



Interim report Q1 2016

**AQUALIS**

## HIGHLIGHT AND KEY FIGURES Q1 2016

### HIGHLIGHTS

- Revenues of USD 6.9 million in Q1 2016 vs USD 11.4 million in Q1 2015
- Operating loss (EBIT) of USD 1.5 million in Q1 2016 vs EBIT of USD 0.5 million in Q1 2015
- The results have been hurt by weaker than expected market conditions in the oil and gas market and a consequently too low billing ratio. The trading conditions improved in March
- Capacity and cost adjustments continue to take effect and being implemented across the group
- Increased market push to secure new contracts/new clients with some good results
- Strengthened market position within offshore wind market with 6 month outlook
- Seasonal slowdown for ADLER Solar in the winter months but with positive 2016 outlook
- Order back-log of USD 10.5 million vs USD 17.1 million a year earlier
- Closing cash balance of USD 13.2 million vs USD 14.9 million a quarter earlier
- Continued solid HSE performance, no lost time incidents during the quarter
- 193 employees<sup>1</sup> vs 220 a quarter earlier

*"The O&G market started the year slower and weaker than we expected, particularly in January and February, but we have been encouraged by the recent numbers of small consultancy opportunities that we are identifying and winning in this tight market" says Mr David Wells, CEO of Aqualis ASA. "Being adaptive and having the ability to respond quickly to market changes is the key going forwards given that opportunities are becoming increasingly competitive. Year 2016 is going to be challenging for the whole industry but there are some exciting opportunities. By contrast the markets for offshore renewables and solar have started the year firmly justifying our decision not to rely on a single market"*

<i>Amount in USD thousands (except shares, employees, backlog)</i>	<b>Q1 16</b>	<b>Q1 15</b>	<b>FY 2015</b>
<b>FINANCIAL</b>			
Total revenues	6 860	11 359	40 998
Operating profit (loss) (EBIT)	(1 521)	518	(2 908)
Operating profit (EBIT) adjusted <sup>(2)</sup>	(1 521)	1 060	(1 487)
Profit (loss) after taxes	(2 358)	1 421	(2 198)
Profit after taxes adjusted <sup>(2)</sup>	(2 358)	1 421	(777)
Basic earnings per share (USD)	(0.05)	0.03	(0.05)
Average number of outstanding shares (thousands)	43 119	43 191	43 337
Cash and cash equivalents	13 171	20 534	14 864
<b>OPERATIONAL</b>			
Order backlog (USD million)	10.5	17.1	10.7
Employees <sup>(1)</sup>	193	222	220

(1) Includes contractors on 100% equivalent basis

(2) Figures excluding impairment of goodwill of USD 1.4 million in FY 2015

## FIRST QUARTER 2016 GROUP REVIEW

(Figures in brackets represents same period prior year or balance sheet date 2015. Certain comparative figures have been reclassified to conform to the presentation adopted for the current period).

### Group results

**Total operating revenues** decreased by 40% to USD 6.9 million (USD 11.4 million). The decrease in revenues is due to the weaker market conditions in the oil and gas sector, a reduced portfolio of construction monitoring work, reduced staff numbers and low billing ratio.

**Operating expenses** decreased by 23% to USD 8.3 million (USD 10.8 million). The operating expenses are reduced due to the lower activity level, the capacity and cost adjustments made in Q4 2015 starting to take effect and ongoing steps to align cost base and capacities with market conditions.

**EBIT** amounted to a loss of USD 1.5 million (profit of USD 0.5 million). Underperforming group entities are proceeding with steps to adjust the capacity and cost base to service the weakened market conditions. Furthermore, the group is taking steps to reduce overhead costs.

**Results from associated companies** amounted to a loss of USD 0.1 million and relates to the investment in ADLER Solar. The loss in ADLER Solar is mainly due to seasonal slowdown in the winter months (temperature driven) as outlook for the remainder of 2016 is good.

**Net currency loss** was USD 0.8 million (gain of USD 1.0 million) mainly represents unrealised losses on revaluation of USD bank accounts.

**Loss after taxes for the period** of USD 2.4 million (profit of USD 1.4 million).

### Financial position and liquidity

At 31 March 2016, cash balance amounted to USD 13.2 million. This compares with USD 14.9 million as of 31 December 2015. The decrease in the cash balance is mainly due to the operating loss of USD 1.5 million. The company has no interest bearing debt.

