interest rate. The interest rate used to discount the Project Financing Loan of Pyrolyx USA, Inc. has been determined on the basis of yields on 6 to 10 years USD bonds, taking into account the securitization. The management had to exercise significant discretionary decisions regarding the derivation of the market interest rate from the available data as there were significant differences in bond yields, although the features of the bonds were comparable. The management finally applied an interest rate of 9.87% at the time of acquisition. With regard to the derivation of the spread between secured and unsecured bonds, the resulting interest rates for appropriate rating classes were compared and thus an adjustment of -0.60% was determined for the securitization. For further details see Note 4.8.

### **Fair value measurements and valuation process**

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The chief financial officer of the Company determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified external valuers to establish the appropriate valuation techniques and inputs to the model. In determining the appropriate valuation techniques and inputs to the respective models' significant judgements is required.

Information about the valuation techniques and inputs used in determining the fair value of various liabilities are disclosed in Notes 4.9 convertible bonds, Note 4.11 a) shareholder options liabilities, Note 4.11 b) Purchase price loan and contingent purchase price liabilities, Note 7 additional disclosures regarding financial instruments and Note 8 share-based payments/ option programs.

### **Assessment of legal risks and contingent liabilities**

The assessment of legal risks and contingent liabilities require significant judgement on the likelihood of a possible outflow of resources.

## **10 Financial risk management**

The Group is exposed to various financial risk that arise as a result of its operating and financing activities such as credit risk, liquidity risk and market risk (interest rate risk, equity price risk and foreign currency risk). Financial risk management is carried out by the Group treasury. Group treasury identifies and measures financial risks.

Notes to the consolidated financial statements (continued)

Appropriate changes are made to processes in reaction to changes in the risk situation. The objective of risk management is to reduce the financial risk through planned measures.

### **10.1 Credit risk**

Credit risk is the risk of financial loss to the Group if counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risks arise from cash and cash equivalents, restricted cash and trade receivables. Customer risks are systematically recorded, analysed and managed in the respective subsidiary, whereby both internal and external information sources are utilised. The Group's cash and cash equivalents as well as the restricted cash consist of cash in bank accounts lodged with reputable banks. Accordingly, the Group views credit risk as minimal. The maximum credit risk is reflected by the carrying amounts of the financial assets recognised in the balance sheet.

### **10.2 Liquidity risk**

The Company has relied heavily on equity (issuance of shares) and debt financing to finance its growth and plant development. Risk arises when forecast operational cash flows will not get realized in time to meet expected operational and continued planned capital expenditures. Pursuing the Pyrolyx business model in building the most advanced pyrolysis technology and plant operations has been a large expense and capital-intensive process. This has put a consistent strain on liquidity.

The company maintains detailed rolling cash flow forecasts to analyse cash positions and to best anticipate and time cash needs.

Critical for the company are maintaining balance sheet liquidity, the ability to maintain and add to debt-financed positions, as well raising additional capital through private placements of shares out of authorized capital. The ability to court many individual investors, investors who share a strong commitment towards the business model and plans of Pyrolyx AG, have been and will continue to be a key component for the company to meet all operational obligations and fund all targeted investments.

The following table shows the future undiscounted cash outflows (interest and principal) with respect to the existing financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The amounts are accordingly not reconcilable with the amounts in the balance sheet; solely the



## Notes to the consolidated financial statements (continued)

amounts for trade payables are reconcilable, since these are not discounted due to immateriality.

**Maturity liabilities****2018**

€'000	Up to 1 year	1-5 years	More than 5 years	Total
Trade payables	565	-	-	565
Project financing loan	1,911	20,450	18,261	40,622
Liabilities due to banks	391	763	57	1,211
Other financial liabilities	10,234	10,241	5,325	25,800
	<b>13,101</b>	<b>31,454</b>	<b>23,643</b>	<b>68,198</b>

**2017**

€'000	Up to 1 year	1-5 years	More than 5 years	Total
Trade payables	834	113	-	947
Project financing loan	1,827	13,560	-23,438	38,825
Convertible bonds	468	-	-	468
Liabilities due to banks	478	1,074	97	1,649
Other financial liabilities	2,242	5,370	4,880	12,492
	<b>5,849</b>	<b>20,117</b>	<b>28,415</b>	<b>54,381</b>

For the purpose of above table future undiscounted cash flow originating in USD have been converted to EUR using the USD/EUR spot rate of \$1.145 as of 31 December 2018.

**10.3 Market risk****a) Equity price risk**

The Group's exposure to equity price risk arises from its shareholder options liability, which is valued at fair value through profit and loss. The fair value of that shareholder options liability is dependent on the Company's stock price. The table below summarises the impact of increase and decrease of the Company's stock price on the Group's loss before income tax expense.

Equity price risk		10% increase of stock price		10% decrease of stock price	
		2018	2017	2018	2017
Effects on loss before income tax expense	[€]	-499	-1,021	499	1,021

Notes to the consolidated financial statements (continued)

### b) Foreign currency risk

The Group is exposed to changes in the USD exchange rate arising from intragroup loans and liabilities.

