# Deutsche Rohstoff

# SEMI-ANNUAL REPORT 2017

# SEMI-ANNUAL REPORT 2017

# COMMODITIES ARE THE FUTURE

## CORPORATE BODIES (AS OF 30 JUNE 2017)

| | |
|---|---|
| EXECUTIVE BOARD | DR. THOMAS GUTSCHLAG<br>JAN-PHILIPP WEITZ |
| SUPERVISORY BOARD | MARTIN BILLHARDT (Chairman)<br>PROF. DR. GREGOR BORG<br>WOLFGANG SEYBOLD |

## DEUTSCHE ROHSTOFF GROUP AT A GLANCE

(Semi-annual financial statements in accordance with the German Commercial Code (HGB) / Consolidated Financial Statements)

| IN TEUR | 30/06/2017 | 30/06/2016 | 31/12/2016 |
|---|---|---|---|
| Sales revenue | 32,120 | 1,118 | 9,170 |
| EBITDA | 23,484 | -3,025 | 6,374 |
| EBIT | 8,313 | -3,974 | -541 |
| Consolidated profit | 5,039 | -3,946 | 74 |
| Cash and cash equivalents | 47,073 | 74,616 | 35,679 |
| Shareholder's equivalent | 66,899 | 62,524 | 66,121 |
| Equity ratio in % | 35.2 | 48.4 | 34.2 |
| Number of shares in thousands (DRAG) | 5,063 | 5,063 | 5,063 |
| Market capitalization | 91,895 | 83,541 | 133,361 |

## SHARE DETAILS (AS OF 30 JUNE2017)

| | |
|---|---|
| Total number of shares | 5,063,072 |
| Amount of share capital | 5,063,072.00 EUR |
| Stock exchanges | XETRA , Tradegate, Frankfurt, Berlin, Düsseldorf, Stuttgart |
| ISIN / WKN | DE000A0XYG76 / A0XYG7 |
| Stock exchange segment | Scale Segment (until 28 February 2017 Entry Standard),<br>member of the Performance-Index TOP 30,<br>DAX Int. Mid 100-Index and the Rhine-Neckar-Index |
| Designated Sponsor | ICF Bank AG |

## SHAREHOLDER STRUCTURE (AS OF 30 JUNE 2017)

| | |
|---|---|
| Management | 10.0 % |
| Deutsche Rohstoff AG (from the share buyback program) | 2.5 % |
| BASF-VC | 5.3 % |
| Free float | 82.2 % |

## FINANCIAL CALENDAR 2017

| | | | |
|---|---|---|---|
| Annual Report 2016 | 08/05/2017 | Semi-Annual Report 2017 | 29/09/2017 |
| Report 1st Quarter 2017 | 11/05/2017 | Analyst conference 2017 | 29/09/2017 |
| Annual General Meeting 2017 | 07/07/2017 | Report 3rd Quarter 2017 | November 2017 |

## DEAR DEUTSCHE ROHSTOFF AG SHAREHOLDERS, DEAR LADIES AND GENTLEMEN,

In the first six months of 2017, Deutsche Rohstoff Group generated sales in the amount of EUR 32.1 million (previous year: EUR 1.1 million). Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 23.5 million (previous year: EUR -3.0 million) and the consolidated profit amounted to EUR 5.0 million (previous year: EUR -3.9 million). In comparison to the previous year, this represents a significant step up in sales and earnings and the result is in line with our forecast for the year overall. Consolidated earnings suffered by some EUR 3 million during the first six months of the year as a result of EUR/USD currency losses as a result the significant strengthening of the Euro from mid May 2017.

The price for US oil (WTI) has fluctuated in the first six months between USD 42 and USD 54.50 per barrel. During the first quarter we obtained an average selling price amounting to approx. USD 48 per barrel, while this figure had reduced to approx. USD 45 per barrel during the second quarter. By the middle of the year, the continuing high stocks in the US and the increasing oil production, in particular, created price pressures. The production cutbacks by OPEC and some non-OPEC countries were only able to ease these pressures at times. For the rest of the year we still expect a moderately positive trend in the oil price, since stocks in US have reduced significantly in the meantime and the number of new drilling rigs has also stagnated. Over the medium term this should lead to slower growth in the supply of US oil.

DR. THOMAS GUTSCHLAG,
CEO, DEUTSCHE ROHSTOFF AG

When it comes to industrial metals, the rally in prices – which had partly commenced last year – is continuing. From the beginning of the year through to the end of August, copper had increased in price by some 23%; since mid-October 2016 this rise even amounts to 47%. During the same period, zinc increased in price by a further 22% and was quoted at a 10-year high at the end of August. During the past months, the rally in prices also extended to APT tungsten, which is the most important metal for us, it increased in price by 50% since the beginning of the year. The same applies to the prices of selected rare earths such as neodymium and praseodymium, which have increased since the beginning of the year by over 50%, thereby reversing the continuing dramatic fall in prices evident since 2011.

### SUCCESSFUL OIL AND GAS PRODUCTION IN THE US

Our activities in the US proceeded according to plan during the first 6 months of the year. The entire production attributable to our company amounted to just over 1 million barrels of oil equivalent (BOE) during the first six months of the year. This equates to an average daily production of 5,529 BOE. During the first six months, oil production amounted to some 650,000 barrels, while the remainder was accounted for by natural gas and condensates. As expected, the gas proportion grew significantly in the second quarter. Overall, production was slightly above our expectations. Cub Creek Energy accounted for the greatest share of production, contributing 795,879 BOE. Salt Creek produced 108,028 BOE and Elster 96,858 BOE.

### HIGH LEVEL OF INVESTMENT IN THE OIL AND GAS DIVISION

All three companies invested in future production during the first six months of the year. Cub Creek began with a total of 23 new horizontal wells from two different pads. During mid-September, seven wells at the Haley pad commenced production and the other 16 wells at the Litzenberger pad should go into production during the first quarter of 2018.