### Order backlog

The order backlog at the end of Q1 2016 was USD 10.5 million (USD 10.7 million in Q4 2015). Strong market push has been implemented to win new contracts and clients. Services are shifting towards "call out contracts" which are driven by day-to-day operational requirements and not included in order backlog.

### Organisation

At end of Q1 2016, Aqualis had 193 employees (full time equivalents, including contractors on 100% equivalent basis), down from 220 at the end of Q4 2015. The decrease in staffing levels during Q1 is due to the reduced use of subcontractors, the rationalization of the

engineering departments in Dubai/Houston and the downsizing of the office in Rio.

Ongoing capacity adjustments will take effect in the following quarters to improve the billing ratio. Resource availability is not an issue in the current market with a surplus of experienced people actively seeking work.

### Health, safety and environment

Aqualis' HSEQ management system provides the framework to manage all aspects of our business. The management system is designed to ensure compliance with regulatory requirements, identify and manage risks and to drive continuous improvement in HSEQ performance. Aqualis has logged over 0.8 million man-hours without a lost time incident (LTI) since its incorporation.

### Market update

#### Oil and gas market

The activity level in the O&G market remains weak and most clients are under pressure to reduce both costs and headcount, many with their assets being stacked and off contract. The service industry as a whole is increasingly competitive.

All regions are experiencing softened market conditions in Q1 2016. The demand in the North Sea have been especially weak in the quarter and the operations in Norway have been challenging.

Most of Aqualis' service lines have experienced lower demand, especially within Dynamic Positioning and Construction Monitoring. Bidding levels on smaller jobs, particularly within marine sectors, have strengthened. The market for new large engineering and construction related opportunities remains weak.

Our key strategy in Q1 2016 has been to focus on supporting our clients with their day-to-day offshore operations as capex related opportunities weaken, and to expand into other market niches.

### Renewables

OWC's market position has strengthened in a tightened market and it is continuing to build and expand its client base.

Demand for ADLER Solar's services is typically weaker in the winter months, due to cold weather restrictions, which make on-site work difficult. PV market in UK slowed down in Q1 2016 due to reduction in feed-in tariffs whilst there has been increasing interest for O&M services in Japan.

### Outlook

Aqualis will continue to focus on further improving the billing rate, increasing efficiencies and aligning the cost base to the market conditions to drive improved profitability. Aqualis will continue to monitor possible

structural / add-on opportunities to enhance shareholder value

Aqualis' target to break even EBIT in Q2 2016 and achieve positive EBIT in 2H 2016 subject to current market outlook.

### **Oil and gas market**

The overall demand from the oil and gas market is expected to continue to be weak due to the low oil price and reduced capex. There are variations among regions. Outlook for the American and European markets is weak and we expect Aqualis' entities in these regions to continue to face challenging market conditions. The Middle East and Far East markets are anticipated to remain more active, especially within marine related business lines.

Strong project execution, adaptability, responsiveness, with our positive client feedback and a broadening of the client base provides a strong foundation for developing Aqualis market growth.

### **Renewables**

Offshore wind market in Northern Europe has a reasonable project pipeline predicted through to 2020. Further ahead, market potential will be explored in other areas including China, Taiwan and Thailand.

Solar industry analysts expect global PV demand in 2016 to grow by around 20%. Market demand for ADLER Solar's services has historically been strong during the spring and summer months in Germany and should continue to grow as the installed solar farms age.

Oslo, 25 April 2016

The Board of Directors of  
Aqualis ASA

## Condensed interim Financial Statements Q1 2016

### Consolidated Statement of Income

<i>Amounts in USD thousands</i>	<b>Note</b>	<b>Q1 16</b>	<b>Q1 15</b>	<b>FY 2015</b>
Revenues	5	6 860	11 359	40 998
<b>Total revenues</b>		<b>6 860</b>	<b>11 359</b>	<b>40 998</b>
Payroll and payroll related expenses		(5 652)	(6 172)	(23 717)
Depreciation, amortisation and impairment	6	(72)	(247)	(2 027)
Other operating expenses		(2 578)	(4 422)	(17 965)
<b>Total operating expenses</b>		<b>(8 302)</b>	<b>(10 841)</b>	<b>(43 709)</b>
Share of net profit (loss) from associates	7	(79)	-	(197)
<b>Operating profit (loss) (EBIT)</b>	5	<b>(1 521)</b>	<b>518</b>	<b>(2 908)</b>
Finance income		11	9	28
Finance expenses		-	(2)	(45)
Net foreign exchange gain (loss)	4	(831)	1 036	1 419
<b>Profit (loss) before taxes</b>		<b>(2 341)</b>	<b>1 561</b>	<b>(1 506)</b>
Income tax expenses		(17)	(140)	(692)
<b>Profit (loss) after taxes</b>		<b>(2 358)</b>	<b>1 421</b>	<b>(2 198)</b>

