

Deutsche Rohstoff



3RD QUARTER 2018



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Ladies & Gentlemen,

This quarterly overview provides information on the third quarter results of Deutsche Rohstoff Group. This is an abridged version of the interim report that we published for the first half of the year. It contains the consolidated income statement, the consolidated balance sheet and notes to important items. The figures presented in this report are unaudited.

Sales in the first nine months amounted to EUR 88.4 million (previous year: EUR 39.5 million), of which EUR 34.3 million (previous year: EUR 7.4 million) related to the third quarter. EBITDA rose in the first nine months to EUR 79.5 million (previous year: EUR 29.1 million), of which EUR 27.5 million (previous year: EUR 5.6 million) was generated between July and September. EBIT as of September 30 amounted to EUR 24.6 million (previous year: EUR 8.9 million). Consolidated net income for the first nine months rose to EUR 15.2 million in the third quarter (previous year: EUR 5.2 million).

STRONG PRODUCTION AT ELSTER/OVERHAUL BY MARKHAM

In the Oil & Gas division, the wells of Elster Oil & Gas continued to produce at very strong rates in the third quarter, well above expectations. At Cub Creek, after a good start in the first months of production, a steeper than expected decline in production was also seen in the case of the Litzenberger wells. As a suitable measure to stabilize production, Cub Creek will install so-called gas lifts on all well pads. Markham was the first pad to be equipped with gas lifts in September. As an early result, production at Markham in the first half of

November was around 30% higher than in August and a further gradual increase is expected. Cub Creek plans to convert the other pads over the coming months. The gas lifts are expected to be installed in the Vail wells by the end of the year.

Group net oil and gas production in the third quarter was 1,027,915 barrels oil equivalent (BOE, prior year: 345,961 BOE), a daily average of 11,173 BOE (prior year: 3,844 BOE). For the year as a whole, Deutsche Rohstoff has been able to produce 2,720,777 BOE (previous year: 1,346,726 BOE) or 9,966 BOE (previous year: 4,933 BOE) per day; the oil content was 5,559 barrels of oil (BOE) per day. The WTI oil price, which is relevant for us, reached an annual high of almost 77 USD/barrel at the beginning of October, but then fell back to below 65 USD/barrel at the end of the month. The average oil price was 69.69 USD/barrel in the third quarter and 66.93 USD/barrel in the first nine months. The forward curve has flattened out again in the meantime. The backwardation visible in the course of the year to date has been largely eliminated.

The price of natural gas (Henry Hub) fluctuated around the USD 3/mmBtu mark until the end of September. Since then there has been a steep rise to 4.60 USD/mmBtu. Analysts explain the rise with early winter weather in parts of the US and inventories at 15-year lows.

The EUR/USD exchange rate averaged 1.1629 in the third quarter and 1.1947 in the first nine months.

PERFORMANCE OF OIL AND GAS WELLS

The Elster wells again delivered outstanding results in the third quarter. In total, Elster accounted for 334,731 BO and 474,640 BOE, respectively. The corresponding figures for the first nine months were 749,000 BO and 1,242,791 BOE, respectively. By way of comparison, Ryder Scott had expected Elster to produce 501,677 BOs for the first nine months in its reserve report dated 31.12.2017. Actual oil production was thus around 50% above expectations. It should be noted here that at the end of September Elster was entitled to receive around 50,000 BO as compensation for the low level of acceptance in the first few months. These volumes should be offset in the fourth quarter.

At Cub Creek, crude oil production in the first nine months was around 617,000 BO, around 10% lower than Ryder Scott had expected. Gas production, on the other hand, was in line with the forecast. Cub Creek produced 617,179 BO and 1,291,105 BOE respectively in the first nine months. The fourth quarter will play a key role in calculating reserves at the end of the year, as it is the quarter from which the future production trend can best be estimated.