Elster Oil & Gas participated with a share of some 23% in 20 wells with lateral lengths of 2 and 2.5 miles. These wells are also expected to commence production during the first quarter of 2018. The investment volume amounts to USD 25 million.

During the current year, Salt Creek has received 33 drilling proposals and has decided to participate in all of these wells. The first of these new wells commenced production in September 2017. Salt Creek therefore expects to see a significant increase in production during the last half of the year. Overall, Salt Creek expects to invest USD 11 million in 21 wells by the beginning of 2018.

Business in the mining division has recovered significantly, not least because of the increase in prices. In May, Tin International announced a joint venture with Lithium Australia. Within the framework of this cooperation, the potential of the Sadisdorf license will be tested for lithium and the existing tin resource will be expanded. Lithium Australia will invest EUR 2.25 million and receive a 50% stake of the Sadisdorf license in return. This gives Tin International an opportunity to significantly increase the value of Sadisdorf, without actually having to invest.

In June, Ceritech announced that it had concluded a non-binding contract with China Molybdenum (CMOC). The contracting parties wish to conclude a final contract over the coming months which entitles Ceritech to extract and market the rare earths which occur during the CMOC production process. In order to further this aim, some conditions have been defined which need to be fulfilled. With this project, Ceritech is creating an opportunity for itself to become one of the few manufacturers of rare earths worldwide.

Our largest holding in the mining division, Almonty Industries, was able to significantly strengthen its balance sheet during the current year. Among other events, the company's largest customer, Global Tungsten & Powders, converted its CAD 9.4 million loan into equity. In August, the CEO of the company invested USD 5 million (CAD 6.3 million), within the framework of an increase in the company's share capital, at a share price of 33% above the market price. This is a very strong signal of confidence in the future of the company. At the end of September, a further capital increase of CAD 2.7 million was announced. This was made by a large financial investor. Furthermore, Almonty was able to significantly reduce its short-term liabilities.

Almonty also made good progress in operational terms. It has once again been possible to reduce the unit costs at the mines in Portugal and Spain. Almonty was thereby able – on the basis of the fixed price contracts concluded last year – to report an increase in operating profits for the second and third quarters. Since July 2017, tungsten prices have shot upwards by 50%, which will give the company further momentum.

## SHARES AND BONDS

During the course of the first six months, our share price gave up the gains it realised in the second half of 2016 and, at the end of August, was trading at EUR 16.25. A similar trend can be observed with US oil shares. Companies that have a similar business model to ours and operate in the same area have lost between 50% and 70% of their value since the beginning of the year. The reason for this is presumably the uncertainty regarding the future trend in oil prices and the effects of low prices on corporate results over a longer term.

In contrast to the share price, the performance of both of our outstanding bonds continued to trade at very high levels. During the course of the year, both were consistently trading above 100%. We have therefore taken the opportunity to place a further EUR 7.5 million of the 16/21 bond with institutional investors.

## INCREASED DIVIDEND PAYMENT

Three days after the annual general meeting on 7 July in Mannheim, our shareholders received a dividend of 60 cent per share for 2016. This reflects a 9% increase compared to the dividends paid for 2015. In total, the dividends since 2013 add up to EUR 1.75. Our goal is it, to keep paying attractive dividends in the years to come.

JAN-PHILIPP WEITZ,
CFO, DEUTSCHE ROHSTOFF AG

We are satisfied with this year's operating result. It is in line with our expectations. During the second half of the year, and for the beginning of 2018, we will bring significant new oil and gas production online. Depending upon commodity prices and exchange rates, the additional production will also be reflected in our results. We also see a significantly improved outlook for our mining division than we did one year ago. While this may not contribute to sales and earnings over the foreseeable future, it has the potential to have a major effect on the overall value of our portfolio.

With best wishes from Mannheim

Thomas Gutschlag
CEO

Jan-Philipp Weitz
CFO

The following represents an abridged management report, which essentially addresses the differences from the Consolidated Financial Statements for 2016. To that extent we would refer to the 2016 Annual Report for a detailed presentation and the extensive management report it contains.

