

Deutsche Rohstoff



1ST QUARTER 2019



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Ladies & Gentlemen,

with this quarterly report we provide information on the results of the first quarter of 2019 of Deutsche Rohstoff Group. This interim report contains the consolidated income statement, the consolidated balance sheet and explanations on important positions. The figures presented in this report are unaudited and prepared in accordance with HGB.

Sales in the first three months of the new financial year amounted to EUR 14.7 million (previous year: EUR 15.7 million). EBITDA in the first three months amounted to EUR 12.8 million (previous year: EUR 10.6 million), EBIT to EUR 5.2 million (previous year: EUR 2.9 million) and consolidated net income to EUR 4.1 million (previous year: EUR 1.1 million). Thus, we have made a good start into the new year. Consolidated net income of EUR 2.4 million benefited from an appreciation in the Northern Oil & Gas share position, which at the end of the quarter was significantly higher than its price as of December 31.

ACTIVITIES IN COLORADO DOMINATE

The Group's net oil and gas production in the first quarter amounted to 566,000 barrels oil equivalent (BOE, prior year: 491,074 BOE) or 253,000 barrel oil, which results in a daily average of 6,300 BOE (prior year: 5,456 BOE). The WTI oil price, which is relevant to us, reached an annual high of USD 60.69/barrel at the end of March. The average oil price in the first quarter was USD 54.79 per barrel. The forward curve is in backwardation, i.e. oil at later dates is cheaper than oil for immediate purchase.

Elster wells also showed good results in the first quarter. In total, Elster accounted for 137,711 BO and 285,192 BOE, respectively. Thus, oil production was around 12% above expectations and by this, the under-supplied quantities delivered in the previous year have now been compensated for.

At Cub Creek, crude oil production was 92,584 barrels or 247,838 BOE in the first three months, about 11% lower than expected, mainly due to extreme cold and related problems in the downstream infrastructure of gas customers.

The depreciation for the quarterly financial statements was adjusted to the depreciation of the previous year. Depreciation per barrel of oil equivalent was USD 12.3 for Elster and USD 14.7 per barrel for Cub Creek. Depreciation for Cub Creek is thus significantly lower than the USD 23.4 per BOE in the previous year, as this included an unscheduled write-down.

The EUR/USD exchange rate averaged 1.1358 in the first quarter, with the dollar strengthening over the quarter to close at around 1.1235 USD/EUR.

Cub Creek Energy and Elster Oil & Gas continue to make the largest contribution to the Group's sales with their production in Colorado. Cub Creek continued to work on the conversion of the drilling sites. Due to the relatively harsh winter weather, especially in February, and problems with customers, the commissioning of the gas lifts at Vail was delayed. Nevertheless, Cub Creek's management expects to have

re-equipped all well pads in the course of the year and thus further stabilize production.

NEW PRODUCTION

Cub Creek is currently preparing drilling from the Olander well pad south of the Haley well pad. Planned are 11 wells (9 niobara/2 codell) with 2 miles horizontal length. The investment volume amounts to around USD 60 million. Drilling is expected to commence in early June 2019 and production is scheduled to commence in early 2020. Cub Creek has another well pad called Knight, which is immediately west of Olander. According to current plans, a similar number of wells to those currently drilled at Olander could be drilled there in 2020. Elster is expected to participate in further drilling in the coming months. We expect to be able to realize an investment volume of USD 5-10 million.

GROWTH DRIVERS UTAH AND NORTH DAKOTA

At the same time, we are continuously expanding our business in Utah and North Dakota. We see good opportunities in these two states to grow rapidly and make significant contributions to the Group. Both states also offer stable framework conditions for oil and gas production in the long term.

At the end of April, Bright Rock had already secured 1,400 acres of land in the core area of the Uinta Basin in Utah. We anticipate that Bright Rock's portfolio will continue to grow rapidly and that there will

also be an opportunity to become an operator in some areas, i.e. to propose and drill wells ourselves.

