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 Quadrise Fuels International PLC  
 07 October 2013

**Quadrise Fuels International plc**  
 ("Quadrise", "QFI" or "the Company")

**Final Results for the year ended 30 June 2013**

Quadrise Fuels International plc (AIM: QFI) is the emerging manufacturer and supplier of MSAR<sup>®</sup> emulsion fuels, a low cost alternative to heavy fuel oil (one of the world's largest fuel markets utilising over 600 million tonnes per annum) in the global shipping, refining and steam and power generation markets. The Company today announces its results for the year ended 30 June 2013 and gives notice for the convening of an Annual General Meeting ("AGM") of the Company to be held on 15 November 2013.

**Operational highlights**

- Quadrise MSAR<sup>®</sup> Marine Fuels: 'Proof of concept' seaborne trials to start before year end 2013 in two Maersk ships using Wartsila and MAN engines, Progressing on review to LONO certifications and early commercial operations by mid 2014
- AkzoNobel Relationship
  - The Alliance Agreement will be replaced by a Commercial Agreement and a Research and Technology Agreement
  - The Company will become the licensor of the Quadrise MSAR Technology
  - Akzo and Quadrise will share future IP ownership
  - Quadrise will have worldwide rights for Akzo technology in emulsion fuels applications
- Saudi Arabia:
  - Aramco has designated a Saudi refinery directly linked to an integrated steam and power utility serving a major petrochemical complex as the preferred first application of MSAR technology
- Central & South America:
  - A programme is proceeding with Ecopetrol to review the feasibility of a joint venture for manufacturing and marketing of MSAR fuels in the region.
- Global Oil Major:
  - Positive results on trials to emulsify a heavy residue stream produced in a proprietary petrochem/refining process with potential multi-site availability

**Financial highlights**

- No debt and £3.2 million (2012: £1.7 million) in cash reserves at 30 June 2013.
- Loss after tax of £5.0 million (2012: £4.2 million) arising principally from non-cash charges of £3.2 million (2012: £2.4 million) for the amortisation and impairment charges of intangible assets and adjustments to available for sale investments.
- Cumulative tax losses of £33.7 million (2012: £30.6 million) available for set-off against future profits, which should enable the Group to mitigate substantial tax charges anticipated in the earlier years of sustainable revenue.
- Total assets of £10.3 million at 30 June 2013 (2012: £13.8 million), which includes equipment for the Group's own R & D facility established in the UK during the year and the MSAR<sup>®</sup> Manufacturing Unit which was commissioned at the Orlen Lietuva refinery

in September 2013 for the production of vessel trial volumes of Marine MSAR<sup>®</sup> fuel for the 2013 programme.

### **Significant events post year end**

On 29 August 2013, QFI announced the execution of contracts enabling production and supply of Marine MSAR<sup>®</sup>2 to Maersk during 2013 for seaborne operations. This fuel will be used to conclude "Proof of Concept" and performance evaluations on the two main engine types used in very large ships in service.

Verified results of the performance of Marine MSAR<sup>®</sup>2 in a range of ship and engine combinations during 2014 will provide a base of operational performance data supporting the issue of Letters Of No Objection to the use of Marine MSAR<sup>®</sup>2 by leading marine propulsion engine manufacturers.

Commenting on the results Ian Williams, Executive Chairman of QFI said:  
"A truly exciting year in which the Company moved forwards on many fronts, not only in the core programmes but also in product technical developments and the strengthening of key relationships.

The selective addition of 'second tier' programmes has broadened the base of opportunity and served to de-risk the business - albeit at a modest cost.

The investor market response as reflected in the share price performance has been very gratifying, possibly driven by growing appreciation of the scope for our game changing technology to deliver significant added value in very large heavy fuels markets.  
My personal thanks are offered to the many shareholders who have contacted the Company to convey their appreciation of the efforts of the board and management over the past year."

### **Notice of Annual General Meeting**

The Annual General Meeting ("AGM") of the Company is to be held at The Rubens Hotel, 39 Buckingham Palace Road, London, SW1W 0PS, on 15 November 2013 at 12.00 noon.

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## **Chairman's Statement and Business Review**

I am pleased to present this Annual Report for Quadrise Fuels International plc ("Quadrise", "Company", "Group", "QFI") for the year ended 30 June 2013.

### **Business Overview**

The Company made significant progress during the year towards the objective of near term commercial operations and continuous revenues. While the principal focus remained the core programmes of Marine MSAR<sup>®</sup> and Saudi Aramco, a selective number of projects has been added to broaden the future business base. The material progress already made on these could mitigate any risk to medium term projected revenues in the core programmes and should add significant value to the Group.

Global economic and energy related trends and fundamentals continue to underpin and validate the "Quadrise value-add" proposition. The scope for the application of the Quadrise MSAR® technology to add value in oil refining is essentially driven by the price spread between Heavy Fuel Oil and distillate fuels - principally diesel fuels. The high growth in global demand for distillate transportation fuels relative to residual fuel oils has continued unabated - as we expected. Unlike many energy related businesses, QFI is not directly affected by limited fluctuations in the crude oil price; it is the spread between the distillate and fuel oil ex-refinery product prices that is exploited by the Company's technology. The market opportunity is the replacement of conventional fuel oil, and in some cases distillate fuels, in industrial steam raising, power generation and marine transportation/propulsion applications. The growth in the production of shale gas and associated liquids, most notably in North America, may impact global oil and gas supply, demand, movements and prices. But it is not expected to adversely affect the inter-product price spreads which underpin the Quadrise value-adding proposition in our target markets.

The "select and focus" strategy has consistently guided management for the past four years. Within the US\$300 billion p.a. global fuel oil market, Quadrise identified opportunities where longer term demand is virtually assured and the value adding potential material for both refiners and end users. This led to the concentration on oil-based economies, the prime target being the substitution of fuel oil (and crude oil) in Saudi Arabian thermal power generation. In addition, the US\$120 billion p.a. marine "bunker" fuels market, which represents around 40% of global fuel oil demand, was identified as a prime opportunity and can be accessed from relatively few supply points. The pursuit of these and other selected opportunities has required the Company to forge relationships with several of the largest corporates in their industry sectors. The scale of the related business opportunities is very large, and the process from introduction through commitment to implementation is complex. Features typically include extensive due diligence, intermediate reviews, and client budget cycle considerations. Clearly, while Quadrise may influence pace and direction, it is not able to set the timetable with such organisations. On the other hand, the scale of opportunity, and acceptance of the technology by leading high-profile corporates effectively validates and endorses the value proposition, and thereby the business potential of our Group.

Quadrise International Limited ("QIL") is QFI's wholly owned operating subsidiary and party to all material contracts associated with projects in development, and partner and supplier agreements. As advised in mid-2012, the agreement executed with Nexidea Inc. of Dallas ("Nexidea") and Quadrise Canada Corp enabled QIL to take the lead role in the development of business opportunities in Central and South America. An associated review and selection process led to an early engagement with Ecopetrol SA, ("Ecopetrol") the Colombian National Oil Company. Preliminary research indicated significant potential to add value to their refining and fuel oil marketing activities which was subsequently verified in confidential exchanges and joint reviews. A Memorandum of Understanding has now been signed which provides a basis for feasibility studies and the future commercial relationship.

QIL has recently undertaken an assessment of a specific project opportunity with a global oil major. This is aimed at adding value to heavy residue streams from its proprietary process in a number of large scale integrated refining and petrochemical sites. Results to date have been very positive and support the development and sale of both Marine MSAR® and thermal power MSAR® formulations. Both MSAR® fuels should add significant value in comparison with current refinery disposal options. It is hoped that this programme could be sufficiently advanced by year end 2013 to move to a field trial in 2014 under contract terms which would permit market disclosure. An interesting feature of this programme is the multi-site availability of input hydro carbons, and the scope to provide MSAR® fuels for power plant operators such as PowerSeraya in Singapore.

QIL is the contracting party in the original and current Alliance Agreement with AkzoNobel Surface Chemistry AB ("AkzoNobel"). Following several extensions, the Alliance Agreement will expire at the end of 2014 if either party serves notice before the end of 2013. The current agreement however requires AkzoNobel to continue to support all "active projects" for the lifetime of the projects. This is a key relationship and both parties believe the original agreement should be revised to serve the future. The Alliance Agreement will be superseded by two main contracts, dealing respectively with commercial matters and joint research and technology development. This intended change will set the basis for a close and enduring future association. Drafting of the new contracts is substantially advanced and expected to be finalised before year end 2013.

