

1ST QUARTER 2020



2020



Deutsche Rohstoff

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COMMODITIES ARE
THE FUTURE

Ladies and Gentlemen

With this quarterly overview we inform about the results of the first quarter 2020 of Deutsche Rohstoff Group. It contains the consolidated income statement, the consolidated balance sheet and notes on important items. The figures we present in this report are unaudited. The quarterly report should be read in conjunction with the annual report we published a few days ago.

Unfortunately, the course of the first quarter has completely overturned our plans for 2020 and 2021. We had expected a strong increase in production in 2020 due to the Olander production that started at the end of December, and further growth in 2021, mainly due to the Knight wells that we had planned for the second half of 2020. We also had interesting acquisition opportunities on the table.

In March, however, oil prices fell dramatically. At the beginning of the month, WTI was still trading at just under USD 50 per barrel, but ended March at around USD 20 per barrel. The reasons for this were initially on the supply side. OPEC members were unable to agree with Russia on further cuts that would have been necessary to bring the market into balance. In the course of the month, news of the impact of the Covid-19 pandemic on demand for oil came on top of this, with the global lockdown causing it to fall by around 30-35 million barrels per day.

NEW REALITY ON THE OIL MARKET

In order to adapt to this new reality, we adopted a package of measures at the

beginning of April. Essentially, it consists primarily of reducing production as far as possible in order to conserve our reserves for times of higher prices. At the same time, we have reduced costs. However, we have also announced that we intend to invest in the current weak phase. This concerns new areas where we can drill wells and generate value in the medium and long term, but also shares and bonds of US oil companies, which are very strongly undervalued in the current crisis. The same applies to shares of gold companies, in which we have been investing for some time. We have earmarked up to USD 25 million for the share and bond purchase program.

All in all, the events of the last few weeks mean a significant cutback for us and the entire oil industry. The effects are slowly becoming apparent. For example, the number of active drilling rigs for oil and gas wells in the USA fell to just 374 in the first week of May, the lowest level since 1940 (!). This figure shows how much investment is being cut back. As a result, production in the USA will also decline significantly.

Many companies will not survive this cutback. Only those companies that have enough liquid assets and/or a valuable hedge book can afford to cut back production. Other companies will have to sell land and production in order to meet their obligations. We want to take advantage of this situation to secure or even accelerate our long-term growth at favorable conditions.

PRODUCTION STABLE IN THE FIRST QUARTER

The Group's net production of oil and gas in the first quarter was 577,673 barrels of oil equivalent (BOE, previous year: 566,000 BOE), which corresponds to a daily average of 6,348 BOE (previous year: 6,300 BOE). Production levels were still relatively normal, but from the second half of March onwards, we took initial steps to limit production.

At Cub Creek, crude oil production was 209,550 barrels, more than twice as high as in the previous year (92,584 BOE), due to the start of production from the Olander well.

The existing production at Cub Creek has been stabilized over the past year and a half. All producing pads now have gas lifts. First quarter production was approximately 2.7% higher than expected with the Haley well not contributing to production in January and February as it was affected by the completion of the adjacent Olander wells in December and could not resume oil and gas production until March.

The Olander wells were intentionally started up more slowly than originally intended. At the beginning of March they were already producing 5,200 barrels of oil per day (BOPD) with a strong upward trend. Due to the decision to reduce production, it was then cut back to around 2,500 BOPD by the end of March. Since the end of April, the wells have been completely enclosed,

i.e. they no longer produce oil and gas. At an oil price of approx. 35 USD/barrel, we assume that it makes economic sense to gradually ramp up production at Cub Creek.

The Elster wells also delivered good results in the first quarter of 2020. In total, Elster accounted for 68,451 BO and 177,686 BOE respectively. Oil production was thus around 12% higher than expected. Bright Rock and Salt Creek contributed around 8% to total production with 19,988 BO and 4,955 BO respectively.

Turnover in the first three months of the new financial year amounted to EUR 16.1 million (previous year: EUR 14.7 million), the group EBITDA was at EUR 9.5 million (previous year: EUR 12.8 million) and the consolidated result was EUR 0.9 million (previous year: EUR 4.1 million). Consolidated net income benefited in the amount of EUR 2.7 million from deferred tax income, which was recognized due to a change in tax legislation in the USA.