Salt Creek successfully acquired royalties in North Dakota in the past quarter and invested around USD 5.4 million. Production jumped to around 200 barrels of oil per day in March. Salt Creek is constantly reviewing more offers, so we expect to be able to expand our production further during the year.

Northern Oil & Gas (NOG) shares rose from USD 2.26 per share to USD 2.74 in the first quarter. In April, the company announced another major acquisition in North Dakota that will increase production by approximately 6,600 BOE per day in the second half of the year. We believe, that the stock of NOG will remain promising due to the strong position of the company in the very profitable core areas of the Williston Basin.

HEDGING

The Group currently has oil price hedging in place for April to December 2019 in the amount of around 50% of the expected existing production and for 2020 in the range of 25%. For 2019, the level of price hedging is between USD 50 and USD 58 per barrel and for 2020 USD 55 per barrel for the whole year.

OUTLOOK

In the current quarter, our focus is on the start of drilling at Cub Creek. It is important to the Company that the wells are completed within budget and on time. At the same time, we expect further optimization of existing production and running costs.

We also hope to receive news from Almonty and Ceritech in the weeks to come. At Almonty, the final financing of the Sang-

dong mine is pending. Ceritech is working hard to sign the contract with its partner in Brazil.

“Glückauf” – as the German miners’ greeting goes – from Mannheim,



Thomas Gutschlag
Vorstand, CEO

Jan-Philipp Weitz
Vorstand, CFO

CONSOLIDATED BALANCE SHEET AS OF 31 MARCH 2019 (UNAUDITED)

ASSETS	31.03.2019	31.03.2018	31.12.2018
	EUR	EUR	EUR
A. FIXED ASSETS	148,953,374	203,248,432	148,985,917
I. Intangible assets			
1. Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets	19,753,358	29,910,477	15,229,295
2. Goodwill	1,696,104	3,091,722	1,702,959
	21,449,462	33,002,199	16,932,254
II. Property, plant and equipment			
1. Petroleum extraction equipment	102,491,254	110,690,714	107,877,586
2. Exploration and evaluation	2,532,129	36,914,765	2,048,170
3. Plant and machinery	35,480	95,275	36,014
4. Other equipment, furniture and fixtures	175,417	95,472	91,266
	105,234,280	147,796,226	110,053,036
III. Financial assets			
1. Equity investments	14,385,151	15,568,635	14,385,151
2. Loans to other investees and investors	1,724,138	1,724,138	1,724,138
3. Securities classified as fixed assets	6,160,343	5,157,234	5,891,338
	22,269,632	22,450,007	22,000,627
B. CURRENT ASSETS	74,067,967	35,689,552	73,924,618
I. Inventories	155,519	150,142	155,519
Finished goods and merchandise	155,519	150,142	155,519
II. Receivables and other assets			
1. Trade receivables	14,610,180	10,176,833	11,646,063
2. Receivables from other investees and investors	1,875,249	270,801	1,796,881
3. Other assets	586,463	3,695,220	336,929
	17,071,892	14,142,854	13,779,873
III. Securities classified as current assets	17,887,655	2,017,266	14,343,704
IV. Bank balances	38,952,901	19,379,290	45,645,522
C. PREPAID EXPENSES	552,781	684,015	710,549
D. DEFERRED TAX ASSETS	1,255,113	1,383,324	1,223,470
TOTAL ASSETS	224,829,235	241,005,323	224,844,554