A change in the USD of 10 percent (starting from the closing rate) against EUR would have the following implications:

F/X Risk		10% increase of USD		10% decrease of USD	
		2018	2017	2018	2017
Effects on loss before income tax expense	[€]	-672	672	-674	674

### c) Interest rate risk

The Group is subject to interest rate risk due to the long-term external financing as well as the long-term purchase price loan and contingent purchase price liability.

Based on the simulations carried out, the Group determined the effects on results of defined interest rate changes. Given an assumed change in the market interest rate as of the reporting date of -100 or +100 basis points, the following effects on loss before income tax expense would arise:

Interest Rate Risk		2018 Basis Points		2017 Basis Points	
		-100	100	-100	100
Effects on loss before income tax expense	[€]	237	-259	26	-61

Notes to the consolidated financial statements (continued)

## 11 Capital management

The Group's capital management is especially aligned to ensure the Group's financing. Directly managed by the executive board, Pyrolyx AG is responsible for planning and monitoring the Group's liquidity as well as raising capital. Short-term liquidity management is carried out with a planning horizon of 90 days. Generally, the corresponding planning is updated once a week.

As of the reporting date, the capital structure is presented as follows:

€'000	2018		2017	
		% of total equity and liabilities		% of total equity and liabilities
Equity	8,160	14%	7,837	13%
Current liabilities	13,358	23%	17,612	30%
Non-current liabilities	37,132	63%	32,842	56%
Liabilities	50,490	86%	50,454	87%
<b>Total equity and liabilities</b>	<b>58,650</b>	<b>100%</b>	<b>58,291</b>	<b>100%</b>

## 12 Financial Commitments

Obligations for purchasing commitments as of the reporting date amount to 6.559K (2017: €141K).

The commitments for minimum lease payments in relation to non-cancellable operating leases as of the reporting date are as follows:

€'000	2018	2017
<b>Non-cancellable operating leases</b>		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Up to 1 year	155	199
1-5 years	94	226
<b>Total</b>	<b>249</b>	<b>425</b>
Sub-lease payments		
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	28	-3

Rental expense relating to non-cancellable operating leases can be summarised as follows for the reporting period:

## Notes to the consolidated financial statements (continued)

€'000	2018	2017
<b>Rental expenses relating to operating leases</b>		
Minimum lease payments in the reporting period	278	130
Sub-leases received in the reporting period	-56	-30
<b>Total</b>	<b>222</b>	<b>100</b>

### 13 Related Party Transactions

Pyrolyx AG is the ultimate holding company of the Group. For interests in subsidiaries see Note 2.1.

#### Key management personnel compensation

€'000	2018	2017
Short-term employee benefits	802	870
Post-employment benefits	5	12
Termination benefits	175	164
Share-based payment expenses	-	226
	<b>982</b>	<b>1,272</b>
Expenses incurred for consultancy of key management personnel	120	293
	<b>1,102</b>	<b>1,565</b>

#### Supervisory board compensation and costs reimbursements

€'000	2018	2017
Compensation and costs reimbursements of the members of the supervisory board	145	148

includes Meeting Fees, Compensation and Travel Costs as well as sundry expenses

## Notes to the consolidated financial statements (continued)

**Transactions with related parties**

€'000	2018	2017
<b>Purchase of services from</b>		
- Other related parties	119	-
- Key management personnel	3	12
	<b>122</b>	<b>12</b>
<b>Interest expenses to other related parties for</b>		
- Shareholder options	-5,225	-
- Loans	217	314
- Early conversion fee	-	-
- Convertible bonds	-	27
	<b>-5,008</b>	<b>341</b>
<b>Other transactions with other related parties</b>		
- Conversion of loans into equity	-	-
- Repayments of loans	414	1,023
- Conversion of convertible bonds into equity	-	-
- Conversion of trade payables into equity	-	-

**14 Notes according to German GAAP (HGB)**

The average headcount of the Group in the reporting period was 44 employees (2017: 39 employees).

During the reporting period the Company's business was managed by the management board:

- Niels Raeder (CEO) until 14. June 2018
- Bernhard Meder (CEO) from 14. June 2018 – 15. December 2018
- Michael Triguboff (CEO) from 15. December 2018
- Sven Eric Molzahn (CFO) from 1. February 2018 – 28. August 2018

**15 Events after the reporting period**

Jim van Laar joined the management team of Pyrolyx USA as the new Chief Operating Officer (COO) effective February 25, 2019.

Supervisory Board Member Lars Franken resigned effective 1. March 2019  
 Supervisory Board Member Guido Veit resigned effective 1. March 2019  
 Bernhard Meder joined the Supervisory Board effective 1. March 2019

The company signed a Letter of Intent relating to the proposed acquisition of J&R Tire Used Tire Service, Inc. (Indiana).

## Notes to the consolidated financial statements (continued)

Management intends to consolidate stock exchange trading of the shares in Germany to the Dusseldorf stock exchange only. Trading on the ASX exchange of the Pyrolyx CDIs is unaffected by this step. The company believes that the liquidity of Pyrolyx shares in Germany may improve from this market consolidation.