### **Financial Overview and Investor Relations**

The Group has continued to apply the policies of limiting the number of direct employees, cost sharing in-house services, and outsourcing where service standards (principally quality and reliability) permit. To assure the availability of experienced trained experts, a number of consultants have moved from part time to full time service and availability. The policy of client contribution to pre-commercial costs has been applied with few exceptions.

During the period under review the Operating and Corporate costs of £1.902m were contained within budget which was some 2% above 2012 levels (£1.865m).

The operating loss of £5.015m for the period (2012: £4.222m) was in line with expectations in

terms of managed operations, but was affected by a further fair value adjustment of £1.819m (2012: £0.611m) to the carried values of the Canadian investments as was advised to shareholders in the 1 March 2013 Interim Review.

Delays in the core programmes with large clients and the important new projects described above led to the requirement for additional equity funding in October 2012. 50 million new ordinary shares were placed at 7 pence per share, twice the price of funds raised 18 months earlier.

Group funding requirements are very sensitive to the start of the Marine commercial phase and associated first revenues. At the time of the last fund raising, the Company anticipated revenues from mid-2013. This is now expected to start in first half 2014 after the completion of the current "proof of concept" programme and subsequent approval to proceed. Based on past experience the Board may take a prudent view and act early to eliminate any risk of inadequate funding jeopardising the development of existing core programmes and new project opportunities.

Quadrise maintained an active programme of Investor and Media Relations through the year. This focussed on introductory meetings and presentations to institutional investors and research analysts, guided by brokers Westhouse Securities and PR advisers Bell Pottinger Pelham. Formal newflow continued to be restricted by confidentiality obligations imposed by core programme partners. We look forward to sharing more information on operational programmes with investors and the general market when commercial contracts are executed on terms allowing more frequent disclosure. The number of shareholder and investor enquiries has grown steadily reflecting the increased interest in the company, much of which has been associated with our increased profile in specialist marine market media.

The positive trend in the share price through 2013 to date of reporting has been very encouraging especially given the performance of the AIM junior energy sector. The QFI share price has outperformed the majority of its peer group. A number of investment funds were first time investors in the October 2012 placing, and while still modest, the proportion of institutional shareholders has increased over the review period.

As advised previously, capital availability currently limits the Group's choice of business model to the "licence mode" in which the refiner buys the MSAR<sup>®</sup> Manufacturing Units ("MMUs") and is licensed to use MSAR<sup>®</sup> manufacturing technology. In this mode QIL revenues are associated with fees, supplies and services. Other models which could be adopted include the "toll processing mode" in which QIL owns and operates the MMUs and charges a fee per ton to convert the refiner's heavy residue into MSAR<sup>®</sup> fuel. While more profitable, the Group is not currently capitalised to apply this model. In the longer term the Company would logically aspire to apply the "merchant plant" mode. In this case the Company would acquire the heavy residue from the refiner and convert it to MSAR<sup>®</sup> fuels in our own facilities and sell the fuel directly to consumers. Aside from the funding required to develop the process facilities and related storage and services, the Company would also have to secure working capital. This generally accounts for a large share of the funds employed in a bulk fuels operation. By restricting ambitions to the licence mode in the early phase, the Company has progressed to the current stage at very modest cost in oil industry terms. We should require relatively little additional funding to assure "safe passage" to early revenues based on contracted services as planned for the Marine sector in 2014.

### **Review of Directly Managed Interests**

These interests are managed by QIL which owns all associated rights and participations. The Group structure provides for subsidiaries of QIL to house and manage the project programmes either on a market (e.g. Quadrise Marine) or geographic basis (e.g. Quadrise KSA). Where appropriate, these subsidiaries form associations with local partners (e.g. Rafid in Saudi Arabia) or hold the Group participations in joint ventures developed with local partners - as is intended in Central and South America.

The growth in value of the directly managed business portfolio has been reflected in the substantial increase in the market capitalisation of the Company over the past 12 months as the associated projects have progressed through their respective pre-commercial phases. The investments in independent Canadian ventures, in which QIL has no management role, no longer account for a material share of QFI Group value. Their fortunes have been mixed over the review period and the carried values have been reduced to reflect this. All Canadian interests are held as "investments for sale", though there could be some scope for selective recovery in value in the medium term.

A common feature of the directly managed projects is the potential scale of the business opportunities they represent. Without exception they target substitution of existing conventional fuels - presently consumed in very large quantities - with Quadrise MSAR<sup>®</sup> fuels. The 200 million plus ton p.a. global marine bunker fuel oil market is a good example. A very modest share of this will be a company maker on its own. A further example of scale is the 30 million ton p.a. market for thermal power generation fuel in the Kingdom of Saudi Arabia. All of this is potentially convertible to MSAR<sup>®</sup> fuels at considerable advantage to all stakeholders. This offers an enormous value-add opportunity to Saudi Aramco, and could be a material contributor to resolving the



Kingdom's energy cost versus revenue equation.

Decisions were taken during the past year to broaden the project programme and apply limited Group resources to opportunities of merit - such as the Ecopetrol prospect in Colombia and the 'multi-site' heavy residue conversion with the global oil major. The rationale being that these represented feasible business prospects which would spread the active portfolio. In addition they serve to de-risk the business and can substitute, as necessary, for programmes where progress cannot be assured - as is the case with Mexico. Another criterion and common feature is the potential flexibility to serve both thermal power and marine markets from the refining bases concerned.

Additionally, the Company has been approached by various parties representing to have access to opportunities in areas such as Russia, the Caribbean, and South and East Africa. Where such proposals have merit, and on a selective basis, the Company has confirmed "conditional" interest. The key provisos applied are that the basis of the relationship will be a joint venture, the prospective partner will fund the project with no recourse to QIL, and the Group contribution will be limited to technology and expertise to earn our share in the venture. To date only two such projects have qualified for further consideration. They are subject to mutual non-disclosure terms and details should only be expected as and when programmes are defined and contracts are executed.

### **Marine MSAR®**

This programme originated from an approach made by Mærsk to QIL following a Quadris presentation to an international marine fuels conference. Mærsk quickly assimilated the potential of the Quadris technology to reduce open ocean marine fuel costs - which represent some 75% of their fleet operating cost. A Joint Development Agreement ("JDA") was executed between QIL, Mærsk and AkzoNobel Surface Chemistry to formulate Marine MSAR® fuel to meet the exacting requirements of both four stroke and two stroke marine diesel engines. The JDA defined the responsibilities and contributions of all parties and has guided the development process over the past three years. In addition, QIL entered into a marketing and royalty agreement with Mærsk in January 2011 which set certain of the terms for commercial relationships then expected to follow.

At the outset certain standards and targets were established to assure the practical feasibility of Marine MSAR® becoming one of the "standard" fuels acceptable for use in Mærsk (and in the operations of other shipping companies). These included the ability to switch readily between fuel oil and / or marine diesel fuel and Marine MSAR®. In addition there was a requirement that "on-board" fuel receipt, storage, filtration and distribution equipment would not have to be modified, and several other conditions.

The development of a "fit for purpose" Marine MSAR® fuel to be supplied and used commercially in this very large global market involves satisfying the requirements of a large number of industry stakeholders, and national, regional and global regulatory authorities. Marine matters are substantially regulated and have a high profile due to the impact of freight costs and services on an extensive range of national and international economic interests. Additionally, the shipping industry has a high profile in matters environment, in particular combustion emissions and associated NOx, sulphur dioxide and carbon particulates. Mærsk has been the ideal partner for QIL in this programme, being the biggest global shipping company and the largest marine fuels consumer in the industry. Mærsk also has an enviable record for efficiency in operations and is an industry leader in environmental performance, adoption of new technology, and continuous improvement.

Meeting the specifications of major marine engine manufacturers is an absolute requirement to access this market. Continuous development of these very large vessel propulsion engines and their fuelling and management systems is focussed on optimising power and economics. Qualifying fuels have to be proven in both land-based and seaborne operations to merit a Letter Of No Objection (LONO) issued by the engine manufacturer without which no modern shipping company would consider using a new fuel in its fleet operations.