## I. BASIS OF THE GROUP

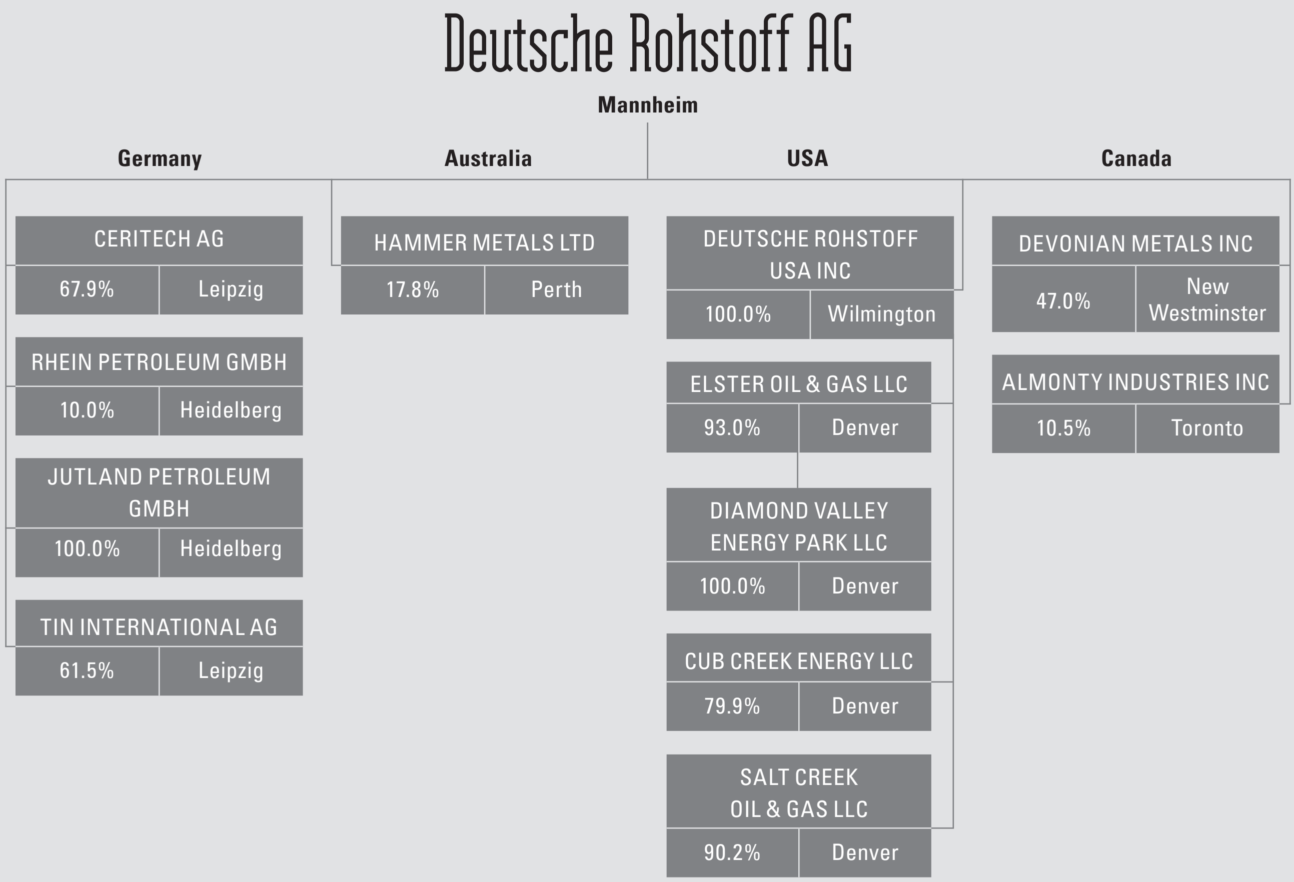
### 1. BUSINESS MODEL

There have been no changes to the business model described in the 2016 Annual Report. As of 30 June 2017, the Deutsche Rohstoff Group was made up of the following Group companies:

There have been several changes when compared to the 2016 Annual Report:

- The Mountain States Reserve Company LLC was dissolved in 2017 and deconsolidated from the Group.
- The share in Salt Creek Oil & Gas LLC reduced slightly in March 2017 from 90.5% to 90.2%.
- The share in Almonty Industries Inc reduced to 10.5% in comparison with the figure on 31 December 2016.

Since May 2010, the shares of Deutsche Rohstoff AG have been traded in the Entry Standard of the Frankfurt Securities Exchange and since March 2017 in the Scale Segment. The current number of shares amounts to 5,063,072. As of 30 June 2016, the market capitalization amounted to around EUR 92 million (30 June 2016: EUR 84 million).




STRUCTURE UNDER CORPORATE LAW

## 2. GOALS AND STRATEGIES

No changes.

## 3. RESEARCH AND DEVELOPMENT

No changes.

# II. ECONOMIC REPORT

## 1. GENERAL MACRO-ECONOMIC AND INDUSTRY-SPECIFIC CONDITIONS

The price for US oil (WTI) has fluctuated in the first six months at between USD 42 and USD 50 per barrel and is thus slightly below the expectations of the Executive Board. From May 2017 the EUR/USD exchange rate underwent a significant upwards adjustment and reached a value of 1.1420 on 30 June 2017. For further explanations on the commodity prices we refer to the remarks set forth in the letter to shareholders accompanying this half-year report.

## 2. COURSE OF BUSINESS

During the first six months of 2017 striking progress was made in both the Oil and Gas Division and in the Metals Business Unit.

The Group's oil and gas sales totaled to 1,000,764 barrels of oil equivalent (BOE) during the first six months. Of this, 654,408 barrels are accounted for by crude oil and the rest attributable to natural gas and condensates. Average daily production amounted to 5,529 BOE. All details regarding quantities are based on the Group's net share. Third-party interests have already been deducted.

Production led to sales in US-Dollars during the first six months amounting to USD 34.5 million, of which USD 29.6 million was accounted for by crude oil and USD 4.9 million by natural gas and condensates. Conversion to EUR took place using an average exchange rate of 1.075 such that the resulting revenues in Euro amounted to EUR 32.1 million.

The three companies accounted for the following quantities:

Cub Creek Energy: 795,879 BOE (535,997 barrels of oil)
Elster Oil & Gas: 96,858 BOE (39,193 barrels of oil)
Salt Creek Oil & Gas: 108,028 BOE (79,219 barrels of oil)

In March 2017, Cub Creek started with seven wells from the Haley pad and in May 2017 with a further 16 wells from the Litzenberger pad. Originally, nine wells at the Haley pad and 22 wells at the Litzenberger pad had been planned. However, as a result of technical and commercial considerations, the Board of Cub Creek took the decision to curtail the drilling program slightly.

The Haley wells commenced production during mid-September 2017 while the Litzenberger wells are expected to go into production during the first quarter of 2018.

In June 2017, Cub Creek announced that it had concluded a credit agreement with a US bank based on the reported reserves. The line of credit amounts to USD 25 million. As at 30 June 2017 the drawn down volume of credit amounted to USD 8 million. This is a variable loan that attracted interest at 4.29% as at 30 June 2017.

During the course of the first six months and in the third quarter, Salt Creek received a total of 33 well proposals from the various operators in North Dakota. This means that the number of new wells is significantly higher than the assumption made at the time the project was acquired in December 2016. The first six of these new wells are expected to commence production in the third and fourth quarters of 2017.

There was a significant increase in the activities of the Mining division, by both the Group companies and by the minorities.