The company announced that it was converting 916,590 of the outstanding 1,005,817 warrants into fully paid ordinary registered Pyrolyx shares. The conversion of the warrants decreases net liabilities by €10.4M of Pyrolyx AG standalone (German GAAP (HGB)) and by €4.5M of Pyrolyx consolidated Group (IFRS basis).

## **16 Summary of significant accounting policies**

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Pyrolyx and its subsidiaries.

### **16.1 Compliance with IFRS**

The consolidated financial statements of Pyrolyx AG have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) and adopted by the EU.

### **16.2 Historical cost convention**

The financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments).

### **16.3 New and amended standards adopted by the group**

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments
- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
- Annual Improvements 2014-2016 cycle
- Interpretation 22 Foreign Currency Transactions and Advance Considerations

## Notes to the consolidated financial statements (continued)

The group did not have to change its accounting policies and make certain retrospective adjustments following the adoption of IFRS 9. This is disclosed in note 1.

**16.4 New standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below.

- Annual Improvements to IFRS Standards 2015-2017 Cycle.
- IFRS 16 Leases (issued in 01/2016):
  - **Nature of Change:** It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases
  - **Impact of Change:** The company has reviewed all the group's leasing arrangements over the last year considering the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the company's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of €249K, see note 13. Of these commitments, approximately €31K relate to short-term leases and €6.8K to low value leases which will both be recognised on a straight-line basis as expense in profit or loss. For the remaining lease commitments, the group expects to recognise right-of-use assets of approximately €147.8K on 1 January 2019, lease liabilities of €147.8K (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). The group expects that net profit after tax will increase for 2019 as a result of adopting the new rules. Adjusted EBITDA used to measure segment results is expected to increase by 76K, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure. Operating cash flows will increase, and financing cash flows decrease by approximately €72.7K as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.
  - **Mandatory application date/ Date of adoption by group:** The group will apply the standard from its mandatory adoption date of 1 January 2019. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be

## Notes to the consolidated financial statements (continued)

measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

### **16.5 Principles of consolidation**

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and can affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, balance sheet and statement of changes in equity respectively.

### **16.6 Changes in ownership interests**

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Pyrolyx AG.

### **16.7 Foreign currency translation**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euro (€), which is Pyrolyx AG's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.



Notes to the consolidated financial statements (continued)

Foreign exchange gains and losses are presented in the income statement within other income or other expenses.

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates, and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, are recognised in other comprehensive income. When a foreign operation is sold, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

### **16.8 Business combinations**

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, a deficit arises, it is recognised immediately in profit or loss.

If the consideration transferred by the Group includes a contingent consideration, the contingent consideration is measured at its fair value at the date of acquisition.

Notes to the consolidated financial statements (continued)

Subsequent changes to the value are recognised either through profit or loss or directly in equity.

### **16.9 Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability (e.g. the nature and location of the asset as well as limitations regarding its sale or use) if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for

- Share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*
- Measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

Fair value is not always available as market value and must often be determined on the basis of various valuation parameters. These are mainly quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. In addition, quoted prices that are either directly observable for the asset or liability or can be indirectly derived from other prices can be consulted to determine fair value.

### **16.10 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue from the sale of goods is recognised when the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- The amount of revenue can be measured reliably

Notes to the consolidated financial statements (continued)

- It is probable that the economic benefits associated with the transaction will flow to the Group
- The costs incurred or to be incurred in respect of the transaction can be measured reliably

Revenues include revenue from the sale of recovered carbon black, recovered steel and pyrolysis oil.

### **16.11 Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

### **16.12 Interest income and interest expenses**

Interest income and interest expenses are recognised using the effective interest method.

### **16.13 Income taxes**

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a

Notes to the consolidated financial statements (continued)

transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax are recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### **16.14 Earnings per share**

Basic earnings per share is calculated by dividing:

- the loss attributable to owners of the Company
- by the weighted average number of ordinary shares outstanding during the financial year

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Notes to the consolidated financial statements (continued)

### **16.15 Impairment of assets**

Assets that are subject to amortisation or depreciation are tested for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable value. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### **16.16 Investments and other financial assets**

#### Accounting policies applied until 31 December 2017

The group has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the consolidated financial statements (continued)

Financial assets are classified into the following specified categories:

- Financial assets at fair value through profit or loss (FVTPL)
- Held-to-maturity investments
- Available-for-sale financial assets
- Loans and receivables

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### **a) Classification and measurement**

From 1 January 2018, the group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The group reclassifies debt investments when and only when its business model for managing those assets changes.

#### **b) Recognition and derecognition**

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

#### **c) Measurement**

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs

## Notes to the consolidated financial statements (continued)

that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

### Debt instruments:

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

### Equity instruments

Notes to the consolidated financial statements (continued)

The group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

**d) Impairment**

From 1 January 2018, the group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 10.1 for further details.

**16.17 Investments and other financial assets (until 31 December 2018)**

Accounting policies applied until 31 December 2018

The group has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.