The multi-company joint development team has worked closely throughout the fuel formulation process with two major engine manufacturers, Wärtsilä and MAN, and with selected refiners - principally PKN Orlen Lietuva. Both manufacturers are industry leaders in technology development, and in combination account for the majority of engines installed in the Mærsk fleet, particularly in the largest and latest very large container transporters and crude oil carriers.

Shareholders have been informed on the development of the Marine MSAR® fuels programme on a regular basis over several years. As this is a truly pioneering development, it was to be expected that the development process would be impacted by emerging issues and demanding performance requirements. Each challenge has also been a learning opportunity and this has led, over an exhaustive series of trials and adaptations, to the formulation in late 2012 of Quadris Marine "MSAR® 2" fuel. This was very successfully stress-tested in the most modern Wärtsilä multi cylinder state-of-the-art propulsion engine test facility in Switzerland. The very comprehensive and positive report was accepted by all stakeholders. The MSAR® 2 formulation has, in effect,

become the 'gold standard' for Marine emulsion fuels and has led to the decision to proceed with the seaborne 'proof of concept' programme during the last quarter of 2013. This is a prelude to a final review and the commencement of a multi-ship programme early in 2014. This will establish an operating performance data base from a range of ship and engine combinations and provide the basis on which the engine manufacturers will issue their LONOs. In turn, this should result in the use of Marine MSAR<sup>®</sup> 2 in 'flagship fleet' operations from mid-2014. The programme will also mark the commencement of the long awaited commercial phase and volume related revenues for the QIL marine subsidiary.

Previous reports have highlighted the growing environmental concerns on SO<sub>2</sub> and carbon particulate (black soot) emissions from marine operations both within the Emission Control Areas ("ECAs") and in the "open ocean". The initial focus on fuel and refinery based solutions appears to ignore both the economic implications of a compliance driven switch to distillate fuels at a premium of US\$ 350+ per ton, and the practical supply challenges. The global refining industry will simply be unable to supply compliance fuel without a massive investment programme - which would itself exacerbate existing problematic CO<sub>2</sub> emissions by the industry. It has become increasingly clear in recent years that the application of on-board emissions scrubbing would be the most effective and practical means of compliance. The scrubber solution appears now to be gaining support across the industry, and with national government regulators and global marine industry institutions.

This focus and the preferred solution offers substantial advantages for Quadris fuels in assisting shipping companies with cost effective environmental solutions. Marine MSAR<sup>®</sup> fuel offers measurable, differentiated and enhanced "green performance" in terms of NO<sub>x</sub> and particulate emissions. Being priced at a discount to conventional fuel oil, the cost differential can make a contribution to the capital charge and operating costs of the scrubbers. In effect, Marine MSAR<sup>®</sup> should offer the lowest cost compliance option by combining novel fuel and scrubber technologies. It may also be technically feasible to offer compliance with ECA standards without switching to very low sulphur distillate fuels - as is now the practice - at a premium of US\$ 350 per ton. This would offer the affected shipping companies a very material reduction in operating costs.

The current outlook for the Marine MSAR<sup>®</sup> programme is very positive and there is every prospect that it will become the first active cornerstone of the Group's business portfolio - with substantial growth potential. It is expected also that once Mærsk and other large shipping operators begin converting to MSAR<sup>®</sup> fuels, refiners proximate to bunker fuel "supply hubs" such as Singapore, Rotterdam and Fujairah will want to manufacture and supply the fuel to meet market demand.

#### **Saudi Arabia - Saudi Aramco**

The Kingdom of Saudi Arabia ("KSA") was identified as a prime opportunity for Quadris some five years ago on the basis of a combination of features:

- KSA is a major oil producer with an oil based economy and a large local refining capacity base.
- KSA has substantial oil fired thermal power generation capacity with firm expansion plans to meet future high demand growth.
- KSA presently imports distillate fuels to the value of approximately US\$ 20 billion p.a. to meet growing local market demand. This could be reduced substantially by converting the domestic refining process from a heavy fuel oil mode to Quadris MSAR<sup>®</sup> to release the distillates required for residue dilution in fuel oil manufacture.
- Saudi Aramco is the largest global national oil company and dominates all facets of the KSA energy industry. The opportunity for both Aramco and Saudi utilities (such as SEC and SWCC) to add value through the application of Quadris technology can be measured in billions of dollars per annum.

The Company has engaged Saudi Aramco specialists, consultants and management over an extended period to impart an understanding of the 'Quadris Option' and its value to Aramco and KSA. The process has included technical workshops, joint and independent studies, technical and economic due diligence and high level implementation planning. An important result achieved in 2012 was the approval of Quadris technology for application in Aramco refining operations.

Another important outcome of subsequent studies has been the appreciation by senior Aramco management of the potential contribution Quadris can make to the challenging optimum energy resource management issues facing the KSA economy. Currently 30 million tons of fuel is used in thermal power generation, made up of Aramco crude, and local and imported fuel oil. The value and feasibility of conversion to MSAR<sup>®</sup> fuel has now been acknowledged and embraced. Participation in the programme for progressive delivery of this change has been the prime objective of Quadris and our local partner since inception, and the dimensions are very material for the Company. Timing

and traction are now the focus of our efforts.

At any given time, Aramco manages up to US\$10 billion of current capital development programmes, and to be effective this requires systems, order and process management. Our challenge now is to maintain the profile of the Quadrise programme and have this integrated into the Aramco plans, budgets and execution process - all on contractually assured terms for our technology and the services to be provided.

The original focus of the first 'proving' application was to be at a very large Aramco refinery where both value potential and feasibility had previously been jointly confirmed. This project needs to be linked to a large thermal power generating plant to assure off-take of the MSAR<sup>®</sup> fuel and progressive production capacity. However the suitable power plants are some distance from the refinery and the fuel logistics include shipment and associated intermediate storage and handling. Whilst considered completely feasible, these are factors that Aramco considered best avoided if possible in the 'first trial'.

It has therefore been agreed, on review, that the preferred first application should be at a designated joint venture refinery of similar size logistically and operationally integrated with a matching power generation unit serving nearby petrochemical and peripheral industrial complexes. This technically simplifies the MSAR<sup>®</sup> fuel logistics and assures large scale and growing fuel conversion and off-take from the refinery. However the number of stakeholders has multiplied as the Aramco joint venture partners in the refinery are independent of those in the steam and power generation business. This has and will slow the pace of implementation. For example, much of our recent and current activity has involved introductions to the new stakeholders, technical and economic 'education', and meeting the new client's due diligence requirements. The scale of this 'preferred' project route is circa 2.7 million tons of MSAR<sup>®</sup> fuel p.a. in its first phase with possible expansion to 5 million tons. This is not dissimilar to the original nominated refinery, which may still follow.

The purpose of sharing this information is to provide some insight into developments which lie behind the apparent 'continuous extension' of the preparatory phase in Saudi Arabia. Unfortunately we cannot fully control the pace of development; however Quadrise and our partners are prepared and equipped to respond as soon as the preliminaries described above have been completed and project terms are settled. The aim currently is to have the high level plan and terms agreed and executed before the end of 2013.

We have said before that eventual success will require persistence and patience. This is a "win win" opportunity on a grand scale and we remain confident of success. Quadrise is in KSA for the long haul.

### **Americas**

The focus for several years has been on the opportunity identified in Mexico during 2007/8 and subsequently defined with the refining division of Pemex, the national oil company. After several years of sustained effort and engagement to clear the very limited remaining legal and contractual aspects, unfortunately without success, it was decided that the Mexican programme is unlikely to move ahead in the short term. Therefore a new lead programme should be created in the Central/South American market envelope.

A review in association with new partners, Nexidea, led to the selection of Ecopetrol, the Colombian national oil company, as the prime opportunity. This led to an extensive engagement and information sharing activity, and thereafter the announcement earlier in 2013 of the execution of a Memorandum of Understanding ("MOU") with Ecopetrol. The intention is to investigate the feasibility of a joint venture to produce MSAR<sup>®</sup> fuels in their refineries for supply and sale in Central America.

Shareholder queries on this programme revealed the perception that the MOU is the beginning of a process. Actually the practice in the oil industry is to enter into an MOU only when satisfied that there is a sound business case to be assessed. In the case of Ecopetrol, this followed the industry practice of:

- early execution of a Non Disclosure Agreement.
- extensive exchange of confidential information concerning Quadrise technology, and client plant and process performance.
- joint development of a high level 'Business Case'.
- presentation to the Ecopetrol executive committee with recommendations.
- decision to proceed and execute an MOU for a detailed feasibility assessment.