The USD/EUR exchange rate began the year at 1.1187 USD/EUR and ended the quarter at 1.1031 USD/EUR. This continued the medium-term downward

trend, which began in May 2018 at around 1.24 USD/EUR. From Deutsche Rohstoff's point of view, the development of USD/EUR is positive, as we have invested the vast majority of our assets, including liquid funds, in the dollar. We assume that the strength of the dollar will continue, but we are also taking precautions in case the trend reverses.

HEDGING

Due to the price decline of WTI in March and April, the value of the hedge book of Cub Creek and Elster rose sharply. The hedges are purely financial instruments that are not linked to the physical production of the oil.

In the case of Elster, management decided to sell the existing contracts in mid-March. This resulted in income of around USD 1.9 million. Cub Creek has a much larger portfolio of hedges due to the expected high Olander production, which run until December 2020. The value at the beginning of April was almost USD 12 million. In mid-April, we decided not to sell the hedges for the time being due to the still very uncertain market environment, but to realize the resulting income month after month.

OUTLOOK

The current quarter has so far brought about a stabilisation of oil prices at a low level. Further developments will depend on how quickly the world returns to normality and consumption returns to pre-Corona levels. Due to the severe investment cut-backs, we believe that a sharp rise in oil prices is possible over the next 12-24 months.

We are well equipped to survive the phase of low prices well into the medium term. We have significantly reduced current costs and have very comfortable liquidity. Our main focus is now on exciting acquisition opportunities. Experience shows that in crisis situations the foundation for strong growth and great success can be laid!

Stay well and above all healthy!



Thomas Gutschlag Jan-Philipp Weitz

CEO

CFO

CONSOLIDATED BALANCE SHEET AS OF 31. MARCH 2020 (UNAUDITED)

ASSETS	31.03.2020	31.03.2019	31.12.2019
	EUR	EUR	EUR
A. FIXED ASSETS	202,109,199	148,953,374	198,470,283
I. Intangible assets			
1. Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets	21,735,822	19,753,358	20,558,383
2. Goodwill	1,577,501	1,696,104	1,577,912
	23,313,323	21,449,462	22,136,294
II. Property, plant and equipment			
1. Petroleum extraction equipment	140,006,167	102,491,254	138,432,742
2. Exploration and evaluation	622,754	2,532,129	648,076
3. Plant and machinery	137,623	35,480	142,588
4. Other equipment, furniture and fixtures	302,513	175,417	330,665
	141,069,057	105,234,280	139,554,072
III. Financial assets			
1. Equity investments	16,688,646	14,385,151	16,688,646
2. Loans to other investees and investors	2,803,777	1,724,138	1,902,145
3. Securities classified as fixed assets	18,234,396	6,160,343	18,189,126
	37,726,819	22,269,632	36,779,917
B. CURRENT ASSETS	64,201,975	74,067,967	77,897,408
I. Inventories			
Finished goods and merchandise	164,611	155,519	164,611
	164,611	155,519	164,611
II. Receivables and other assets			
1. Trade receivables	6,735,847	14,610,180	8,853,988
2. Receivables from other investees and investors	1,882,999	1,875,249	1,080,719
3. Other assets	3,492,965	586,463	1,161,323
	12,111,811	17,071,892	11,096,030
III. Securities classified as current assets	4,639,325	17,887,655	5,355,985
IV. Bank balances	47,286,228	38,952,901	61,280,782
C. PREPAID EXPENSES	1,046,732	552,781	1,156,344
D. DEFERRED TAX ASSETS	1,450,676	1,255,113	1,400,918
TOTAL ASSETS	268,808,582	224,829,235	278,924,953