Notes to the consolidated financial statements (continued)

Financial assets are classified into the following specified categories:

- Financial assets at fair value through profit or loss (FVTPL)
- Held-to-maturity investments
- Available-for-sale financial assets
- Loans and receivables

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### **a) Classification and measurement**

##### Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

##### Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading, or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument and is not a financial guarantee.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

Notes to the consolidated financial statements (continued)

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 25.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Available-for-sale (AFS) financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as

- (a) Loans and receivables,
- (b) Held-to-maturity investments
- (c) Financial assets at fair value through profit or loss

Listed redeemable notes that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period.

Investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period if the management board considers that fair value can be reliably measured.

Fair value is determined in the manner described in Note 17.6. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss and accumulated under the heading

Notes to the consolidated financial statements (continued)

of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment's revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in consolidated profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

**b) Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty
- breach of contract, such as a default or delinquency in interest or principal payments

Notes to the consolidated financial statements (continued)

- probability that the borrower will enter bankruptcy or financial reorganisation
- disappearance of an active market for that financial asset because of financial difficulties

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent

Notes to the consolidated financial statements (continued)

to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

**c) Derecognition of financial assets**

The Group derecognises a financial asset only if the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised based on the relative fair values of those parts.

**16.18 Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, bank balances and term deposits with original maturities of up to three months or less that are readily convertible to

Notes to the consolidated financial statements (continued)

known amounts of cash and which are subject to an insignificant risk of changes in value.

### **16.19 Restricted cash and cash equivalents**

Restricted cash and cash equivalent balances are those which meet the definition of cash and cash equivalents but are not available for use by the group as certain restrictions are imposed on these cash and cash equivalent balances. E.g. they can arise from 'pledged' bank balances and amounts placed in escrow accounts.

### **16.20 Trade receivables**

The carrying amount of trade receivables corresponds to their respective invoiced amount, less valuation allowances. If there is objective evidence that the receivables may be impaired, specific valuation allowances are recognised.

### **16.21 Intangible assets**

#### **a) Intangible assets acquired separately**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives and reported as an expense in the income statement. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

The following useful lives are used in the calculation of amortisation:

Patents	10-20
Trademarks	20
Licenses	20

#### **b) Self-generated intangible assets - research and development costs**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

A self-generated intangible asset arising from development or from the development phase of an internal project is recognised if all of the following have been demonstrated

- The technical feasibility of completing the intangible asset so that it will be available for use or sale

Notes to the consolidated financial statements (continued)

- The intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognised for self-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised or no intangible asset exists, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, self-generated intangible assets and also acquired intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation of capitalised development is generally recognised in the Group on a straight-line basis over a useful life of 5 years.

**c) Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination are recognised separately from goodwill and recognised at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

**d) Derecognition of intangible assets**

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised. They are recognised in the 'other gains and losses' line.

**16.22 Property, plant and equipment**

**a) Land and buildings**

Properties in the course of construction for production, sale or administrative purposes or with no defined purpose are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the

Notes to the consolidated financial statements (continued)

appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

#### **b) Other tangible assets**

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation of property, plant and equipment:

Buildings	20-30
Plant and equipment	5-15

An item of tangible assets is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of tangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### **16.23 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Cash flows related to capitalised borrowing costs are classified as cash flows from investing activities.



Notes to the consolidated financial statements (continued)

All other borrowing costs are recognised in profit or loss in the period in which they are incurred and related cash flows are classified as cash flows from financing activities.

#### **16.24 Equity**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a Group entity are recognised at the proceeds received, net of direct issue costs. Issue costs are costs that would not have been incurred without the issue of the equity instrument

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities and equity instruments issued by a Group company are classified as a financial liability or equity according to the economic content of the contractual agreement and the definitions.

#### **16.25 Financial liabilities (Policy applicable from 1 January 2018)**

##### **a) Classification and subsequent measurement**

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is

classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

##### **b) Derecognition**

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Notes to the consolidated financial statements (continued)

### **c) Financial guarantee contract**

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

## **16.26 Financial liabilities (until 31 December 2018)**

### Accounting policies applied until 31 December 2018

Financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the financial instrument. They are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities not assessed at fair value through profit or loss are deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to the issue of financial liabilities at fair value on initial recognition are recognised immediately in profit or loss.

#### **a) Financial liabilities at FVTPL**

Financial liabilities are classified as at FVTPL when the financial liability is held for trading, or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term;

## Notes to the consolidated financial statements (continued)

- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

**b) Other financial liabilities**

Other financial liabilities (including borrowings and trade payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**c) Derecognition of financial liabilities**

The Group derecognises financial liabilities if the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Notes to the consolidated financial statements (continued)

### **16.27 Compound instruments**

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised; in which case the balance recognised in equity will be transferred to the capital reserves. When the conversion option remains unexercised at the maturity date of the convertible bond, the balance recognised in equity will be transferred to the capital reserve. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

### **16.28 Rounding of amounts**

Unless otherwise stated, figures are generally presented in thousands of euros. The tables and information presented can contain differences due to rounding.