QIL and Nexidea are working to a target of end 2013 for completion and presentation of the review report. The response of Ecopetrol's top management will determine the next steps, but the

initial findings were very encouraging. If confirmed by the review, the opportunity could prove very worthwhile for both parties.

Further opportunities have been identified in the region but have not been progressed as they do not rank in the context of the 'select and focus' strategy and related conservation of resources.

The Pemex opportunity is, in effect, being held in reserve as the business case remains both technically sound and compelling in value-adding terms.

#### **Asia and others**

The YTL PowerSeraya supply opportunity is still very much an active project, with efforts continuing to secure refiner support for a suitable supply chain. A possible solution is the 'Global Major' heavy residue processing initiative described in the introduction. If this proves to be the case, PowerSeraya may have a suitable MSAR<sup>®</sup> fuel option in late 2014.

The 'Global Major' programme, like the Ecopetrol project, is an addition to the base business plan and serves to broaden the business base and thereby de-risk the Group as a whole at moderately low cost. These programmes do not represent a major deviation from our 'select and focus' guideline but they do have an impact on funding requirements. In both cases the client has made a financial contribution, and the balance has been covered by the Company. Of particular importance, the multi-site supply prospects associated with the 'Global Major' project would be a very good fit with present and future supply requirements for both marine and power applications. Based on results to date there is every possibility of a very good fit and a 'win win' outcome which could add significant additional value to the Company. A programme of further trials and assessment designed to provide independent verification - effectively technical due diligence - should be completed in 2013. On success, a plant based pilot programme could be expected in 2014 which could then expand to create an MSAR<sup>®</sup> supply source for a number of prospects.

The Company expects to be able to name the major involved at a stage where contracts recording commercial terms are signed for the application of the technology and associated supply matters.

#### **Board and Management**

The Group has completed another year of substantially diverse and very demanding technical and commercial developments. We are reliant on a few key specialist executives and a very modest staff base. This has only been possible with the active support of our non-executive directors whose high quality contributions are greatly valued - as is their willingness to take an active role on short notice when required.

The contributions of Mr Laurie Mutch and Dr Ian Duckels in chairing respectively, the Audit and Compensation Committees are much appreciated and the high standards which they have applied in these matters are consistently the subject of comment by our Nomad and other professional advisers.

Considering the nature, scale and geographic diversity of the future portfolio and activities, it has become quite apparent that the present executive team will have to be reinforced and may also have to be restructured. The Company is currently operating at a resource level set when costs were severely pruned several years back. Together with the demands of administering operating projects these additions will inevitably increase the level of fixed overhead as Quadris transitions to a fully commercial business mode.

#### **Business Associates and Partners**

The relationship with AkzoNobel Surface Chemistry AB ("AkzoNobel") has been central to the Group since inception and continues to be constructive and cordial. QIL and AkzoNobel concur that the 2004 Alliance Agreement which guided the relationship to date should be revised to serve effectively in future. There are several areas in which AkzoNobel have advised that they wish to minimise direct responsibilities, and there is a mutual recognition that recent technical progress has been a result of contributions and knowhow of both parties. We have agreed that two new principal contracts should supersede the Alliance Agreement. This process is well underway and should be finalised before 2013 year end.

Key changes to be incorporated are:

- QIL will purchase MMU process plant and equipment independently and directly.
- Joint product formulation and related technical development will continue and ownership of knowhow and IP will be shared.
- AkzoNobel will continue to provide services related to evaluation of candidate refinery residues.

- QIL will become the licensor of the Quadrise MSAR<sup>®</sup> Technology to the refiners.
- QIL will develop its own R&D capability related to new plant technology evaluation and all aspects of the supply/value chain from the process plant, through logistics systems to fuel combustion. Developing this capability has started with the recently opened QIL laboratory facility in S.E. England.

In essence, AkzoNobel will focus on aspects requiring its core skills on the technical side per the new Development Agreement, and will limit its responsibilities to the supply of surfactant packages under the Commercial Agreement. As regards geographic rights to the use of AkzoNobel technology in emulsion fuels manufacture and supply, the intention is to provide QIL with exclusivity worldwide but to link continuity of exclusivity to volume performance.

QIL, on the other hand, becomes sole principal in licensing the technology package to refiners. It will have freedom to modernise MMU designs with manufacturers and vendors to achieve better economics, scale and efficiency. The Company also gains the opportunity to share ownership of jointly developed IP and to undertake its own independent R&D and patent registrations where warranted.

The newly developed association with Nexidea Incorporated has already proven its ability to transition introductions to real commercial prospects, as in the case of Ecopetrol. While there are no near term intentions to expand further the active programme portfolio, Nexidea are investigating opportunities on a selective basis for consideration when the Group has the momentum and resources to take them on.

In the Marine Fuels arena the central 'partnership' has been with Mærsk who have consistently proved to be effective, professional and committed. Their standing in the industry has made possible access to key stakeholders including leading marine engine manufacturers, regulators and marine industry institutions. Mærsk are principally motivated by the prospect of the very material savings on fleet fuel costs. There is every chance that this prospect will be realised in the near future vindicating their considerable efforts and substantial funding contribution.

Rafid, our partners in KSA, have been very instrumental in raising the profile of Quadrise at senior level within Aramco and other key industry, state and private sector organisations in Saudi Arabia. They are constantly active 'in country' in creating opportunities to engage with Aramco and others with a view to defining programmes and executing related commercial contracts.

### **Canadian Developments**

Since restructuring in 2010, the company has directly held all Group equity interests in the independently managed Canadian associate companies. As mentioned earlier, the collective value of these holdings is no longer material in the context of the QFI market capitalisation and they are classified as 'investments held for sale'. The past year has been particularly challenging for the companies concerned and the future appears to be similarly uncertain - though there could be scope for selective realisation of value in the medium term.

#### **Quadrise Canada Corporation ("QCC") 20.4% shareholding**

Following a series of setbacks in 2012, the company faced severe funding pressures and very limited ability to progress the remaining 'value prospects' in its business portfolio. It subsequently became necessary to sell off the only active programme to maintain solvency. The sale of the 'drilling fluids loss control' technology included the QCC laboratory and the transfer of technical staff to the buyer. This left QCC with a portfolio of patents, a joint venture for emulsion fuel manufacture with Petrosonics in Albania and a number of 'business concepts', none of which had then crystallised into active programmes.

QCC has since formalised a joint development programme with a North American oil producer to emulsify heavy crude oil to aid transportation from well-head to refinery. If successful this could have considerable value for both parties and provide a lifeline for QCC. It could also have potential application with similar problematic heavy crudes at a global level.

#### **Optimal Resources Inc. ("ORI") 8.6% shareholding**

ORI shares ownership of a QCC developed Enhanced Oil Recovery ("EOR") technology and has a small oilfield asset on which the technology was 'transitioned' from laboratory to field application.

The results over the past two years were mixed and not sufficiently prospective for the company to raise sufficient funds to continue. In essence, the proprietary EOR technology was not sufficiently 'matured' before the field trial, and the company lacked the capital to fund further development and complete the programme.

ORI has since developed a relationship with Chinese interests who wish to introduce their own proprietary field proven EOR technology into North America. By association with ORI, they gain an understanding and experience of the Canadian upstream oil industry and a fast track to a proving

and demonstration programme in the ORI Lloydminster oil field.

A preliminary agreement is in place and a timetable for the proving programme has been agreed. If successful this could be a lifeline for ORI and restore some value for shareholders. If not, the future will be uncertain.

#### Paxton Corporation ("PC") 3.8% shareholding

Paxton is a specialist services company with access to certain proprietary technologies, some of which involve the use of emulsion fuels. The principal shareholders are the founders of Paramount Oil and Gas, a very large Canadian energy sector independent.

The development of Paxton's business has become closely linked to the adoption of technology owned by Clean Energy Systems - which is itself gaining profile and acceptance, having closed agreements with Mærsk Oil & Gas and others.

Paxton has rights which could lead to significant oil field application opportunities if prospects are converted to contracts. The future is looking quite positive for Paxton and it is hoped that this will progress to a stage where QFI could dispose of its interest to advantage.

#### **Future Outlook**

Progress for Quadrise at this stage is dependent on traction with clients and driving programme implementation, rather than any considerations of the economic climate or oil and gas. It could be argued that economic adversity may be good for the Group as it would force more attention on cost saving and value-adding through low cost technology application.