LIABILITIES	31.03.2020	31.03.2019	31.12.2019
	EUR	EUR	EUR
A. EQUITY	74,825,824	79,305,333	71,500,929
I. Subscribed capital	5,081,747	5,063,072	5,081,747
./. less nominal value of treasury shares	-127,810	-127,810	-127,810
Conditional capital: EUR 2,200,000 (prior year: EUR 2,200,000)	4,953,937	4,935,262	4,953,937
II. Capital reserves	30,019,333	29,741,076	30,019,333
III. Equity differences from currency translation	6,246,439	3,903,631	3,833,204
IV. Consolidated net retained profit	26,283,640	32,509,922	25,509,961
V. Non-controlling interests	7,322,474	8,215,442	7,184,494
B. PROVISIONS	9,942,972	15,943,210	25,222,235
1. Tax provisions	0	0	691
2. Other provisions	9,942,972	15,943,210	25,221,544
C. LIABILITIES	169,907,530	113,845,111	166,015,980
1. Bonds, thereof convertible: EUR 10,700,000 (prior year : EUR 10,700,000)	114,419,000	77,299,000	131,077,000
2. Liabilities to banks	18,745,740	12,071,486	8,033,734
3. Trade payables	25,865,460	7,365,137	17,113,896
4. Other liabilities	10,877,330	17,109,488	9,791,350
D. DEFERRED TAX LIABILITIES	14,132,257	15,735,581	16,185,809
TOTAL EQUITY AND LIABILITIES	268,808,582	224,829,235	278,924,953

CONSOLIDATED INCOME STATEMENT FROM 1 JANUARY TO 31 MARCH 2020 (UNAUDITED)

	01.01.-31.03.2020	01.01.-31.03.2019	01.01.-31.12.2019
	EUR	EUR	EUR
1. REVENUE	16,119,301	14,664,801	41,203,744
2. INCREASE OR DECREASE IN FINISHED GOODS AND WORK IN PROCESS	0	0	9,092
3. OTHER OWN WORK CAPITALIZED	0	0	101,822
4. OTHER OPERATING INCOME	1,178,830	3,518,180	4,312,435
5. COST OF MATERIALS	3,856,727	3,044,545	11,342,433
Cost of purchased services	3,856,727	3,044,545	11,342,433
6. PERSONNEL EXPENSES	934,415	1,050,137	4,489,479
a) Wages and salaries	873,715	1,019,686	4,176,788
b) Social security, pensions and other benefit costs	60,700	30,451	312,691
thereof for old-age pensions EUR 1,433 (prior year: EUR 4,858)			
7. OTHER OPERATING EXPENSES	3,009,400	1,249,836	7,070,068
EBITDA	9,497,589	12,838,463	22,725,113
8. AMORTIZATION, DEPRECIATION AND WRITE-DOWNS	8,249,571	7,084,859	16,297,431
a) of intangible assets and property, plant and equipment	8,249,571	7,084,859	16,297,431
b) of current assets	0	0	0
9. AMORTIZATION OF FINANCIAL ASSETS AND SECURITIES CLASSIFIED AS CURRENT ASSETS	1,175,300	522,300	797,558
EBIT	72,718	5,231,304	5,630,124
10. OTHER INTEREST AND SIMILAR INCOME	160,577	113,513	532,517
11. INTEREST AND SIMILAR EXPENSES	1,789,238	1,320,532	5,900,577
12. INCOME TAXES	-2,443,548	-46,241	76,072
13. EARNINGS BEFORE TAXES	887,605	4,070,526	185,992
14. OTHER TAXES	0	0	188
15. NET INCOME FOR THE GROUP	887,605	4,070,526	185,805
16. PROFIT (-)/LOSS (+) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	-113,926	-217,172	122,271
17. PROFIT CARRYFORWARD (+)	25,509,961	28,656,568	25,201,885
18. CONSOLIDATED NET RETAINED PROFIT	26,283,640	32,509,922	25,509,961

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In the following, only those items are listed for which significant changes have been recorded in the current period. Otherwise, please refer to the information provided in the 2019 Annual Report.

1. OPERATING RESULTS

REVENUE

Revenues primarily relate to the US subsidiaries Cub Creek Energy and Elster Oil & Gas and their interests in producing oil and gas wells. Of the revenues (EUR 16.1 million), EUR 13.1 million are from oil and EUR 3.0 million from natural gas and natural gas condensates. Production in the first three months amounted to 577,673 barrels of oil equivalent (BOE) and 6,348 BOE per day.

Sales revenues are reported in euros less production tax (EUR 0.9 million) and include realized income and losses from hedging transactions (EUR 4.5 million).

OTHER OPERATING INCOME

Other operating income mainly consists of income from foreign exchange gains of EUR 1.0 million, offset by foreign exchange losses and losses from foreign exchange hedging transactions of EUR 1.2 million.