Munich, March 27, 2019

Notes to the consolidated financial statements (continued)

  
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Michael P. Triguboff,

Chief Executive Officer

## **INDEPENDENT AUDITOR'S REPORT**

To Pyrolyx AG, Munich

### **REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT**

#### *Audit opinions*

I have audited the consolidated financial statements of Pyrolyx AG, Munich, and its subsidiaries (the Group), comprising the consolidated statement of financial position as at December 31, 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from January 1, 2018 to December 31, 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, I audited the Group management report of Pyrolyx AG, Munich, for the financial year from January 1, 2018 to December 31, 2018.

In my opinion, based on the findings of my audit,

- the attached consolidated financial statements comply in all material respects with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB and, in accordance with these requirements, give a true and fair view of the Group's net assets and financial position as of December 31, 2018, and of its results of operations for the financial year from January 1, 2018 to December 31, 2018, and
- the attached Group management report as a whole presents an accurate view of the Group's position. The Group management report is consistent with the consolidated financial statements, complies with German legal regulations and suitably presents the opportunities and risks of future development. My audit opinion regarding the Group management report does not extend to the contents of the components of the Group management report listed in the appendix.

Pursuant to Section 322 (3) Sentence 1 HGB, I state that my audit has not led to any reservations with regard to the compliance of the consolidated financial statements or the Group management report.

#### *Basis for the audit opinions*

I conducted my audit of the consolidated financial statements and the Group management report in accordance with Section 317 HGB, the EU Audit Regulation (No. 537/2014; hereinafter "EU-AR"), and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). My responsibility according to these regulations, principles and standards is described in further detail in the "Responsibility of the auditor for the audit of the consolidated financial statements and the Group management report" section of my auditor's report. I am independent of the consolidated companies in compliance with the provisions of European law, German commercial law and professional law and have fulfilled my other German professional obligations in compliance with these

requirements. In addition, I declare pursuant to Article 10, Paragraph 2 Letter f) EU-AR that I have provided no prohibited non-audit services referred to in Article 5, Paragraph 1 EU-AR. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions regarding the consolidated financial statements and the Group management report.

#### *Other information*

The legal representatives are responsible for the other information. The other information includes:

- the other parts of the annual report, with the exception of the audited consolidated financial statements, the components of the Group management report whose contents were audited and our auditor's report.

My audit opinions regarding the consolidated financial statements and the Group management report do not extend to the other information, and accordingly I provide neither an audit opinion nor any other form of audit conclusion in this regard.

As part of my audit of the consolidated financial statements, I have a responsibility to read the other information and to evaluate whether it

- exhibits material discrepancies with the consolidated financial statements, the components of the Group management report whose contents were audited or the knowledge I have obtained during my audit, or
- otherwise seems materially misstated.

If, on the basis of my work, I conclude that this other information is materially misstated, I am obliged to report this fact. I have nothing to report in this regard.

#### *Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the Group management report*

The legal representatives are responsible for preparing the consolidated financial statements, which in all material respects comply with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB, and for the consolidated financial statements giving a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, the legal representatives are responsible for the internal controls that they deemed necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's status as a going concern. In addition, they have a responsibility to disclose matters related to the status as a going concern, if relevant. They are also responsible for accounting on the basis of the going concern principle, unless they intend to liquidate the Group or discontinue its business operations, or there is no realistic alternative.

Moreover, the legal representatives are responsible for preparing the Group management report, which as a whole provides an accurate view of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal regulations and suitably presents the opportunities and risks of future development. The legal representatives are also responsible for the arrangements and measures (systems) that they considered necessary to enable the preparation of a Group management report in compliance with applicable German legal regulations and to allow sufficient, suitable evidence to be provided for the statements in the Group management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the Group management report.

### *Responsibility of the auditor for the audit of the consolidated financial statements and the Group management report*

My objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group management report as a whole provides an accurate view of the Group's position and is in all material respects consistent with the consolidated financial statements and with the findings of the audit, complies with German legal regulations and suitably presents the opportunities and risks of future development, and to issue an auditor's report containing my audit opinions regarding the consolidated financial statements and the Group management report.

Reasonable assurance is a high level of assurance but not a guarantee that an audit carried out in compliance with Section 317 HGB, the EU-AR and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always uncover a material misstatement. Misstatements can result from transgressions or inaccuracies and are deemed material if it could be reasonably expected that they would individually or together influence the financial decisions made by users on the basis of the consolidated financial statements and Group management report.

I exercise due discretion during the audit and maintain a critical attitude. In addition,

- I identify and evaluate the risk of material misstatements, whether due to fraud or error, in the consolidated financial statements and the Group management report, plan and implement audit procedures in response to these risks and obtain audit evidence that is sufficient and appropriate to provide a basis for my audit opinions. The risk that material misstatements are not uncovered is higher in the case of transgressions than in the case of inaccuracies, as transgressions can entail fraudulent collaboration, falsifications, deliberate omissions, misleading depictions or the suspension of internal controls.
- I gain an understanding of the internal control system relevant for the audit of the consolidated financial statements and of the arrangements and measures relevant for the audit of the Group management report in order to plan audit procedures that are appropriate given the circumstances, but not with the aim of providing an audit opinion regarding the effectiveness of these systems.