Almonty Industries was able to convert some of its liabilities into equity capital during the first six months of the year. The amount in question was CAD 9.4 million, which was granted by the company's key customer for tungsten concentrates. This caused the shareholding of DRAG to be diluted from 11.9% to 9.5% at the end of 2016. On the other hand, DRAG extended the term of a loan for USD 1 million and of a convertible bond valued at CAD 6 million, both for 2 years – until 2019, and concluded an exchange transaction against interest due. In return, the company received 1,206,574 shares at an average share price of CAD 0.35 and 283,914 shares at an average share price of CAD 0.28. DRAG's shareholding therefore increased again to 10.5% as of 30 June 2017.

In operational terms, Almonty was able to record a significant improvement for the first three quarters of financial year 2016/2017 (to 30 June 2017). Earnings before interest, taxes, depreciation and amortization (EBITDA) increased from CAD -400k during the first quarter, through CAD 950k in the second quarter and reached CAD 3.3 million in the third quarter. The reason for this lay in strict cost discipline at the producing mines and a price-driven increase in revenues. Almonty profited from fixed price contracts that were concluded at both the end of 2016 and beginning of 2017 for part of the production and also from the growth in the spot price for Tungsten APT, which has increased slowly to June and strongly since July.

In June 2017, Ceritech AG reported that it had signed a declaration of intent with the Brazilian company Copebrás Industria Ltda (Copebrás). This declaration of intent covered further potential development of the extraction of rare earths from gypsum and the future direction of the project. Essential elements of the declaration include the performance of processing tests and the preparation of an initial economic feasibility study.

Copebrás is the second largest manufacturer of phosphate fertilizers in Brazil and is a subsidiary company of the international commodities group China Molybdenum Co Ltd (CMOC), which had acquired the fertilizer division and niobium business from Anglo American in Brazil for some USD 1.5 billion in September 2016. Considerable amounts of gypsum containing rare earths are created as a by-product of fertilizer production. Ceritech wants to extract these rare earths at low cost, using the technology developed by the company, while also benefiting from the resulting circumvention of exploration and mining costs.

The prices for rare earth elements have increased significantly during the first six months. Neodymium, one of the most important recoverable materials for Ceritech, recorded an 80% increase in price compared with the beginning of the year. Market observers attribute the price trend to the situation in China, which is by far the most important producer, where the announced adjustment of the sector has now been initiated, therefore leading to a reduction in supply.

In May, Tin International AG announced the conclusion of a joint venture agreement with Lithium Australia. Lithium Australia is listed on the Australian stock exchange (ASX: LIT). The company has a treatment process for extracting lithium from ores containing lithium mica (the so-called Sileach™ technology) and a portfolio of lithium deposits. The core of the joint venture is the Sadisdorf license in Saxony, which is held by Tin International. Lithium Australia can, by undertaking exploratory activities in Sadisdorf, acquire a 15% shareholding, valued at EUR 750,000, in the joint venture or by making a corresponding cash payment to Tin International by 30 June 2018.

By making further investments in exploration amounting to EUR 1.25 million, the Australian company can increase its shareholding in the joint venture by a further 35% to a total of 50% by May 2020 at the latest. Upon conclusion of this „farm-in" phase, the joint venture partners will bear the project development costs on a pro-rata basis or their shareholdings will be correspondingly diluted.

Upon signing the joint venture contract, Tin International will receive a one-off cash payment amounting to EUR 50,000 together with 1,723,806 Lithium Australia shares.

The aim of the joint venture is to extend and upgrade the existing Sadisdorf JORC (2012) tin resource (3.36 million t with a tin grade of 0.44% at a cut-off of 0.25% tin in the inferred category) and identify a lithium ore deposit that is associated with the resource. The management is assuming that the economic viability of Sadisdorf can be substantially improved in this manner. Lithium is in high demand for manufacturing batteries in particular. Analysts believe that the demand for lithium will increase significantly with the increasing proliferation of electric vehicles.

As regards to further activities, we would refer to the 2016 Annual Report and the comments in this interim report.

## 3. EARNINGS, FINANCIAL AND ASSETS SITUATION

### EARNINGS SITUATION

During the first six months of the year the Group generated revenues amounting to EUR 32.1 million. The largest contribution to revenues came from oil and gas extraction activities in the USA. The individual subsidiary companies accounted for the following revenues:

Cub Creek Energy: EUR 25.9 million
Elster Oil & Gas: EUR 3.0 million
Salt Creek Oil & Gas: EUR 3.2 million

Capitalized own work amounting to some EUR 1.6 million has been recognized in connection with the preparations for oil and gas production by all three US subsidiaries. The Group realized other operating income amounting to EUR 2.3 million almost exclusively from exchange rate gains. These gains, however, were counteracted by exchange rate losses amounting to EUR 5.2 million. These were posted under other operating expenses.

Personnel expenses rose significantly in the first six months of 2017 – compared with the first six months of 2016 – from EUR 1.6 million to EUR 2.6 million. This was caused by additional hiring and contractually agreed bonus payments in the USA.

Depreciations increased to EUR 15.2 million (previous year: EUR 0.9 million). In the first instance, this reflects the depletion of reserves at Cub Creek, which will be depreciated in accordance with expected production.

Other operating expenses rose significantly in the first six months. Currency losses amounting to EUR 5.2 million accounted for a large proportion of this.

At EUR -1.7 million, the financial result was lower than for the same period last year (previous year: EUR -1.4 million). While interest expenses remained practically unchanged at EUR -2.2 million (previous year: EUR - 2.19 million), earnings were lower – reducing from EUR 0.8 million during the first six months of 2016 to EUR 0.5 million in the first six months of 2017. During the second half of 2016 the Group liquidated high-yield assets in order to finance the acquisition of new assets by Salt Creek in North Dakota in particular.

The tax result was negative at EUR -1.5 million (previous year: EUR 1.4 million). This result reflects the profits generated in the USA that are offset by special tax depreciation allowances and for which deferred tax assets must be accrued.