COST OF MATERIALS

As of March 31, 2020, expenses for purchased services in the amount of EUR 3.9 million were reported, which relate to current production costs, fees for processing gas and condensates, maintenance and work on the producing and new oil wells in the USA. Operating costs for the first quarter thus amounted to approximately USD 7.33 per BOE.

OTHER OPERATING EXPENSES

Other operating expenses amount to EUR 3.0 million. The two largest items here are exchange rate losses of EUR 1.2 million and losses from the sale of securities held as current assets of EUR 1.1 million. In the first 3 months, there was a net currency loss of EUR 0.2 million.

Other operating expenses comprise other general administrative expenses including office space costs, legal and consulting fees, and other administrative expenses in the Group. The personnel expenses of all Group companies amounted to EUR 0.9 million.

DEPRECIATION & DEPLETION

Depreciation and amortization in the amount of EUR 8.2 million primarily relates to depreciation of oil production assets within property, plant and equipment of the subsidiaries Cub Creek Energy, Elster Oil & Gas, Bright Rock Energy and Salt Creek Oil & Gas, which are depreciated according to the quantities of barrels of oil equivalent (BOE) produced. For the period from January 1 to March 31, 2020, the Group's depreciation rate was EUR 14.11 per barrel of oil equivalent produced.

No impairment losses were recognized in the first quarter of 2020. However, should the current oil price environment prove to be probably permanent, there is a risk of significant unscheduled write-downs on the producing oil production facilities in the USA, the value of which will be reviewed on the basis of the existing oil and gas reserves and the revenues that can be generated from them depending on raw material prices. The carrying amount of the oil production facilities as of March 31, 2020 was EUR 140 million.

TAXES ON INCOME AND EARNINGS

This item includes deferred tax income of EUR 2.7 million (USD 3.0 million) at March 31, which is related to the US tax refund of USD 7.5 million expected in fiscal 2020.

2. FINANCIAL POSITION AND ASSETS

FIXED ASSETS

Property, plant and equipment increased by EUR 3.6 million in the first quarter of 2020. This increase is based on the investments for the new wells of Cub Creek Energy as well as the participation of Bright Rock Energy in new wells. Financial assets amounted to EUR 37.7 million.

CURRENT ASSETS

Receivables of around EUR 12.1 million mainly comprise trade receivables of EUR 6.7 million resulting from outstanding sales from oil & gas production. Cash and cash equivalents and securities held as current assets totaled EUR 51.9 million at the end of the first quarter.

LIABILITIES AND EQUITY

Equity amounted to EUR 74.8 million as of 31 March 2020. The equity ratio increased slightly to 27.8% compared to 31 December 2019.

In January 2020, the bond 16/21 was called and repaid at 50% of its remaining outstanding nominal amount (EUR 16.7 million). After repayment, the outstanding volume of the bond thus still amounts to EUR 16.7 million.

Liabilities to banks increased from EUR 8.1 million to EUR 18.7 million due to amounts drawn under the Cub Creek Energy credit facility in the first quarter of 2020. These additional funds are required for drilling and completions expenses at Cub Creek Energy. Trade accounts payable amount to EUR 25.9 million and relate to outstanding invoices at Cub Creek Energy in the amount of EUR 19.4 million. Other liabilities amount to EUR 10.9 million. They are related to outstanding payments for royalties to landowners and the distribution of sales to smaller partners. The provisions amount to approximately EUR 9.9 million. They were formed for production taxes and investments of the US subsidiaries.

3. SUBSEQUENT EVENTS

After the balance sheet date, the following events had a significant impact on the further course of business until the beginning of May:

On 11 May 2020, the company published a new forecast for the 2020 financial year, which now forecasts consolidated revenue of EUR 33 to 37 million and EBITDA of around EUR 15 million. A negative consolidated net income in the mid single-digit million euro range is expected. Possible unscheduled write-downs and income or losses from securities transactions are not part of the forecast. The outlook is subject to uncertainties regarding the further development of the oil price. It is based on the assumption of an average oil price of 20 USD/barrel in the second quarter, 30 USD/barrel in the second half of the year and an exchange rate of 1.10 EUR/USD. The forecast is based on the assumption that less than 50 percent of the volumes still expected at the beginning of 2020 will probably be produced Group-wide in order to conserve resources and reserves for an improved price environment. For further details, please refer to the comments in the 2019 Annual Report.

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DISCLAIMER

FORWARD-LOOKING STATEMENTS

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