LIABILITIES	31.03.2019	31.03.2018	31.12.2018
	EUR	EUR	
A. EQUITY	79,305,333	55,867,562	73,837,164
I. Subscribed capital 5,063,072		5,063,072	5,063,072
. / . less nominal value of treasury shares -127,810	4,935,262	-127,810 4,935,262	-127,810 4,935,262
Conditional capital: EUR 2,200,000 (prior year: EUR 2,000,000)			
II. Capital reserves	29,741,076	29,827,395	29,741,076
III. Equity differences from currency translation	3,903,631	-5,720,929	2,417,573
IV. Consolidated net retained profit	32,509,922	18,723,748	28,656,568
V. Non-controlling interests	8,215,442	8,102,086	8,086,685
B. DIFFERENCE FROM CAPITAL CONSOLIDATION	0	190,537	0
C. PROVISIONS	15,943,210	22,656,615	19,311,678
1. Tax provisions	0	14,418	0
2. Other provisions	15,943,210	22,642,197	19,311,678
D. LIABILITIES	113,845,111	155,487,170	116,210,744
1. Bonds, thereof convertible: EUR 10,700,000 (prior year : EUR 0)	77,299,000	92,840,000	77,299,000
2. Liabilities to banks	12,071,486	33,147,026	16,085,646
3. Trade payables	7,365,137	22,907,172	6,839,639
4. Other liabilities	17,109,488	6,592,972	15,986,459
E. DEFERRED TAX LIABILITIES	15,735,581	6,803,439	15,484,968
TOTAL EQUITY AND LIABILITIES	224,829,235	241,005,323	224,844,554

CONSOLIDATED INCOME STATEMENT FROM 1 JANUARY TO 31 MARCH 2019 (UNAUDITED)

	01.01.–31.03.2019	01.01.–31.03.2018	01.01.–31.12.2018
	EUR	EUR	EUR
1. REVENUE	14,664,801	15,661,224	109,052,362
2. INCREASE OR DECREASE IN FINISHED GOODS AND WORK IN PROCESS	0	-20,000	-14,623
3. OTHER OWN WORK CAPITALIZED	0	0	1,231,237
4. OTHER OPERATING INCOME	3,518,180	524,374	19,060,335
5. COST OF MATERIALS	3,044,545	3,131,115	19,019,289
Cost of purchased services	3,044,545	3,131,115	19,019,289
6. PERSONNEL EXPENSES	1,050,137	718,871	3,918,520
a) Wages and salaries	1,019,686	677,305	3,569,660
b) Social security, pensions and other benefit costs	30,451	41,566	348,860
7. OTHER OPERATING EXPENSES	1,249,836	1,680,045	8,458,536
EBITDA	12,838,463	10,635,567	97,932,966
8. AMORTIZATION, DEPRECIATION AND WRITE-DOWNS			
a) of intangible assets and property, plant and equipment	7,084,859	7,773,021	58,036,928
b) of current assets	0	0	0
9. AMORTIZATION OF FINANCIAL ASSETS AND SECURITIES CLASSIFIED AS CURRENT ASSETS	522,300	0	7,205,167
EBIT	5,231,304	2,862,546	32,690,871
10. OTHER INTEREST AND SIMILAR INCOME	113,513	84,095	458,300
11. INTEREST AND SIMILAR EXPENSES	1,320,532	1,657,089	6,685,233
12. INCOME TAXES	-46,241	228,246	8,519,169
– thereof income (prior year: expenses) from changes in recognized deferred taxes EUR 46,348 (prior year: EUR 189,232)			
13. EARNINGS AFTER TAXES	4,070,526	1,061,306	17,944,769
14. OTHER TAXES	0	0	761
15. NET INCOME FOR THE GROUP	4,070,526	1,061,306	17,944,009
16. PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (-)	-217,172	-330,081	-4,072,044
17. PROFIT CARRYFORWARD (+)	28,656,568	17,992,523	14,784,603
18. CONSOLIDATED NET RETAINED PROFIT	32,509,922	18,723,748	28,656,568



NOTES TO THE **CONSOLIDATED BALANCE SHEET**
AND THE **CONSOLIDATED INCOME STATEMENT**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following only lists items that have undergone significant changes in the current period. Otherwise, reference is made to the information provided in the 2018 Annual Report.