Depreciation and amortization for the nine-month financial statements were adjusted to reflect production. For Elster, depreciation per BOE fell to USD 19.5 (previously USD 22 per BOE), for Cub Creek it was initially left at USD 26 per BOE. If Cub Creek's production continues to follow the current trend until the end of the year

and Ryder Scott's reserve report is in line with the report from the end of 2017, a significant reduction in depreciation at Cub Creek could become necessary. A further increase would only be necessary if production were to develop very negatively.

NEW PRODUCTION

Following Bright Rock Energy's announcement in September of the acquisition of around 4,600 acres of land, the company has acquired additional land in the Uinta Basin in Utah in recent months. The management expects to be able to further expand the space position in the coming months.

Cub Creek is currently preparing further drilling from two drill sites south of Haley. Up to 24 wells of 2 miles horizontal length are planned. Drilling could begin in the 2nd quarter of 2019. However, whether and when the wells will be drilled will depend on further technical investigations, financing considerations and oil price developments.

HEDGING

The Group currently has an oil price hedge for 2019 amounting to around 26% of ex-

pected production.

METALS DIVISION

Almonty announced at the beginning of October that KfW-IPEX Bank in Frankfurt is expected to take over the project financing of the Sangdong mine. The financing should be concluded in the short term with favourable conditions.

Ceritech expects to be able to sign the contract with the cooperation partner in Brazil shortly. The relevant negotiations are well advanced.

OUTLOOK

The Management Board expects sales and EBITDA in 2018 to exceed already raised forecast published in September. Total annual sales are expected to be around EUR 100 to 110 million (forecast: EUR 90 - 100 million), EBITDA around EUR 90 million (forecast: EUR 85 to 90 million). As things stand at present, the Management Board expects to be able to propose a dividend for the current financial year at least equal to that of the previous year.

We believe we are well prepared for 2019. The group has a solid cash and cash equi-

valents reserve of over EUR 60 million, currently no investment obligations and a steady inflow of cash from producing wells. Should there be a sustained decline in prices on the oil market, there will be good investment opportunities that we intend to exploit. Should the price weakness that began in October prove to be temporary, we can launch an extensive drilling program at Cub Creek in the short term that will bring us significant growth in 2019 and 2020.

Glückauf from Mannheim



Thomas Gutschlag Vorstand, CEO
Jan-Philipp Weitz Vorstand, CFO

CONSOLIDATED BALANCE SHEET
AS OF 30 SEPTEMBER 2018 (UNAUDITED)

AKTIVA	30.09.2018	30.09.2017	31.12.2017
	EUR	EUR	EUR
A. FIXED ASSETS	145,782,484	155,504,266	171,071,220
I. Intangible assets			
1. Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets	15,293,619	32,286,652	30,565,937
2. Goodwill	1,771,117	5,769,000	3,271,324
	17,064,736	38,055,652	33,837,261
II. Property, plant and equipment			
1. Petroleum extraction equipment	100,929,922	76,700,497	73,760,295
2. Exploration and evaluation	3,706,201	17,590,196	40,556,515
3. Plant and machinery	98,335	142,886	98,978
4. Other equipment, furniture and fixtures	92,957	92,968	107,825
	104,827,415	94,526,547	114,523,613
III. Financial assets			
1. Equity investments	15,620,829	13,282,144	15,568,634
2. Loans to other investees and investors	1,724,138	1,852,197	1,724,138
3. Securities classified as fixed assets	6,545,366	7,787,726	5,417,574
	23,890,333	22,922,067	22,710,346
B. CURRENT ASSETS	85,419,304	36,912,204	40,284,030
I. Inventories			
Finished goods and merchandise	154,237	165,668	170,142
	154,237	165,668	170,142
II. Receivables and other assets			
1. Trade receivables	23,797,477	6,330,092	8,832,330
2. Receivables from other investees and investors	457,660	196,249	258,122
3. Other assets	301,707	1,855,802	1,324,443
	24,556,844	8,382,143	10,414,895
III. Securities classified as current assets	15,163,472	1,969,956	1,331,301
IV. Bank balances	45,544,751	26,394,437	28,367,692
C. PREPAID EXPENSES	710,209	704,745	832,599
D. DEFERRED TAX ASSETS	1,105,065	1,305,129	1,385,861
TOTAL ASSETS	233,017,062	194,426,344	213,573,710