- I evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values presented by the legal representatives and the associated disclosures.
- I draw conclusions about the appropriateness of the going concern principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is material uncertainty regarding events or circumstances that could cause significant doubt about the Group's ability to continue as a going concern. If I come to the conclusion that there is material uncertainty, I am obliged to call attention to the associated disclosures in the consolidated financial statements and in the Group management report in the auditor's report or, if these disclosures are inappropriate, to modify my respective audit opinion. I draw my conclusions on the basis of the audit evidence obtained up to the date of my auditor's report. However, future events or circumstances may mean that the Group is no longer a going concern.
- I evaluate the overall presentation, the structure and the content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315a (1) HGB.
- I obtain sufficient appropriate audit evidence for the company's accounting information or business activities within the Group in order to provide audit opinions regarding the consolidated financial statements and the Group management report. I am responsible for directing, monitoring and implementing the audit of the consolidated financial statements. I bear sole responsibility for my audit opinions.
- I evaluate the consistency of the Group management report with the consolidated financial statements, its legality and the view it gives of the position of the Group.
- I conduct audit procedures regarding the forward-looking disclosures made by the legal representatives in the Group management report. On the basis of sufficient appropriate audit evidence, I examine the significant assumptions underlying the legal representatives' forward-looking disclosures in particular and evaluate the appropriateness of the derivation of the forward-looking disclosures from these assumptions. I do not provide a separate audit opinion regarding the forward-looking disclosures or the underlying assumptions. There is a considerable, unavoidable risk that future events will differ significantly from the forward-looking disclosures.

Topics for discussion with those responsible for monitoring include the planned scope and scheduling of the audit as well as significant audit findings, including any deficiencies in the internal control system that I find during my audit.

I issue a statement to the monitors to the effect that I have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be assumed to affect my independence and the safeguards put in place to protect against this.

From among the matters that I have discussed with the monitors, I determine which matters were most significant in the audit of the consolidated financial statements for the current re-

porting period and are therefore the key audit matters. I describe these matters in the auditor's report, unless laws or other legal provisions preclude their public disclosure.

## **OTHER STATUTORY AND LEGAL REQUIREMENTS**

### *Other disclosures pursuant to Article 10 EU-AR*

I was elected as the auditor of the consolidated financial statements by the Annual General Meeting on July 20, 2018. I was engaged by the Supervisory Board on November 26, 2018. I have been the auditor of the consolidated financial statements of Pyrolyx AG, Munich, without interruption since financial year 2015.

I declare that the audit opinions contained in this auditor's report are consistent with the additional report to the Supervisory Board according to Article 11 EU-AR (audit report).

## **RESPONSIBLE AUDITOR**

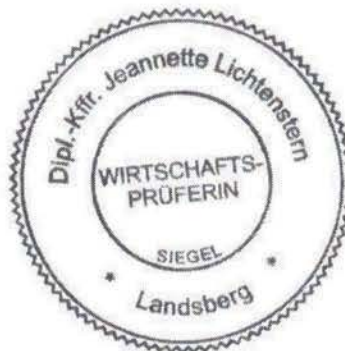
The auditor responsible for the audit is Jeannette Lichtenstern.

Landsberg, Germany, March 27, 2019

*Lichtenstern*

Jeannette Lichtenstern

Auditor



## SHAREHOLDER INFORMATION AS AT 13. March 2019

Additional Shareholder Information required by the Australian Securities Exchange Limited (ASX) Listing Rules is set out below.

In accordance with the 3rd edition ASX Corporate Governance Council's Principles and Recommendations, the 2018 Corporate Governance Statement, as approved by the Board, is available on the Company's website at: <http://pyrolyx.com/en/investor-relations.html>. The Corporate Governance Statement sets out the extent to which Pyrolyx has followed the ASX Corporate Governance Council's 29 Recommendations during the 2018 financial year.

The Company has issued a total of 5,960,869 ordinary fully paid registered shares (**Shares**) which would equate to 89,413,035 Chess Depository Receipts (**CDIs**), if all transformed. In accordance with the Company's Prospectus dated 11 July 2017, 1 CDI equates to 15 Shares. As at the date of this report 4,143,312 Shares are held by 350 shareholders directly and 1,817,557 Shares held indirectly in form of 27,263,355<sup>1</sup> CDIs held by 238 CDI holders which represents.

### 1. Substantial shareholders

To the best knowledge of the Company, the number of securities held by substantial shareholders in the Company within the meaning of section 671B of the Corporations Act 2001 (Cth) are as follows:

#### Ordinary Fully Paid Registered Shares

Name	Number Shares	Number CDIs	Total in Shares	%
Michael Triguboff <sup>2</sup>	1,086,067	4,163,520	1,363,635	22.88
Bernhard Meder <sup>3</sup>	365,497	0	365,497	6.13

### 2. Number of security holders and securities on issue

Pyrolyx AG has issued the following securities:

- 5,960,869 fully paid ordinary shares held by 350 shareholders, including 1,817,557 Shares held in a trust account as the basis for the issuance of CDIs;
- 27,263,355 CDIs held by 238 CDI holders;
- 1,005,817 unquoted Warrants (representing 1,005,817 Shares or 15,087,255 CDIs) held by 3 holders (899,657 or 89.45% warrants on issue held AVIV Investments Pty Ltd, 89,227 warrants held by Galaxis Advisory SA and 16,933 warrants held by M-Invest GmbH)

Details of the Top 20 Shareholders are set out in section 6 below.