1. RESULT OF OPERATIONS

REVENUE

Revenue relates primarily to the US subsidiaries Cub Creek Energy and Elster Oil & Gas and their participation in producing oil and gas wells. EUR 10.16 million of the sales revenue resulted from oil and EUR 4.5 million from natural gas and natural gas condensates. Production in the first 3 months amounted to 566,000 barrels of oil equivalent (BOE), i.e. 6,300 BOE per day.

Sales are reported in Euros and after deduction of production taxes (EUR 0.86 million) and realized income and losses from hedging (EUR 0.24 million).

OTHER OPERATING INCOME

Other operating income consists primarily of income from the write-up of current assets in the amount of EUR 2.4 million and income from currency gains in the amount of EUR 0.6 million, offset by currency losses in the amount of EUR 0.5 million. As a result, the net currency gain for the first quarter amounts to EUR 0.1 million. The write-up of EUR 2.4 million is based on the valuation of Northern Oil & Gas shares as of March 31, 2019 and should be seen in connection with the write-down of EUR 5.3 million as of December 31.

COST OF MATERIALS

As of March 31, 2019, expenses for purchased services amounting to EUR 3.0 million were reported, which relate to current production for the processing of gas and condensates, maintenance and work on the producing and new oil wells in the USA. Operating costs and maintenance fees amounted to approximately USD 6.5 per BOE in the first quarter.

OTHER OPERATING EXPENSES

Other operating expenses amounted to EUR 1.2 million and consist of currency losses, other general administrative expenses including occupancy costs, attorneys' fees and consulting fees, as well as other administrative expenses in the Group.

Personnel expenses for all Group companies amounted to EUR 1.1 million.

DEPRECIATION & DEPLETION

Depreciation of EUR 7.1 million relates to depreciation on oil production equipment in the tangible fixed assets of the subsidiaries Cub Creek Energy and Elster Oil & Gas, which are depreciated in accordance with the volume of oil equivalent (BOE) produced. At Cub Creek Energy, depreciation and amortization fell from USD 23.4 per BOE in the previous year to USD 14.7 per BOE in the year under review, as depreciation and amortization in the previous year included an impairment loss of EUR 13.2 million. At Elster, the depreciation rate was USD 12.2 per BOE, which averaged USD 13.6 per BOE for all Group companies.

No impairment losses were recognized in the first quarter of 2019

2. FINANCIAL POSITION AND ASSETS

FIXED ASSETS

Fixed assets decreased in the first quarter of 2019 due to scheduled depreciation of EUR 7.1 million. This reduction is offset by an addition of EUR 4.8 million based on the acquisition of Salt Creek Oil & Gas in the Williston Basin in North Dakota. Financial assets amounted to EUR 22.3 million.

CURRENT ASSETS

Receivables of around EUR 17.1 million mainly consist of trade receivables of EUR 14.6 million resulting from outstanding revenues from oil & gas production. At the end of the first quarter, cash and cash equivalents and marketable securities totaled EUR 56.8 million.

LIABILITIES & EQUITY

Equity amounted to EUR 79.3 million as of March 31, 2019. The equity ratio again increased slightly to 35.3% compared to December 31, 2018.

Liabilities to banks decreased from EUR 16.1 million to EUR 12.1 million. This was due to the pro rata repayment of bank liabilities at Cub Creek Energy amounting to EUR 3.6 million. Other liabilities increased by around EUR 1.1 million to EUR

17.1 million. They relate to outstanding royalty payments to landowners and the distribution of sales to smaller partners. Provisions fell to around EUR 15.9 million. They were formed for production taxes from 2017 to 2019 as well as investments of the US subsidiaries.

3. SUBSEQUENT EVENTS

After the balance sheet date, no extraordinary events had a material impact on the course of business; reference is made to the information provided in the 2018 Annual Report.

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FORWARD-LOOKING STATEMENTS

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