PASSIVA	30.09.2018	30.09.2017	31.12.2017
	EUR	EUR	EUR
A. EQUITY	71,354,002	61,749,915	56,674,702
I. Subscribed capital	5,063,072	5,063,072	5,063,072
. / . less nominal value of treasury shares	-127,810	-127,810	-127,810
Conditional capital: EUR 2,000,000 (prior year: EUR 2,000,000)			
II. Capital reserves	29,827,395	29,757,158	29,827,395
III. Equity differences from currency translation	2,295,203	119,116	-3,507,363
IV. Consolidated net retained profit	26,928,782	14,886,951	17,992,523
V. Non-controlling interests	7,367,360	12,051,428	7,426,885
B. DIFFERENCE FROM CAPITAL CONSOLIDATION	0.00	0.00	195,747
C. PROVISIONS	22,055,534	8,321,764	27,996,595
1. Tax provisions	285,498	340,666	42,524
2. Other provisions	21,770,036	7,981,098	27,954,071
D. LIABILITIES	127,846,379	110,862,258	121,901,012
1. Bonds, thereof convertible: 10,700,000 EUR (prior year: EUR 0)	77,299,000	74,155,000	82,340,000
2. Liabilities to banks	22,022,499	19,998,984	24,235,641
3. Trade payables	26,288,848	8,997,096	5,236,367
4. Other liabilities	2,236,032	7,711,178	10,089,004
E. DEFERRED TAX LIABILITIES	11,761,147	13,492,407	6,805,654
TOTAL EQUITY AND LIABILITIES	233,017,062	194,426,344	213,573,710

CONSOLIDATED INCOME STATEMENT
AS OF 30 SEPTEMBER 2018 (UNAUDITED)

	01.01.–30.09.2018	01.01.–30.09.2017	01.01.–31.12.2017
	EUR	EUR	EUR
1. REVENUE	88,435,954	39,458,596	53,746,053
2. INCREASE OR DECREASE IN FINISHED GOODS AND WORK IN PROCESS	-15,905	11,924	12,066
3. OTHER OWN WORK CAPITALIZED	1,097,958	1,906,988	2,432,262
4. OTHER OPERATING INCOME	13,863,188	3,354,614	1,123,594
5. COST OF MATERIALS	14,477,732	4,051,573	8,068,758
Cost of purchased services	14,477,732	4,051,573	8,068,758
6. PERSONNEL EXPENSES	2,657,390	3,278,239	4,710,596
a) Wages and salaries	2,545,263	3,174,916	4,364,576
b) Social security, pensions and other benefit costs	112,127	103,323	346,020
7. OTHER OPERATING EXPENSES	6,761,825	8,281,136	8,397,022
EBITDA	79,484,248	29,121,174	36,137,600
8. AMORTIZATION, DEPRECIATION AND WRITE-DOWNS	54,806,940	20,201,378	30,000,951
a) of intangible assets and property, plant and equipment	54,806,940	20,201,378	29,907,681
b) of current assets	0	0	93,270
9. AMORTIZATION OF FINANCIAL ASSETS AND SECURITIES CLASSIFIED AS CURRENT ASSETS	87,396	0	830,716
EBIT	24,589,912	8,919,796	5,305,933
10. OTHER INTEREST AND SIMILAR INCOME	683,760	764,403	1,037,776
11. INTEREST AND SIMILAR EXPENSES	4,980,305	3,583,872	5,049,436
12. INCOME TAXES	-5,112,302	-915,301	6,378,593
– thereof expenses from changes in recognized deferred taxes: EUR 5,057,204 (prior year: EUR 906,280)			
13. EARNINGS AFTER TAXES	15,181,065	5,185,026	7,672,865
14. OTHER TAXES	-540	-281	-574
15. NET INCOME FOR THE GROUP	15,180,525	5,184,745	7,672,292
16. PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (-)	-3,036,346	-2,741,797	-2,123,772
17. PROFIT CARRYFORWARD (+)	14,784,603	12,444,003	12,444,003
18. CONSOLIDATED NET RETAINED PROFIT	26,928,782	14,886,951	17,992,523



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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following is a list of items with only significant changes in the current period. For all other information please refer to the detailed remarks in the annual report 2017 and the Semi Annual Report 2018.