Earnings before interest, taxes, depreciation and amortization (EBITDA) in the first six months amounted to EUR 23.5 million (previous year: EUR -3.0 million). Adjusted for depreciation, this resulted in earnings before interest and taxes (EBIT) of EUR 8.3 million (previous year: EUR -4.0 million). The pre-tax result was EUR 6.6 million (previous year: EUR -5.3 million).

Consolidated net income amounted to EUR 5.0 million in the first six months of 2017 (previous year: consolidated loss of EUR -3.9 million). Minority shareholders accounted for EUR 2.4 million of that, so the profit accounted for by the Deutsche Rohstoff Group ran to EUR 2.6 million.

## FINANCIAL SITUATION

As of 30 June 2017, liquid assets (bank credit balances and securities in fixed and current assets) amounted to EUR 47.1 million (previous year: EUR 74.6 million). When compared to 31 December 2016 (EUR 35.7 million), this represents an increase of EUR 11.4 million. This increase can mainly be attributed to the tax refund amounting to some EUR 12.9 million received in June 2017. The financial position of the Group therefore remains outstanding.

## ASSETS SITUATION

The Group's balance sheet with a total of EUR 190.2 million, was significantly higher than for the previous year (EUR 129.1 million). On the asset side there was a significant increase in tangible assets. On 30 June 2017, these totaled EUR 76.9 million (previous year: EUR 12.3 million). This is reflected in the drilling activities in the USA. The investments were financed through an increase in liabilities which rose to EUR 101.6 million (previous year: EUR 60.6 million) on 30 June 2017.

Liquid assets (bank credit balances and securities in fixed and current assets) amounted to EUR 47.1 million (previous year: EUR 74.6 million) at the end of June 2017. These were also significantly below the previous year's level. The Group nevertheless continued to maintain a very comfortable liquidity position in order to finance the strong growth.

Equity capital increased slightly to EUR 66.9 million in comparison with the previous year's figure of EUR 62.5 million. The equity ratio, which amounted to 35.2% (previous year: 48.4%), increased in comparison with the situation at the end of 2016 (34.2%), but was still below its value on 30 June 2016 (48.4%).

## OVERALL STATEMENT

In the opinion of the Executive Board, nothing has changed in the overall statement of the Annual Report that the Group's business and financial situation is outstanding. The Group was able to conclude the half-year period with a significantly positive result. At EUR 23.5 million, earnings before interest, taxes, depreciation and amortization (EBITDA) were at a record level, reflecting successful operational activities in the US. For the second half of the year the Executive Board expects continuing positive business performance as a result of the new wells that will commence production in the US.

The forecast investment volume will probably lie at the upper end of the USD 50 to 70 million range, as forecasted in the Annual Report. This is due to faster than expected development at Salt Creek and the USD 25 million investment at Elster that was originally expected in 2018, part of which is now already being spent in 2017. Further investments amounting to USD 20 million are expected during the first six months of 2018.

## III. FORECAST, OPPORTUNITIES AND RISKS

The recently weaker oil price and the dramatic swings in the EUR/USD exchange rate have had a negative effect on the result of Deutsche Rohstoff AG. However, the Executive Board expects that the revenue forecast in the Management Report, which amounts to EUR 55 to 65 million, and an EBITDA of at least EUR 40 million will be achieved. In addition to the oil price and the exchange rates, other key influencing factors are the production rates of the Cub Creek Energy wells which commenced production in the second half of the year, the number of new wells at Salt Creek Energy and the production rate trend of the existing wells.

With regards to the opportunities and risks report, we refer to the 2016 Annual Report.

Mannheim, 29 September 2017

The Executive Board

Dr. Thomas Gutschlag Jan-Philipp Weitz

# CONSOLIDATED BALANCE SHEET
(PER HGB, UNAUDITED)

| ASSETS | | 30/06/2017 | 30/06/2016 | 31/12/2016 |
|---|---|---|---|---|
| | | EUR | EUR | EUR |
| A. | FIXED ASSETS | | | |
| I. | Intangible assets | | | |
| 1. | Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets | 32,843,864 | 16,387,789 | 33,853,665 |
| 2. | Goodwill | 6,074,907 | 5,443,389 | 6,760,778 |
| | | **38,918,771** | **21,831,178** | **40,614,443** |
| II. | Property, plant and equipment | | | |
| 1. | Land, land rights and buildings - including buildings on third-party land | 0 | 360,417 | 0 |
| 2. | Petroleum extraction equipment | 64,684,938 | 4,928,650 | 76,171,842 |
| 3. | Exploration and evaluation | 11,963,104 | 6,362,852 | 3,492,765 |
| 4. | Plant and machinery | 151,969 | 515,075 | 173,317 |
| 5. | Other equipment, furniture and fixtures | 92,030 | 112,255 | 103,456 |
| | | **76,892,041** | **12,279,249** | **79,941,380** |
| III. | Financial assets | | | |
| 1. | Equity investments | 12,542,190 | 12,087,121 | 12,542,190 |
| 2. | Loans to other investees and investors | 1,852,197 | 0 | 913,075 |
| 3. | Securities classified as fixed assets | 7,587,726 | 9,608,254 | 7,587,726 |
| | | **21,982,113** | **21,695,375** | **21,042,991** |
| B. | CURRENT ASSETS | | | |
| I. | Inventories | | | |
| | Finished goods and merchandise | 157,149 | 82,762 | 137,090 |
| | | **157,149** | **82,762** | **137,090** |
| II. | Receivables and other assets | | | |
| 1. | Trade receivables | 7,406,117 | 441,661 | 7,298,295 |
| 2. | Receivables from other investees and investors | 887,809 | 1,232,972 | 495,339 |
| 3. | Other assets | 2,280,078 | 6,215,288 | 15,105,259 |
| | | **10,574,004** | **7,889,921** | **22,898,893** |
| III. | Securities classified as current assets | 1,762,224 | 9,355,543 | 3,456,446 |
| IV. | Bank balances | 37,723,298 | 55,652,229 | 24,634,447 |
| C. | PREPAID EXPENSES | **912,180** | **192,790** | **495,301** |
| D. | DEFERRED TAX ASSETS | **1,305,482** | **165,753** | **250,721** |
| | TOTAL ASSETS | **190,227,262** | **129,144,800** | **193,471,712** |