### Consolidated Statement of other Comprehensive Income

<i>Amounts in USD thousands</i>	<b>Note</b>	<b>Q1 16</b>	<b>Q1 15</b>	<b>FY 2015</b>
<b>Profit (loss) after taxes</b>		<b>(2 358)</b>	<b>1 421</b>	<b>(2 198)</b>
<b>Other comprehensive income</b>				
Currency translation differences		1 485	(4 197)	(4 543)
Income tax effect		-	-	(587)
<b>Total comprehensive income</b>		<b>(873)</b>	<b>(2 776)</b>	<b>(7 328)</b>
<b>Attributable to:</b>				
Equity holders of the parent company		(873)	(2 776)	(7 328)
Non-controlling interests		-	-	-
<b>Earnings per share (USD): basic and diluted</b>		<b>(0.05)</b>	<b>0.03</b>	<b>(0.05)</b>

## Condensed interim Financial Statements Q1 2016

### Consolidated Statement of Financial Position

<i>Amounts in USD thousands</i>	<b>Note</b>	<b>31.03.2016</b>	<b>31.12.2015</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Equipment		311	371
Investment in associates	7	3 431	3 283
Deferred tax assets		15	14
Intangible assets	6	17 646	17 119
<b>Total non-current assets</b>		<b>21 403</b>	<b>20 787</b>
<b>Current assets</b>			
Trade receivables		6 835	7 667
Other receivables		2 821	2 876
Cash and cash equivalents	4	13 171	14 864
<b>Total current assets</b>		<b>22 827</b>	<b>25 407</b>
<b>Total assets</b>		<b>44 230</b>	<b>46 194</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		705	705
Treasury shares		(15)	-
Share premium		47 344	47 344
Other paid in capital		472	432
Retained earnings		(12 045)	(10 819)
<b>Total equity</b>		<b>36 461</b>	<b>37 662</b>
<b>Non-current liabilities</b>			
Deferred tax liability		626	587
<b>Total non-current liabilities</b>		<b>626</b>	<b>587</b>
<b>Current liabilities</b>			
Trade payables		793	1 128
Income tax payable		606	586
Other current liabilities		5 744	6 231
<b>Total current liabilities</b>		<b>7 143</b>	<b>7 945</b>
<b>Total liabilities</b>		<b>7 769</b>	<b>8 532</b>
<b>Total equity and liabilities</b>		<b>44 230</b>	<b>46 194</b>

## Condensed interim Financial Statements Q1 2016

### Consolidated Cash Flow Statement

<i>Amounts in USD thousands</i>	Note	Q1 16	Q1 15	FY 2015
<b>Cash flow from operating activities</b>				
Profit (loss) before taxes		(2 341)	1 561	(1 506)
<b>Non-cash adjustment to reconcile profit before tax to cash flow:</b>				
Estimated value of employee share options		40	56	254
Depreciation, amortisation and impairment		72	247	2 027
Share of net loss from associates	7	79	-	197
Changes in working capital:				
Changes in trade receivables and trade creditors		497	(2 713)	(2 537)
Changes in other receivables and other current liabilities		(373)	918	693
Proceeds on realisation of customer contract		-	421	421
Interest received		(3)	(5)	(16)
Income tax paid		(17)	(17)	(142)
Effects related to currency unrealised		580	(962)	(1 646)
<b>Cash flow (used in)/from operating activities</b>		<b>(1 466)</b>	<b>(494)</b>	<b>(2 255)</b>
<b>Cash flow from investing activities</b>				
Purchase of equipment		(4)	(122)	(293)
Interest received		3	5	16
Acquisition of associate		-	-	(3 480)
<b>Cash flow (used in)/from investing activities</b>		<b>(1)</b>	<b>(117)</b>	<b>(3 757)</b>
<b>Cash flow from financing activities</b>				
Purchase of treasury shares		(368)	-	-
Proceeds from share issue		-	-	289
<b>Cash flow (used in)/from financing activities</b>		<b>(368)</b>	<b>-</b>	<b>289</b>
<b>Net change in cash and cash equivalents</b>		<b>(1 835)</b>	<b>(611)</b>	<b>(5 723)</b>
Cash and cash equivalents beginning period		14 864	21 790	21 790
Effect of movements in exchange rates		142	(645)	(1 203)
<b>Cash and cash equivalents end period</b>		<b>13 171</b>	<b>20 534</b>	<b>14 864</b>