1. RESULT OF OPERATIONS

REVENUES

Revenues are primarily related to the US subsidiaries Cub Creek Energy, Elster Oil & Gas, Salt Creek Oil & Gas oil and gas activities. The sales in the amount of EUR 70.0 million result from oil sales and EUR 18.4 million results from natural gas and natural gas condensates. Production in the first nine months amounted to 2.72 million barrels of oil equivalent (BOE) and 9,966 BOE per day.

Revenues are shown after production taxes and realised income and losses from hedging.

OTHER OPERATING INCOME

Other operating income mainly consists of income from the sale of assets at Salt Creek Oil & Gas (EUR 10.9 million), the sale of assets of Tin International AG (EUR 1.6 million), as well as income from exchange rate gains and other operating income.

MATERIAL COST

As of 30 September 2018, expenses for purchased services in the amount of EUR 14.5 million have been incurred, relating to the ongoing production costs, maintenance and work on the producing and new wells in the US.

OTHER OPERATING EXPENSES

Other operating expenses occurred in the amount of EUR 6.8 million. The largest item is currency losses of EUR 3.3 million, offset by currency gains of EUR 0.8 million.

The remaining other operating expenses consist of other general administrative expenses including rent, attorneys' fees and consulting fees, as well as other administrative expenses (EUR 2.1 million) in the Group.

The personnel expenses of all Group companies fell to EUR 0.8 million in the third quarter; in the first half of the year they averaged EUR 0.9 million per quarter.

DEPRECIATION & DEPLETION

Depreciation of EUR 54.8 million relates to depletion on oil production equipment in the tangible fixed assets of the subsidiaries Cub Creek Energy and Elster Oil & Gas. Depletion is derived from the total number of produced barrel of oil equivalents. No irregular depreciation was recognized in the third quarter of 2018. At Cub Creek Energy depreciation remained unchanged at USD 26 per BOE, at Elster Oil & Gas depreciation was reduced from USD 22 per BOE to USD 19.5 per BOE due to the continued very positive production results.

TAX EXPENSES

Tax expenses (EUR 5.1 million) are composed of tax expenses for deferred taxes on the profits generated by the US operating companies.

2. FINANCIAL POSITION AND ASSETS

FIXED ASSETS

Fixed assets fell from EUR 154.4 million to EUR 145.8 million in the third quarter due to scheduled depreciation. Financial assets amounted to EUR 23.9 million.

CURRENT ASSETS

The increase in receivables to EUR 24.6 million is mainly made up of trade receivables resulting from outstanding revenues from oil & gas production. At the end of the third quarter, cash and cash equivalents and marketable securities totalled EUR 60.7 million.

LIABILITIES & EQUITY

Equity amounted to EUR 71.4 million as of September 30, 2017. The equity ratio again increased slightly to 30.6% compared to June 30, 2018.

Liabilities decreased from EUR 141.4 million to EUR 127.8 million. This was mainly due to the repayment of the EUR 15.8 million bond 13/18 in July 2018 and a partial repayment of bank liabilities at Cub Creek Energy in the amount of EUR 2.0 million. Trade payables increased to EUR 26.3 million. They re-

late to outstanding payments for royalties to landowners and the distribution of sales to smaller partners. Provisions also increased to around EUR 22.0 million. They were formed for production taxes from 2017 and 2018 as well as investments by US subsidiaries.

3. SUBSEQUENT EVENTS

After the balance sheet date, no unscheduled events have had a material impact on the course of business. Please refer to the detailed remarks in the annual report 2017 and the Semi Annual Report 2018.

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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.

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 Semi-Annual Report shall take precedence over the English version.

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