| EQUITY AND LIABILITIES | | | 30/06/2017 | | 30/12/2016 | | 31/12/2016 |
|---|---|---|---|---|---|---|---|
| | | | EUR | | EUR | | EUR |
| A. | EQUITY | | | | | | |
| 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 2,000,000 (previous year: EUR 2,000,000) | | | | | | |
| II. | Capital reserves | | 29,757,158 | | 29,750,297 | | 29,757,158 |
| III. | Revenue reserves | | 0 | | 0 | | 0 |
| IV. | Equity differences from currency translation | | 2,314,508 | | 6,139,865 | | 6,325,657 |
| V. | Consolidated net retained profit | | 18,002,609 | | 14,458,321 | | 15,405,160 |
| VI. | Non-controlling interests | | 11,889,747 | | 7,240,513 | | 9,697,858 |
| | | | **66,899,284** | | **62,524,258** | | **66,121,095** |
| B. | PROVISIONS | | | | | | |
| 1. | Tax provisions | | 335,987 | | 179,122 | | 330,517 |
| 2. | Other provisions | | 6,870,329 | | 2,691,973 | | 4,977,616 |
| | | | **7,206,316** | | **2,871,095** | | **5,308,133** |
| C. | LIABILITIES | | | | | | |
| 1. | Bonds, thereof convertible: EUR 0 | | 74,155,000 | | 51,398,000 | | 66,705,000 |
| 2. | Liabilities to banks | | 15,429,881 | | 6,400,000 | | 8,538,236 |
| 3. | Trade payables | | 1,086,254 | | 554,442 | | 29,914,719 |
| 4. | Other liabilities | | 10,942,819 | | 2,211,118 | | 3,988,686 |
| | | | **101,613,954** | | **60,563,560** | | **109,146,641** |
| D. | DEFERRED TAX LIABILITIES | | **14,507,708** | | **3,185,887** | | **12,895,843** |
| | TOTAL EQUITY AND LIABILITIES | | **190,227,262** | | **129,144,800** | | **193,471,712** |

# CONSOLIDATED SEMI-ANNUAL INCOME STATEMENT
(PER HGB, UNAUDITED)

| | | 01/01 - 30/06/2017 | 01/01 - 30/06/2016 | 01/01 - 31/12/2016 |
|---|---|---|---|---|
| | | EUR | EUR | EUR |
| 1. | REVENUE | 32,119,772 | 1,117,757 | 9,170,296 |
| 2. | INCREASE OR DECREASE IN FINISHED GOODS AND WORK IN PROCESS | 3,405 | 1,110 | 9,542 |
| 3. | OTHER OWN WORK CAPITALIZED | 1,650,067 | 791,720 | 1,724,710 |
| 4. | OTHER OPERATING INCOME | 2,296,310 | 989,056 | 10,496,891 |
| 5. | COST OF MATERIALS | 2,648,709 | 1,811 | 4,257 |
| | Cost of purchased services | 2,648,709 | 1,811 | 4,257 |
| 6. | PERSONNEL EXPENSES | 2,593,029 | 1,599,758 | 3,457,384 |
| | a) Wages and salaries | 2,523,051 | 1,542,867 | 3,357,574 |
| | b) Social security, pensions and other benefit costs | 69,978 | 56,891 | 99,810 |
| | – thereof for old-age pensions: EUR 7.940 (prev. year EUR 11.077) | | | |
| 7. | AMORTIZATION, DEPRECIATION AND WRITE-DOWNS | 15,170,673 | 948,877 | 6,873,537 |
| | a) of intangible assets and property, plant and equipment | 15,170,673 | 948,877 | 6,873,537 |
| | b) of current assets | 0 | 0 | 0 |
| 8. | OTHER OPERATING EXPENSES | 7,343,683 | 4,323,229 | 11,565,953 |
| 9. | OTHER INTEREST AND SIMILAR INCOME | 492,565 | 827,197 | 2,685,120 |
| 10. | AMORTIZATION OF FINANCIAL ASSETS AND SECURITIES CLASSIFIED AS CURRENT ASSETS | 0 | 0 | 40,998 |
| 11. | INTEREST AND SIMILAR EXPENSES | 2,238,993 | 2,193,974 | 4,097,743 |
| 12. | INCOME TAXES | -1,527,959 | 1,394,465 | 2,028,183 |
| | – thereof expenses from changes in recognized deferred taxes: EUR 2.580.437 (prev. year proceeds EUR 1.418.157) | | | |
| 13. | EARNINGS AFTER TAXES | 5,039,073 | -3,946,344 | 74,870 |
| 14. | OTHER TAXES | 281 | 0 | 584 |
| 15. | NET INCOME FOR THE GROUP FOR THE YEAR | 5,038,792 | -3,946,344 | 74,286 |
| 16. | PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (-) OR LOSS ATTRIBUTABLE TO NON-CONTROLLING INTE-RESTS (+) | -2,441,343 | 387,313 | 27,916 |
| 17. | PROFIT CARRYFORWARD (+) | 15,405,160 | 18,124,147 | 15,409,753 |
| 18. | TRANSFER TO REVENUE RESERVES | 0 | -106,795 | -106,795 |
| 19. | CONSOLIDATED NET RETAINED PROFIT | 18,002,609 | 14,458,321 | 15,405,160 |

## 1. GENERAL PROVISIONS

Since the resolution issued during the Annual General Meeting of Shareholders held on 7 July 2017, the registered office of Deutsche Rohstoff is now Mannheim (previously: Heidelberg). The company is entered under number HRB 702881 in the register at the Local State Court of Mannheim.