- The Group has proven MSAR<sup>®</sup> product solutions for the two key market applications - thermal power generation and Marine diesel propulsion engines.
- There appears to be no competitor capable of offering similar "oil in water" emulsion fuels with the proven performance of MSAR<sup>®</sup>.
- Aside from the price advantage relative to conventional fuel oil, there are very material environmental advantages to be gained in all applications - but especially in the Marine market where regulators are driving change through the assured imposition of new compliance standards and obligations.

All of these suggest that conditions are now highly conducive to commercial traction and success. Clearly, we must maintain the current progress in our key programmes. Just one or two high profile successes have the potential for a step change in value and thereby rapidly propel the company.

There are no plans to change the business model in the near term as the Company does not yet have the balance sheet to operate in the more capital intensive "toll processing" or "merchant plant" modes. Any prospect of a step change in funding will be contingent on meeting the investment criteria of large institutional investors, the first of which is "assured continuous revenues" which are now expected to start during 2014.

In all, a stronger foundation has been built over the past year leaving the company well placed to transition to the early commercial phase in 2014. Once this has been accomplished and is visible, the pace of growth thereafter in both existing and new programs could be very rapid.

**Ian Williams**  
Executive Chairman  
4 October 2013

## **Financial Review**

### **Overview**

As noted in the Chairman's Statement and Business Review, considerable progress was achieved during the year in advancing the Group's principal projects towards commercialisation as well as securing new opportunities on a selective basis. The marine fuel programme with Mærsk continues to be the lead project for the Group and is progressing well towards extended vessel trials later this year and a multi-ship programme in early 2014. The Saudi Aramco power generation refuelling programme also remains a prime area of focus for the management, especially given the potential scale of the opportunity within the Kingdom of Saudi Arabia. The management has continued to follow the 'select and focus' strategy during the year and will continue to do so until these principal programmes have progressed to commercial revenues and the carefully selected new opportunities

have gained sufficient momentum towards project implementation.

The Group began the year under review with a treasury of £1.7m. This was bolstered further through a share placing in October 2012, through which an additional £3.5m (before expenses) was raised. The funding requirements of the Group are regularly reviewed by the Board against updated business plans, activities and mode of operation in order to ensure that the Group remains well and appropriately funded to meet the evolving needs of the business as it progresses on its various initiatives.

### **Results for the Year**

The consolidated after-tax loss for the year to 30 June 2013 was £5.0m (2012: £4.2m). This included a charge of £3.2m (2012: £2.4m) for the amortisation and impairment of intangible assets and adjustment to available for sale investments, operational and general administration expenses of £1.9m (2012: £1.9m) and interest income of £17k (2012: £12k).

Basic and diluted loss per share was 0.64p (2012: 0.56p).

### **Statement of Financial Position**

At 30 June 2013, the Group had total assets of £10.3m (2012: £13.8m). The most significant balances were intangible assets of £3.6m (2012: £5.0m), available for sale investments of £2.6m (2012: £6.3m) and cash of £3.2m (2012: £1.7m). Further information on the intangible assets and available for sale investments is provided in notes 14 and 15 to the Group Financial Statements.

### **Cash Flow**

The Group ended the year with £3.2m of cash and cash equivalents (2012: £1.7m), with £1.6m (2012: £1.8m) having been utilised in its operating activities during the year. The Group continues to remain debt free.

### **Capital Structure**

The Company had 772,543,391 ordinary shares of 1p each in issue at 30 June 2013. As announced on 4 October 2012, the Company issued a further 50,000,000 new ordinary shares raising £3.5m (before expenses). The shares placed and issued fell within the authorities granted to the Board under sections 551 and 570 of the Companies Act 2006 at the Annual General Meeting ("AGM") of 12 December 2011. These authorities will be reviewed again at the next AGM, as appropriate. The Company's current issued share capital stands at 772,543,391 ordinary shares of 1p each all with voting rights.

### **Treasury and Financial Risk Management**

Control over treasury and financial risk management is exercised by the Board and its Audit Committee through the setting of policies and the regular review of forecasts and financial exposures. Presently, the Group's financial instruments consist principally of available for sale investments, cash and liquid resources and other items such as accounts receivable and payable, which arise directly from its operations. It is still the Group's policy not to undertake any trading activity in financial instruments, including derivatives.

The principal risks arising from the Group's financial instruments are those associated with interest, liquidity and foreign exchange. The Board reviews and establishes appropriate policies for the management of such risks and monitors them on a regular basis.

### **Taxation**

The Group has tax losses arising in the UK of approximately £33.7m (2012: £30.6m) that are available, under current legislation, to be carried forward against future profits. £7.9m (2012: £7.2m) of the tax losses carried forward represent trading losses within Quadrise Fuels International plc, £23.7m (2012: £22.3m) represent non-trade deficits arising on intangible assets within Quadrise International Limited, £1.2m (2012: £0.7m) represent pre-trading losses incurred by subsidiaries, £0.8m (2012: £0.3m) represent management expenses incurred by Quadrise International Limited, and £0.1m (2012: £0.1m) represent capital losses within Quadrise Fuels International plc. A deferred tax asset of approximately £7.8m (2012: £7.3m) has not, however, been recognised in the financial statements as a result of the uncertainties of its realisation in the foreseeable future.

### **Outlook**

Given the current and forward crude oil and oil products pricing as well as the increasing pressures on emissions control, MSAR<sup>®</sup> emulsion fuel continues to provide a compelling case for change not only in the marine sector but also in large oil-based economies such as Kingdom of Saudi Arabia. This is firmly endorsed and evidenced by the quality and size of the industry players who are

engaged with QFI in the path to commercialisation of its emulsion fuel. Over time, QFI has managed to not only gain the attention and respect of such organisations but also their commitment to support the development programmes, both technically and financially.

Whilst the Board acknowledges that the first revenues from commercial operations are still several months away, the current established programmes with our partners and clients do provide a clearer and certain path to that important milestone. In the meantime, the Board continues to remain firmly committed to effective treasury management and cost control.

**Hemant Thanawala**

Finance Director

4 October 2013

## Consolidated Statement of Comprehensive Income

For the year ended 30 June 2013

	Notes	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
<b>Continuing operations</b>			
Other income	4	75	38
Raw materials, consumables, transportation, tank rental and analysis costs		(112)	(126)
Amortisation of intangible assets	11	(1,368)	(1,368)
Impairment of intangible assets	11	-	(403)
Adjustment to available for sale investments	12	(1,819)	(611)
Other administration expenses		(1,790)	(1,739)
Foreign exchange loss		(1)	(13)
<b>Operating loss</b>	5	<b>(5,015)</b>	(4,222)
Finance costs	6	(5)	(3)
Finance income	7	17	12
<b>Loss before tax</b>		<b>(5,003)</b>	(4,213)
Taxation	8	41	18
<b>Loss for the year from continuing operations</b>		<b>(4,962)</b>	(4,195)
<b>Other Comprehensive Income</b>			
Changes in fair value of available for sale investments	12	(1,874)	(1,334)
<b>Other comprehensive loss for the year net of tax</b>		<b>(1,874)</b>	(1,334)
<b>Total comprehensive loss for the year</b>		<b>(6,836)</b>	(5,529)
Loss for the year attributable to:			
Owners of the Company		(4,890)	(4,082)
Non-controlling interest		(72)	(113)

Total comprehensive loss attributable to:



Owners of the Company		(6,764)	(5,416)
Non-controlling interest		(72)	(113)
<b>Loss per share - pence</b>			
<b>Basic</b>	9	(0.64)p	(0.56)p
<b>Diluted</b>	9	(0.64)p	(0.56)p

Company No. 05267512

**Consolidated Statement of Financial Position**

As at 30 June 2013

	Notes	As at 30 June 2013 £'000	As at 30 June 2012 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	560	529
Intangible assets	11	3,609	4,977
Available for sale investments	12	2,631	6,324
<b>Non-current assets</b>		<b>6,800</b>	<b>11,830</b>
<b>Current assets</b>			
Cash and cash equivalents		3,243	1,657
Trade and other receivables		161	270
Prepayments		79	90
<b>Current assets</b>		<b>3,483</b>	<b>2,017</b>
<b>TOTAL ASSETS</b>		<b>10,283</b>	<b>13,847</b>
<b>Equity and liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		234	171
<b>Current liabilities</b>		<b>234</b>	<b>171</b>
<b>Equity attributable to equity holders of the parent</b>			
Issued share capital		7,725	7,225
Share premium		58,489	55,780
Revaluation reserve		1,221	3,095
Share option reserve		1,134	1,134
Reverse acquisition reserve		522	522
Accumulated losses		(58,793)	(53,903)
<b>Total shareholders' equity</b>		<b>10,298</b>	<b>13,853</b>
<b>Non-controlling interests</b>		<b>(249)</b>	<b>(177)</b>
<b>Total equity interests</b>		<b>10,049</b>	<b>13,676</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>10,283</b>	<b>13,847</b>