### 3. Voting rights

#### Ordinary fully paid registered shares

The voting rights attached to ordinary shares are one vote per share, which can be exercised in person or by proxy at the General Assembly following registration with the company and associated proof of ownership / representation right of the respective shares.

Each Share entitles the holder to one vote.

<sup>1</sup> There are an additional 45,000 CDIs (reflecting 3,000 shares) that are recorded on the CDI register that are actually currently held as shares (not CDIs). The Company is working with the CDI Registry to correct this position. This report sets out the current position which shows these CDIs on issue.

<sup>2</sup> Held via TSAL Pty Ltd, AVIV Investments Pty Ltd ATF MPT Family Superannuation Fund and TMPL Pty Ltd as well as including 456,417 Shares held as trustee

<sup>3</sup> Held directly and via M-Invest GmbH and CCT AG (B. Meder is Director and Shareholder of CCT AG)

## PYROLYX AG

### CDIs

In accordance with section 11 of the Company's Prospectus date 11 July 2017, CDI holders may attend and vote at the Company's general meeting by doing either of the following:

- Instructing Chess Depository Nominees Pty Limited (CDN), as the legal owner, to vote the Shares underlying the CDIs in a particular manner;
- Informing the Company that they wish to nominate themselves or another person to be appointed as CDN's proxy with respect to their Shares underlying the CDIs for the purpose of attending and voting at the general meeting; or
- Converting their CDIs into a holding of Shares and voting these at the meeting.

CDI holders are entitled to one vote for every 15 CDIs they hold.

### Options

Option holders do not have any voting rights on the options held by them.

### Warrants

Warrant holders do not have any voting rights on the options held by them.

## 4. Distribution of security holders

### Fully Paid Ordinary Shares (including trust account for CDIs)

Range	Securities	%	No. of Holders
100,001 and over	4.861.269	81,6%	9
10,001 - 100,000	832.845	14,0%	28
5,001 - 10,000	86.080	1,4%	11
1,001 - 5,000	113.834	1,9%	51
1 - 1,000	66.841	1,1%	251
<b>Total</b>	<b>5.960.869</b>	<b>100,0%</b>	<b>350</b>

### Chess Depository Interests

Range	Securities	%	No. of Holders
100,001 and over	25.095.547	92,0%	24
10,001 - 100,000	1.787.752	6,6%	49
5,001 - 10,000	131.803	0,5%	18
1,001 - 5,000	231.586	0,8%	117
1 - 1,000	16.667	0,1%	30
<b>Total</b>	<b>27.263.355</b>	<b>100,0%</b>	<b>238</b>

### Unquoted Warrants

Range	Securities	%	No. of Holders
100,001 and over	899.657	89,4%	1
10,001 - 100,000	106.160	10,6%	2
5,001 - 10,000	0	0,0%	0
1,001 - 5,000	0	0,0%	0
1 - 1,000	0	0,0%	0
<b>Total</b>	<b>1.005.817</b>	<b>100,0%</b>	<b>3</b>

## PYROLYX AG

### 5. Unmarketable parcel of shares

The number of CDI Holders holding less than a marketable parcel of CDIs (being A\$500) is 26 based on the Company's closing CDI price of A\$0.54, on 13 March 2019.

### 6. Twenty largest shareholders of quoted equity securities

Fully Paid Ordinary Shares of Common Stock (including trust account for CDIs)

Details of the 20 largest Shareholders by registered shareholding are as follows.

Rank	Name	13 Mar 2019	% IC
1	Nortrust Nominees Limited (including trust account shares for CDIs)	1,850,917	31,05
2	SIX SIS AG Legitimationsaktionär §67,4 AktG	1,080,726	18,13
3	CITIBANK EUROPE PLC Legitimationsaktionär §67,4 AktG	443,563	7,44
4	CITIBANK EUROPE PLC Legitimationsaktionär §67,4 AktG	440,143	7,38
5	CACEIS BANK S.A., GERMANY BRANCH Legitimationsaktionär §67,4 AktG	300,126	5,03
6	M-Invest GmbH	238,852	4,01
7	Köllner Hanns Joachim	212,175	3,56
8	Banque Internationale a Luxembourg S.A.	166,786	2,80
9	Carbon Clean Tech AG	126,545	2,12
10	BETHMANN BANK AG Legitimationsaktionär §67,4 AktG	85,700	1,44
11	Berger Roland	69,160	1,16
12	LGT Bank AG	59,455	1,00
13	Saltarax GmbH	57,500	0,96
14	Chase Nominees Ltd	49,274	0,83
15	Legelli Gerhard	45,525	0,76
16	BNP PARIBAS SECURITIES SERVICES Legitimationsaktionär §67,4 AktG	41,436	0,70
17	Miju GmbH	38,820	0,65
18	BNP Paribas S.A. Niederlassung Österreich	34,395	0,58
19	Ströer Dirk	32,582	0,55
20	el Mahdy Cherief Fouad Zaki	30,000	0,50
	<b>Total</b>	<b>5,403,680</b>	<b>90,65</b>
	<b>Balance of Register</b>	<b>567,189</b>	<b>9,36</b>
	<b>Grand total</b>	<b>5,960,869</b>	<b>100,00</b>

Data from miraqle

### Chess Depository Interests

Details of the 20 largest CDI Holders by registered CDI holding are as follows.