The consolidated financial statements of Deutsche Rohstoff for the six months to 30 June 2017 were drawn up in accordance with the accounting regulations of the German Commercial Code (§§ 290 et seq. HGB). The consolidated financial statements for the first six months do not contain all the information and explanations prescribed for the consolidated annual financial statements and should be read in conjunction with the consolidated annual financial statements as of 31 December 2016.

The consolidated income statement was drawn up in the reporting period based on the total costs method. The accounting and valuation methods applied when drawing up the consolidated financial statements for the six months correspond to those applied when drawing up the consolidated financial statements for the year ending 31 December 2016. Here we would refer to the Group notes for the financial year 1 January 2016 to 31 December 2016 as printed in the 2016 Annual Report, page 62 et seq. (hereinafter: Annual Report). The consolidated financial statements for the six months are presented in Euro (EUR). Unless stated otherwise, all values are rounded up or down to one Euro (EUR) based on commercial rounding. We would point out that differences can occur when using rounded amounts and percentages. These interim consolidated financial statements have not been audited or subjected to an audit review.

## 2. CONSOLIDATION GROUP

As of 30 June 2017, the consolidation group has changed in comparison with 31 December 2016 as follows.

The US subsidiary, Mountain States Reserve Company LLC, was dissolved in May 2017 and deconsolidated from the Group of consolidated companies. The deconsolidation, as performed, resulted in expenses amounting to EUR 24k. This is shown under Other operating expenses.

## 3. CURRENCY TRANSLATION

Assets and liabilities in foreign currencies were translated at the mean spot exchange rate on the closing date. With a remaining time to maturity of more than one year, the realisation principle and the historical cost concept were observed. The asset and liability items of annual accounts drawn up in foreign currencies, with the exception of the equity, were translated into Euro at the mean spot exchange rate on the closing date. The equity was translated using historic rates. The items on the income statement were translated into Euro at the average rate. The resulting translation difference is recognised within the Group equity under the item Equity difference from currency translation.

## 4. NOTES TO THE CONSOLIDATED BALANCE SHEET

Only those items will be listed below for which significant changes have been registered in the six months from 1 January to 30 June 2017, when compared to the previous year (31 December 2016). Otherwise, we would refer at this point to the comments in the Annual Report.

### 4.1. FIXED ASSETS

As of 30 June 2017, the item Exploration and Evaluation stands at EUR 12.0 million (previous year: EUR 3.5 million). This change is a result of Cub Creek Energy LLC concluding the drilling of seven wells at the Haley pad in the Wattenberg oilfield and commencing with the drilling program for a total of 16 wells at the Litzenberger pad. Start of production for the Haley wells was announced during mid-September. The wells at the Litzenberger pad are expected to commence production during the first quarter of 2018. Until commercial production begins, the wells are recognised under the item Exploration and Evaluation. Once production has commenced they will be recognized under the item Oil production installations.

### 4.2. CURRENT ASSETS

OTHER ASSETS

As of 30 June 2017, other assets amount to EUR 2.3 million in comparison with EUR 15.1 million as of 31 December 2016. The value as of 31 December 2016 included a tax claim amounting to

EUR 12.9 million by Deutsche Rohstoff USA, which was repaid in June 2017.

### 4.3. EQUITY

As of the balance sheet date, the capital reserve in the Group is EUR 3.8 million higher than the capital reserve of the parent company. The item Equity differences from currency translation mainly includes the translation differences of the currency translation of the asset and liability items of the annual financial statements drawn up in US-Dollars on the closing date, as well as the currency translation of the profit and loss accounts drawn up in US-Dollars. Because of the lower US-Dollar rate, this item has fallen by EUR 4.0 million when compared to 31 December 2016 and now amounts to EUR 2.3 million as of 30 June 2017.

### 4.4. LIABILITIES

The item Bonds, not convertible, includes liabilities from the issue of two company bonds and, as of 30 June 2017, stands at a value of EUR 74.1 million as compared with EUR 66.7 million as of 31 December 2016. The first non-convertible bond is repayable in full on maturity and its term runs until 11 July 2018 and bears interest at a rate of 8%. As of 30 June 2017, the outstanding volume of this bond remained unchanged at EUR 15.7 million. The second, likewise non-convertible bond, is also repayable in full on maturity and its term runs until 20 July 2021. It bears interest at a rate of 5.625%. In June 2017, bonds with a total value of EUR 7.4 million were issued, so that the outstanding volume as of 30 June 2017 amounts to EUR 58.4 million compared with EUR 51.0 million as of 31 December 2016.

Two loans are shown under Liabilities to credit institutions. One of these loans amounts to EUR 8.4 million and relates to Salt Creek Oil & Gas LLC. A line of credit was agreed with the bank which, as of 30 June 2017, amounts to USD 12.5 million, of which USD 9.6 million/EUR 8.4 million have been drawn down. Repayment of the loan is due in full on maturity and its term runs to 19 December 2021. The volume and maturity date of the loan can be adjusted by the bank in accordance with the evaluation of the oil and gas reserves of Salt Creek Oil & Gas LLC, which takes place on a half-yearly basis. The interest rate is variable and as of 30 June 2017 stood at 3.42%.

There is also a further loan that relates to Cub Creek Energy LLC. This loan involves the hypothecation of the oil and gas reserves of Cub Creek Energy LLC. A line of credit has also been agreed in this case which, as of 30 June 2017, amounts to USD 25.0 million, of which USD 8.0 million/EUR 7.0 million have been drawn down as of 30 June 2017. Repayment of the loan is due in full on maturity and its term runs to 21 June 2022. The purpose of the loan is to finance the oil and gas drilling operations. The interest rate is variable and as of 30 June 2017 stood at 4.29%.

As of 30 June 2017 the item Other liabilities amounts to EUR 10.9 million (previous year: EUR 4.0 million) and is primarily composed of the liabilities of Cub Creek Energy LLC resulting from its license obligations and interest liabilities which result from the company bonds as of 30 June 2017. The item Other liabilities solely concerns liabilities with a residual term of up to one year.