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2013

	<u>Attributable to owners of the parent</u>								
	Issued capital £'000s	Share premium £'000s	Revaluation reserve £'000s	Share option reserve £'000s	Reverse acquisition reserve £'000s	Accumulated losses £'000s	Total £'000s	Non- controlling interest £'000s	Total equity £'000s
<b>1 July 2011</b>	7,225	55,780	4,429	1,009	522	(49,821)	19,144	(64)	19,080
Loss for the year	-	-	-	-	-	(4,082)	(4,082)	(113)	(4,195)
Fair value adjustments	-	-	(1,334)	-	-	-	(1,334)	-	(1,334)
Total comprehensive loss for the year	-	-	(1,334)	-	-	(4,082)	(5,416)	(113)	(5,529)
Issuance of share options	-	-	-	125	-	-	125	-	125
<b>30 June 2012</b>	7,225	55,780	3,095	1,134	522	(53,903)	13,853	(177)	13,676
<b>1 July 2012</b>	7,225	55,780	3,095	1,134	522	(53,903)	13,853	(177)	13,676
Loss for the year	-	-	-	-	-	(4,890)	(4,890)	(72)	(4,962)
Fair value adjustments	-	-	(1,874)	-	-	-	(1,874)	-	(1,874)
Total comprehensive loss for the year	-	-	(1,874)	-	-	(4,890)	(6,764)	(72)	(6,836)
New shares issued net of issue costs	500	2,709	-	-	-	-	3,209	-	3,209
<b>30 June 2013</b>	7,725	58,489	1,221	1,134	522	(58,793)	10,298	(249)	10,049

## Consolidated Statement of Cash Flows

For the year ended 30 June 2013

	Notes	Year ended 30 June 2013 £'000	Year ended 30 June 2012 £'000
<b>Operating activities</b>			
Loss before tax from continuing operations		(5,003)	(4,213)
Depreciation	10	23	12
Finance costs	6	5	3
Finance income	7	(17)	(12)
Amortisation of intangible assets	11	1,368	1,368
Impairment of intangible assets	11	-	403
Adjustment to available for sale investments	12	1,819	611
Issuance of Share Options	13	-	125
<b>Working capital adjustments</b>			
Decrease/(increase) in trade and other receivables		109	(75)

Decrease/(increase) in prepayments	11	(45)
Increase in trade and other payables	63	23
<b>Cash utilised in operations</b>	<b>(1,622)</b>	<b>(1,800)</b>
Finance costs	6	(5)
Taxation received	8	41
<b>Net cash outflow from operating activities</b>	<b>(1,586)</b>	<b>(1,785)</b>
<b>Investing activities</b>		
Finance income	7	17
Purchase of property, plant and equipment	10	(54)
<b>Net cash outflow from investing activities</b>	<b>(37)</b>	<b>(520)</b>
<b>Financing activities</b>		
Issue of Ordinary share capital	3,209	-
<b>Net cash inflow from financing activities</b>	<b>3,209</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,586</b>	<b>(2,305)</b>
Cash and cash equivalents at the beginning of the year	1,657	3,962
<b>Cash and cash equivalents at the end of the year</b>	<b>3,243</b>	<b>1,657</b>

## Notes to the Financial Information

### 1. Basis of Preparation and Significant Accounting Policies

The financial information for the year ended 30 June 2013 set out in this announcement has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

The financial information has been prepared on the historical cost basis, except for the revaluation of certain financial instruments. Details of the accounting policies applied are set out in the financial statements for the year ended 30 June 2013.

The financial information is prepared in Pounds Sterling and all values are rounded to the nearest thousand Pounds (£'000) except where otherwise indicated.

The financial information does not constitute the Company's statutory financial statements for the year ended 30 June 2013 but has been extracted from them. These financial statements will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor's report on these financial statements was unqualified and did not contain any statement under section 498(2) or (3) Companies Act 2006.

Statutory financial statements for the year ended 30 June 2012 have been delivered to the Registrar of Companies. The auditor's report on these financial statements was unqualified and did not contain any statement under section 498(2) or (3) Companies Act 2006.

The Directors do not propose a dividend in respect of the year ended 30 June 2013 (2012: nil).

This announcement was approved by the Board on 4 October 2013.

### 2. Going Concern

The Group's business activities and financial position, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement.

The Directors have carried out a detailed assessment of going concern as part of the financial reporting process, taking into consideration a number of matters including forecast cash flows,

medium term business plans and expectations over timing of future revenues and realisability of investments.

On the basis of this assessment, the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

### 3. Segmental Information

For the purpose of segmental information the reportable operating segment is determined to be the business segment. The Group principally has two business segments, the results of which are regularly reviewed by the Board:

- A business to produce emulsion fuel (or supply the associated technology to third parties) as a low cost substitute for conventional heavy fuel oil ("HFO") for use in power generation plants and industrial and marine diesel engines.
- The holding of a portfolio of non-managed interests, comprising the Available for Sale Investments discussed in note 12.

Information regarding the results of each reportable segment is as follows:

#### Business Segments

Year ended 30 June 2013	Emulsion fuel £'000s	Non-managed interests £'000s	Total £'000s
<b>Revenue - sale to external customers</b>	-	-	-
<b>Segment result</b>	<b>(2,257)</b>	<b>(2,253)</b>	<b>(4,510)</b>
Unallocated net corporate expenses			(508)
Operating loss			(5,018)
Finance costs			(2)
Finance income			17
Loss before tax			(5,003)
Taxation			41
<b>Loss for the year from continuing operations</b>			<b>4,962</b>
<b>As at 30 June 2013</b>	<b>Emulsion fuel £'000s</b>	<b>Non-managed interests £'000s</b>	<b>Total £'000s</b>
<b>Assets and liabilities</b>			
Segment assets	6,020	2,631	8,651
Unallocated corporate assets			1,632
<b>Total assets</b>			<b>10,283</b>
Segment liabilities	163	-	163
Unallocated corporate liabilities			71
<b>Total liabilities</b>			<b>234</b>
<b>Other segment information</b>			
Amortisation of intangible assets	1,368	-	1,368
Impairment of intangible assets	-	-	-
<b>Year ended 30 June 2012</b>	<b>Emulsion fuel £'000s</b>	<b>Non-managed interests £'000s</b>	<b>Total £'000s</b>
<b>Revenue - sale to external customers</b>	-	-	-
<b>Segment result</b>	<b>(2,688)</b>	<b>(920)</b>	<b>(3,608)</b>
Unallocated net corporate expenses			(614)
Operating loss			(4,222)
Finance costs			(3)
Finance income			12
Loss before tax			(4,213)
Taxation			18
<b>Loss for the year from continuing operations</b>			<b>(4,195)</b>

<b>As at 30 June 2012</b>	<b>Emulsion fuel £'000s</b>	<b>Non-managed interests £'000s</b>	<b>Total £'000s</b>
<b>Assets and liabilities</b>			
Segment assets	6,164	6,324	12,488
Unallocated corporate assets			1,359
<b>Total assets</b>			<b>13,847</b>
Segment liabilities	72	-	72
Unallocated corporate liabilities			99
<b>Total liabilities</b>			<b>171</b>
<b>Other segment information</b>			
Amortisation of intangible assets	1,368	-	1,368
Impairment of intangible assets	403	-	403

#### Geographical Segments

The Group's main geographical segments during the year were Europe and Canada. The following table presents certain asset information regarding the Group's geographical segments.