Rank	Name	13 Mar 2019	%
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,375,296	23.38
2	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	5,882,238	21.58
3	HAO YUAN AUSTRALIA PTY LTD	3,401,361	12.48
4	RAEDER & BERGER PRIVATE EQUITY GMBH & CO	1,147,500	4.42
5	DIRK HOLGER STROER	1,020,408	3.74
6	THE TRUST COMPANY (AUSTRALIA) LIMITED	932,952	3.42
7	WALLING PTY LIMITED	714,285	2.62
8	TSAL PTY LIMITED	691,485	2.54
9	NATIONAL NOMINEES LIMITED	680,272	2.50
10	TSAL PTY LTD	634,14	2.33
11	MICHAEL LANGEN	510,204	1.87
11	HANS-JOACHIM KOLLNER	510,204	1.87
12	TSAL PTY LTD	491,805	1.80
13	RAEDER CAPITAL GMBH	346,395	1.27
14	TSAL PTY LTD	280,035	1.03
15	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	271,116	0.99
16	MR WILLIAM JOHN LAUKKA & MRS ELIZABETH ANNE LAUKKA	229,66	0.84
17	TELUNAPA PTY LTD	204,082	0.75
18	TUWELE PTY LIMITED	170,068	0.62
19	PLUTEUS (NO 69) PTY LTD	147,16	0.54
20	NDPDM PTY LTD	139,83	0.51
	<b>Total</b>	<b>24,780,496</b>	<b>90.89</b>
	<b>Balance of register</b>	<b>2,482,859</b>	<b>9.11</b>
	<b>Grand total</b>	<b>27,263,355</b>	<b>100.00</b>

**7. Company Secretary**

German law does not require the appointment of a Company Secretary and the Company has not formally appointed a Company Secretary.

**8. The address and telephone number of the Company's registered office in Australia; and of its principal administrative office.**

The Company's registered office and principle place of business in Germany is:  
Landshuter Allee 8-10 (previously Nymphenburger Str. 70, 80335 Munich)  
T: +49 89 8563350

The Company's registered Australian office is:  
TSAL  
Level 19, Aurora Place, 88 Phillip Street, Sydney NSW 2000  
T: +61 2 8076-5010

**9. The address and telephone number of each office at which a register of securities, register of depositary receipts or other facilities for registration of transfers is kept.**

Link Market Services  
Level 12, 680 George Street  
Sydney NSW 2000 Australia  
T: +61 1300 554 474

Link Market Services (Frankfurt) GmbH  
Mergenthalerallee 15-21  
65760 Eschborn, Germany  
T: +49 (0)6196 8870 538

**10. Other Stock Exchanges**

Only CDIs are quoted on the ASX.

Pyrolyx AG Shares are quoted on the over the counter (OTC) market of Dusseldorf Stock Exchange. Pyrolyx AG also has OTC listings on the Frankfurt and Munich Stock Exchanges, and its Shares can also be traded via the XETRA trading platform of Frankfurt Stock Exchange.

**11. The number and class of restricted securities or securities subject to voluntary escrow that are on issue and the date that the escrow period ends is set out as follows:**

<b>Class</b>	<b>Number of Securities</b>	<b>Escrow Period</b>
CDIs	2,363,415	Subject to escrow for 24 months from listing date (representing 157,561 Shares).
Shares	17,492	Issued following the conversion of Convertible Bonds - subject to escrow for 24 months from issue date (representing 262,380 CDIs).
Shares	117,291	Issued following the conversion of Shareholder Loans – subject to escrow for 24 months from listing date (representing 1,759,365 CDIs).
Shares (on conversion of Warrants)	988,884	Subject to escrow for 24 months from listing date (representing 14,833,260 CDIs).

# PYROLYX AG

Note: The Company was admitted to the official list of the ASX on 16 August 2017.

## **12. Review of operations and activities**

A detailed review of operations and activities is reported in the 2018 4E Report.

## **13. On market buy-back**

There is no current on market buy-back.

## **14. Statement regarding use of cash and assets.**

During the period between 1 January 2018 and 31 December 2018, the Company has used its cash and assets readily convertible to cash that it had at the time of ASX admission in a way consistent with its business objectives set out in the Prospectus dated 11 July 2017.

## **15. Other**

The Company is incorporated in Munich, Germany.

Pyrolyx is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act 2001 (Cth) dealing with the acquisition of its shares (including substantial holdings and takeovers) and has no limitations on the acquisition of securities imposed by the jurisdiction in which the Company is incorporated or registered or has limitations on the acquisition of securities imposed under the Company's constitution.