## 5. NOTES TO THE CONSOLIDATED INCOME STATEMENT

Only those items will be listed below, in which significant changes have been registered in the six months from 1 January to 30 June 2017 when compared with the previous year (30 June 2016). Otherwise, we would refer at this point to the comments in the Annual Report.

### 5.1. SALES

Sales primarily relate to Cub Creek Energy and its 21 wells in the Wattenberg field in Colorado/USA. Production tax is due on sales resulting from oil wells which, in accordance with the German Accounting Directive Implementation Act (BilRUG), is to be deducted directly from the sales revenues. In the first six months of 2017 production tax amounting to EUR 2.3 million has accrued.

### 5.2. OTHER OPERATING INCOME

Other operating income results almost exclusively from exchange rate gains amounting to EUR 2.2 million (previous year: EUR 1.0 million), which were counteracted by exchange rate losses amounting to EUR 5.2 million. These were posted in other operating expenses.

### 5.3. COST OF MATERIALS

As of 30 June 2017, expenses for services purchased amounting to EUR 2.6 million are shown. These relate to production costs that have accrued as a result of the producing oil wells in the US.

### 5.4. OTHER OPERATING EXPENSES

In an amount of EUR 5.2 million, other operating expenses account for currency losses incurred at the level of Deutsche Rohstoff AG. These currency losses incurred through the closing date valuation of short-term receivables – valued in US-Dollars – and transactions carried out via the bank accounts held in US-Dollars during the reporting year. Because of the sharp drop in the US-Dollar exchange rate when compared to 31 December 2016, both realized and unrealized currency losses must be recognized.

## 6. OTHER DETAILS

### 6.1. CONTINGENT LIABILITIES

Contingent liabilities exist which result from guarantees amounting to EUR 0.8 million in favor of an affiliated company.

### 6.2. SUPPLEMENTARY REPORT

Since the balance sheet date, the following events have significantly influenced the course of business as of the end of September 2017:

On 12 July 2017, Deutsche Rohstoff AG paid out dividends amounting to EUR 2,961,157.20 which equates to 60 cent per share (previous year: 55 cent).

In July 2017, Elster Oil & Gas announced, that it is involved in a comprehensive drilling program in the Magpie field. This concerns 14 wells with a lateral length of 2 miles and 6 wells with a lateral length of 2.5 miles. The operating companies expect a higher yield return for these drillings as a result of the longer horizontal distances in comparison with the 1-mile wells.

In July 2017, Deutsche Rohstoff AG reported that it had been able to place further EUR 7.4 million of its 2016/21 bond. The total outstanding bond volume as of 30 June 2017 amounts to EUR 58.4 million.

In August 2017, the affiliated company Almonty Industries reported a successful capital increase amounting to CAD 6.3 million at a rate of CAD 0.30. This equated to a premium of around one third on the original share price. The sole subscriber was the CEO of the company, Lewis Black. The shareholding of DRAG fell to 9.3% as a result of this capital increase.

At the end of August, Deutsche Rohstoff AG converted CAD 4 million into Almonty shares, together with outstanding interest payments. In total, Deutsche Rohstoff AG received almost 8 million shares at a price of some 55 cent. This increased the shareholding in Almonty to 13.6% again.

During mid-September 2017, Cub Creek Energy reported that it had brought seven new wells into production. The production rates for the first 30 days of production are to be published towards the end of October.

At the end of September, affiliated company Almonty Industries reported that it had been able to successfully conclude a capital increase by JP Morgan Asset Management amounting to CAD 2.7 million at a price of CAD 0.54 per share.

Mannheim, 29 September 2017

The Executive Board

Dr. Thomas Gutschlag Jan-Philipp Weitz

## CONTACT DETAILS

Deutsche Rohstoff AG
Q7, 24
68161 Mannheim
Deutschland

| | |
|---|---|
| Telephone | +49 621 490 817 0 |
| Telefax | +49 621 490 817 22 |

info@rohstoff.de
www.rohstoff.de

Local State Court of Mannheim
HRB-Number: 702881

Securities identification number A0XYG7 (Share)
Securities identification number A1R07G (Bond 13/18)
Securities identification number A2AA05 (Bond 16/21)

**linkedin.com/company/deutsche-rohstoff-ag**

**@deurohstoffag**

## DISCLAIMER

### FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that reflect the management's current views in respect of future developments. Such statements are subject to risks and uncertainties that are beyond the ability of Deutsche Rohstoff AG (DRAG) to control or estimate precisely. Such statements may include future market conditions and economic environment, the behaviour of other market participants, the successful acquisition or sale of group companies or interests and the actions of government bodies. Should any of the above stated risks or other risks and uncertainties occur, or should the assumptions underlying any of these statements prove incorrect, then the actual results may differ significantly from those expressed or implied by such statements. DRAG neither intends nor assumes any obligation to update any forward-looking statements to reflect events or developments that take place after the date of this report.

### DEVIATIONS RESULTING FROM TECHNICAL GROUNDS

For technical reasons (e.g. resulting from the conversion of electronic formats) deviations may arise between the accounting documents contained in this Semi-Annual Report and those submitted to the electronic Federal Gazette in Germany. In this case the version submitted to the electronic Federal Gazette shall be considered the binding version.

This English version of the Semi-Annual Report is a translation of the original German version; in the event of any deviation, the German version of the This Semi-Annual Report shall take precedence over the English version.


### PUBLISHER

Deutsche Rohstoff AG
Q7, 24
68161 Mannheim

| | |
|---|---|
| Telephone | +49 621 490 817 0 |
| Telefax | +49 621 490 817 22 |

info@rohstoff.de
www.rohstoff.de

This Semi-Annual Report was published on 29 September 2017.


DEUTSCHE ROHSTOFF AG

Q7, 24
68161 MANNHEIM

TELEPHONE +49 621 490 817 0
TELEFAX +49 621 490 817 22

INFO@ROHSTOFF.DE
WWW.ROHSTOFF.DE