	<b>30 June 2013 £'000s</b>	30 June 2012 £'000s
<b>Non-current assets</b>		
Europe	4,169	5,506
Canada	2,631	6,324
<b>Total</b>	<b>6,800</b>	<b>11,830</b>

#### 4. Other Income

	<b>Year ended 30 June 2013 £'000s</b>	Year ended 30 June 2012 £'000s
Other income includes:		
Recoverable costs recharged to related parties	54	38
Other recoverable costs recharged	21	-
<b>Total</b>	<b>75</b>	<b>38</b>

#### 5. Operating Loss

	<b>Year ended 30 June 2013 £'000s</b>	Year ended 30 June 2012 £'000s
Operating loss is stated after charging:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts.		
Fees payable to the Company's auditor and its associates for other services:	35	31
Tax services	5	13
Advisory services	-	-
Consultants and other professional fees (including legal)	242	208
Depreciation of property, plant and equipment	23	12
Amortisation of intangible assets	1,368	1,368
Impairment of intangible assets	-	403

#### 6. Finance Costs

	<b>Year ended 30 June 2013 £'000s</b>	Year ended 30 June 2012 £'000s
Bank charges	5	3
<b>Total</b>	<b>5</b>	<b>3</b>

#### 7. Finance Income

All finance income recognised during the current and prior year has arisen from interest on bank deposits and loans.

#### 8. Taxation

	Year ended 30 June 2013 £'000s	Year ended 30 June 2012 £'000s
UK corporation tax credit	(41)	(18)
<b>Total</b>	<b>(41)</b>	<b>(18)</b>

No liability in respect of corporation tax arises as a result of trading losses.

	Year ended 30 June 2013 £'000s	Year ended 30 June 2012 £'000s
<b>Tax Reconciliation</b>		
Loss on continuing operations before taxation	(5,003)	(4,213)
Loss on continuing operations before taxation multiplied by the UK corporation tax rate of 23.75% (2012: 25.5%)	(1,188)	(1,074)
Effects of:		
Impairment of available for sale investments	432	156
R&D tax credit	(41)	(18)
Tax losses carried forward	756	918
<b>Total taxation credit on loss from continuing operations</b>	<b>(41)</b>	<b>(18)</b>

The Group has tax losses arising in the UK of approximately £33.7m (2012: £30.6m) that are available, under current legislation, to be carried forward against future profits. £7.9m (2012: £7.2m) of the tax losses carried forward represent trading losses within Quadrise Fuels International plc, £23.7m (2012: £22.3m) represent non-trade deficits arising on intangible assets within Quadrise International Limited, £1.2m (2012: £0.7m) represent pre-trading losses incurred by subsidiaries, £0.8m (2012: £0.3m) represent management expenses incurred by Quadrise International Limited, and £0.1m (2012: £0.1m) represent capital losses within Quadrise Fuels International plc.

A deferred tax asset representing these losses and other timing differences at the statement of financial position date of approximately £7.8m (2012: £7.3m) has not been recognised as a result of existing uncertainties in relation to its realisation.

## 9. Loss Per Share

The calculation of loss per share is based on the following loss and number of shares:

	Year ended 30 June 2013	Year ended 30 June 2012
Loss for the year (£'000s)	(4,890)	(4,082)
Weighted average number of shares:		
Basic	758,844,761	722,543,391
Diluted	758,844,761	722,543,391
Loss per share:		
<b>Basic</b>	<b>(0.64)p</b>	<b>(0.56)p</b>
<b>Diluted</b>	<b>(0.64)p</b>	<b>(0.56)p</b>

Basic loss per share is calculated by dividing the loss for the year from continuing operations of the Group by the weighted average number of ordinary shares in issue during the year.

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive options over ordinary shares. Potential ordinary shares resulting from the exercise of share options have an anti-dilutive effect due to the Group being in a loss position. As a result, diluted loss per share is disclosed as the same value as basic loss per share. The 7.5m dilutive share options issued by the Company and which are outstanding at year-end could potentially dilute earnings per share in the future if exercised when the Group is in a profit making position.

## 10. Property, plant and equipment

### Consolidated

	Leasehold Improvements £'000s	Computer Equipment £'000s	Software £'000s	Office Equipment £'000s	Plant and machinery £'000s	Total £'000s
<b>Cost</b>						
Opening balance - 1 July 2012	17	14	13	9	488	541

Additions	-	-	4	7	43	54
<b>Closing balance - 30 June 2013</b>	<b>17</b>	<b>14</b>	<b>17</b>	<b>16</b>	<b>531</b>	<b>595</b>
<b>Depreciation</b>						
Opening balance - 1 July 2012	(5)	(1)	(1)	-	(5)	(12)
Depreciation charge for the year	(7)	(3)	(4)	(3)	(6)	(23)
<b>Closing balance - 30 June 2013</b>	<b>(12)</b>	<b>(4)</b>	<b>(5)</b>	<b>(3)</b>	<b>(11)</b>	<b>(35)</b>
<b>Net book value at 30 June 2013</b>	<b>5</b>	<b>10</b>	<b>12</b>	<b>13</b>	<b>520</b>	<b>560</b>

**Consolidated**

	<b>Leasehold Improvements £'000s</b>	<b>Computer Equipment £'000s</b>	<b>Software £'000s</b>	<b>Office Equipment £'000s</b>	<b>Plant and machinery £'000s</b>	<b>Total £'000s</b>
<b>Cost</b>						
Opening balance - 1 July 2011	-	-	-	-	9	9
Additions	17	14	13	9	479	532
<b>Closing balance - 30 June 2012</b>	<b>17</b>	<b>14</b>	<b>13</b>	<b>9</b>	<b>488</b>	<b>541</b>
<b>Depreciation</b>						
Opening balance - 1 July 2011	-	-	-	-	-	-
Depreciation charge for the year	(5)	(1)	(1)	-	(5)	(12)
<b>Closing balance - 30 June 2012</b>	<b>(5)</b>	<b>(1)</b>	<b>(1)</b>	<b>-</b>	<b>(5)</b>	<b>(12)</b>
<b>Net book value at 30 June 2012</b>	<b>12</b>	<b>13</b>	<b>12</b>	<b>9</b>	<b>483</b>	<b>529</b>

**11. Intangible Assets****Consolidated**

	<b>QCC royalty payments £'000s</b>	<b>MSAR<sup>®</sup> trade name £'000s</b>	<b>Technology and know-how £'000s</b>	<b>Total £'000s</b>
<b>Cost</b>				
Opening balance - 1 July 2012	7,686	3,100	25,901	36,687
Additions	-	-	-	-
<b>Closing balance - 30 June 2013</b>	<b>7,686</b>	<b>3,100</b>	<b>25,901</b>	<b>36,687</b>
<b>Amortisation and Impairment</b>				
Opening balance - 1 July 2012	(7,686)	(176)	(23,848)	(31,710)
Amortisation	-	-	(1,368)	(1,368)
Impairment	-	-	-	-
<b>Closing balance - 30 June 2013</b>	<b>(7,686)</b>	<b>(176)</b>	<b>(25,216)</b>	<b>(33,078)</b>
<b>Net book value at 30 June 2013</b>	<b>-</b>	<b>2,924</b>	<b>685</b>	<b>3,609</b>

**Consolidated**

	<b>QCC royalty payments £'000s</b>	<b>MSAR<sup>®</sup> trade name £'000s</b>	<b>Technology and know-how £'000s</b>	<b>Total £'000s</b>
<b>Cost</b>				
Opening balance - 1 July 2011	7,686	3,100	25,901	36,687
Additions	-	-	-	-
<b>Closing balance - 30 June 2012</b>	<b>7,686</b>	<b>3,100</b>	<b>25,901</b>	<b>36,687</b>

**Amortisation and**

<b>Impairment</b>				
Opening balance - 1 July 2011	(7,283)	(176)	(22,480)	(29,939)
Amortisation	-	-	(1,368)	(1,368)
Impairment	(403)	-	-	(403)
<b>Closing balance - 30 June 2012</b>	<b>(7,686)</b>	<b>(176)</b>	<b>(23,848)</b>	<b>(31,710)</b>
<b>Net book value at 30 June 2012</b>				
	-	2,924	2,053	4,977

Intangible assets comprise intellectual property with a cost of £36.7m, including assets of finite and indefinite life. QCC's royalty payments of £7.7m and the MSAR<sup>®</sup> trade name of £3.1m are termed as assets having indefinite life as it is assessed that there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the Group. The assets with indefinite life are not amortised. The remaining intangibles amounting to £25.9m, primarily made up of technology and know-how, are considered as finite assets and amortised over 93 months. The Group does not have any internally generated intangibles.

The Board has reviewed the accounting policy and has amortised those assets which have a finite life as indicated in note 2.9. As a consequence a non-cash charge of £1.368m (2012: £1.368m) has been recognised in the statement of comprehensive income during the year.

The Group tests intangible assets annually for impairment, or more frequently if there are indications that they might be impaired. The recoverable amount of intangible assets is determined based on a value in use calculation using cash flow forecasts derived from the most recent financial model information available. These cash flow forecasts extend to the year 2028 to ensure the full benefit of all current projects is realised. The key assumptions used in these calculations include discount rates, turnover projections, growth rates, joint venture participation expectations and expected gross margins. Management estimates the discount rates using pre-tax rates that reflect current market assessments of the time value of money and risks specific to expected future projects.

For the MSAR<sup>®</sup> trade name and technology and know-how intangible, the growth rate used for the extrapolation of cash flows beyond budgeted projections is 2.5% (2012: 2.5%) and the pre-tax discount rate applied to the cash flow projections is 12% (2012: 12%).

A 5% increase in the discount rate used would result in no impairment charge for the MSAR<sup>®</sup> trade name intangible asset or the Technology and know-how intangible asset. A 5% decrease in the discount rate used would also result in no impairment charge.

#### Amortisation of Intangible Assets

The Board has reviewed the accounting policy for intangible assets and has amortised those assets which have a finite life. A key asset that fits this description is the combination of rights secured under the current AkzoNobel Alliance Agreement, together with other unpatented technologies, industry know-how and trade secrets, which drive the principal business case for Quadris. Under the current arrangement, AkzoNobel or Quadris could effectively terminate, at 12 months notice, the AkzoNobel Alliance Agreement at any time after 20 December 2013. The Alliance Agreement is currently in the process of being replaced by two principal contracts, dealing respectively with commercial matters and joint research and technology development. This intended change, which will set the basis for a close and enduring future association, is substantially advanced and is expected to be finalised before year end 2013. At 30 June 2013, the remaining amortisation period for this intangible asset was 6 months. The amortisation of this intangible has resulted in a non-cash charge of £1,368k (2012: £1,368k) to the statement of comprehensive income for the year ended 30 June 2013.

#### 12. Available for Sale Investments

	<b>Consolidated 30 June 2013 £'000s</b>	<b>Consolidated 30 June 2012 £'000s</b>
<b>Unquoted securities</b>		
Opening balance	6,324	8,269
Changes in fair value	(1,874)	(1,334)
Impairment charge	(1,819)	(611)
<b>Closing balance</b>	<b>2,631</b>	<b>6,324</b>

Unquoted securities represent the Group's investment in Quadris Canada Corporation ("QCC"), Paxton Corporation ("Paxton"), Optimal Resources Inc. ("ORI") and Porient Fuels Corporation ("Porient"), all of which are incorporated in Canada.

At the statement of financial position date, the Group held a 20.44% share in the ordinary issued capital of QCC, a 3.75% share in the ordinary issued capital of Paxton, a 9.54% share in the ordinary issued capital of ORI and a 16.86% share in the ordinary issued capital of Porient.



QCC is independent of the Group and is responsible for its own policy-making decisions. There have been no material transactions between QCC and the Group during the year or any interchange of managerial personnel. As a result, the Directors do not consider that they have significant influence over QCC and as such this investment is not accounted for as an associate. Furthermore, QCC share options and warrants in issue at the statement of financial position date result in the Group having an effective diluted holding in QCC of 20.52%.

The Group has no immediate intention to dispose of its available for sale investments unless a beneficial opportunity to realise these investments arises.

Given that there is no active market in the shares of any of above companies, the Directors have determined the fair value of the unquoted securities at 30 June 2013. In this regard, the Directors considered other factors such as past equity placing pricing and assessment of risked net present value of the enterprises to arrive at their conclusion on any impairment for all of the unquoted securities.

The QCC shares were valued at CAD\$0.96 on 1 July 2012. Shareholder communications received during the period to 30 June 2013 indicate that the current business model of QCC remains uncertain, and therefore it is still appropriate to base the fair value of QCC on a discounted net asset basis, in order to determine whether there has been any material impairment to the carrying value of QCC shares as at 30 June 2013.

Using the discount net asset basis, the value per share as at 30 June 2013 has been calculated at CAD\$0.41, indicating a material movement from the current carrying value of CAD\$0.96 per share. The Directors have therefore concluded that the 3,682,500 QCC shares held at 30 June 2013 should be valued at CAD\$0.41 per share, resulting in a charge of £1.3m. The total valuation of the 3,682,500 shares held in QCC as at 30 June 2013 is £928,000.

The Paxton shares were valued at CAD\$4.00 per share as at 1 July 2012. Shareholder communications received since 1 July 2012 show that Paxton continues to make progress in its business activities and there is therefore no indication of impairment in this investment. Based on this, the Directors have concluded that the value of CAD\$4.00 per share continues to reflect the fair value of the 652,874 shares held in Paxton as at 30 June 2013. The total value of the Paxton investment as at 30 June 2013 is £1.62m.

ORI has a dual business model, whereby it acts as a Junior Oil Company - to secure an equity share in associated extended recoverable proven oil reserves, and a Service Provider - to provide EOR technology services to other oil producers. Due to the fall in the price of Canadian crude oil during the period, the long term viability of ORI's Service Provider business has been placed into doubt. As a result of this, the Directors have determined that ORI should now be valued on a discounted net asset basis. The Directors have concluded that the 5,682,500 shares in ORI should be valued at CAD\$0.02 per share, resulting in an impairment of CAD\$0.67 per share. This results in an impairment charge of £2.4m and a revised valuation of ORI as at 30 June 2013 of £79,000.

The Porient shares were received by the Group on 8 June 2010 for no consideration. As Porient was then in its very early stages of development and was yet to be defined into a business with active projects, it had very little market presence or value. Based on this, the Directors concluded that the investment should be fair valued on acquisition to its nominal value of CAD\$0.001 per share. As Porient is still in the early stages of its development, the Directors have concluded that the investment should continue to be valued at CAD\$0.001 per share. The total value of the Porient investment as at 30 June 2013 is £2,000.

### 13. Share Options

#### Movement in the year:

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year:

	Number 30 June 2013	WAEP (pence) 30 June 2013	Number 30 June 2012	WAEP (pence) 30 June 2012
Outstanding as at 1 July	34,750,000	7.16	38,150,000	8.20
Granted during the year	-	-	2,000,000	0.0001
Expired during the year	(4,750,000)	19.09	(4,400,000)	16.36
Exercised during the year	-	-	(1,000,000)	0.01
<b>Options outstanding as at 30 June</b>	<b>30,000,000</b>	<b>5.27</b>	<b>34,750,000</b>	<b>7.16</b>
Exercisable as at 30 June	30,000,000	5.27	34,750,000	7.16

The weighted average remaining contractual life of the 30 million options outstanding at the statement of financial position date is 3.6 years (2012: 4.0 years). The weighted average share price during the year was 10.96p (2012: 6.39p) per share.

The expected volatility of the options reflects the assumption that historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The expected life of the options

is based on historical data available at the time of the option issue and is not necessarily indicative of future trends, which may not necessarily be the actual outcome.

The Share Option Scheme is an equity settled plan and fair value is measured at the grant date of the option.

#### **14. Related Party Transactions**

Non-executive Director Laurence Mutch is also a Director of Laurie Mutch & Associates Limited, which has provided consulting services to the Group. The total fees charged for the year amounted to £75k (2012: £66k), out of which £39k (2012: £28k) was for consulting services and £36k (2012: £36k) for non-executive Director fees. The balance payable at the statement of financial position date was £14k (2012: £17k).

Ian Duckels is also a Director of Ritoil Associates Limited, which has provided non-executive director services to the Group. The total fees charged for the year related to non-executive Director fees and amounted to £23k (2012: £23k), with a balance of £5k (2012: £7k) payable at the statement of financial position date.

QFI defines key management personnel as the Directors of the Company. There are no transactions with Directors, other than their remuneration as disclosed in the Report of Directors' Remuneration.

#### **15. Copies of the Annual Report**

Copies of the annual report will be available shortly on the Company's website at [www.quadrisefuels.com](http://www.quadrisefuels.com) and from the Company's registered office, Parnell House, 25 Wilton Road, London SW1V 1YD.

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