## Condensed interim Financial Statements Q1 2016

### Statement of Changes in Equity

<i>Amounts in USD thousands</i>	<b>Share capital</b>	<b>Treasury shares</b>	<b>Share premium</b>	<b>Other paid in capital</b>	<b>Retained earnings</b>	<b>Foreign currency translation reserve</b>	<b>Total equity</b>
Equity at 01.01.2016	705	-	47 344	432	3 145	(13 964)	37 662
Profit (loss) after taxes	-	-	-	-	(2 358)	-	(2 358)
Foreign currency translation reserve	-	-	-	-	-	1 485	1 485
Purchase of treasury shares	-	(15)	-	-	(353)	-	(368)
Share-based payment	-	-	-	40	-	-	40
<b>Equity at 31.03.2016</b>	<b>705</b>	<b>(15)</b>	<b>47 344</b>	<b>472</b>	<b>434</b>	<b>(12 479)</b>	<b>36 461</b>



## Notes to the interim Financial Statements

### Note 1: General information

Aqualis ASA ("the Company") is a Norwegian public limited liability company. The Company was established when the owners of Weifa ASA established it as a fully owned subsidiary and transferred the offshore business from Weifa ASA to this new company. The transfer of business within the group did not result in any change of economic substance and it is therefore not considered a business combination. Accordingly, the consolidated interim financial statements of Aqualis ASA are a continuation of the group values transferred from Weifa ASA in the spin-off of the marine and offshore business.

Weifa ASA transferred 100 percent of the shares in the subsidiaries Aqualis Offshore Ltd, Tristein AS and Offshore Wind Consultants Ltd to Aqualis ASA on the 24 July 2014. The ownership of the subsidiaries and the related excess values from the acquisitions of the subsidiaries are consequently continued in the group interim financial statement of Aqualis ASA.

The shares of the Company was listed on Oslo Stock Exchange on 13 August 2014. The Company and its subsidiaries (together the Aqualis Group/the Group) is a public company that offers energy consultancy services to the oil and gas, wind and solar sectors globally. The group, including associates employs experienced consultants across 22 offices in 15 countries worldwide.

### Note 2: Basis of preparations and statements

#### Basis for preparation

The financial statements are presented in USD, rounded to the nearest thousand, unless otherwise stated. As a result of rounding adjustments, the figures in one or more row or column included in the financial statements and notes may not add up to the total of that row or column.

#### Statements and accounting policies:

The financial information is prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"), and according to the group accounting principles as described in this report. The accounting policies applied are consistent with those applied and described in the consolidated annual financial statements for 2014 which are available on [www.aqualis.no](http://www.aqualis.no). The interim financial statements have not been audited.

### Note 3: Critical accounting estimates and judgements in terms of accounting policies

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Assumptions and estimates are based on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the entity. Such changes are reflected in the assumptions when they occur. The items affected by estimates in Group accounts includes valuation of goodwill, purchase price allocations related to acquisitions and assessment of value of trade receivables.

### Note 4: Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents are comprised of the following:

<i>Amounts in USD thousands</i>	<b>31.03.2016</b>	<b>31.12.2015</b>
Cash at banks		
<b>Total</b>	<b>13 171</b>	<b>14 864</b>

Distributed in the following currency:

<i>Amounts in thousands</i>	Local Currency	USD	Local Currency	USD
US Dollars (USD)	10 262	10 262	11 442	11 442
Norwegian Krone (NOK)	14 981	1 812	17 235	1 957
Other currencies		1 097		1 465
<b>Total</b>		<b>13 171</b>		<b>14 864</b>

**Note 5: Segment information**

Aqualis has one operating segment, which services the marine and offshore sector. This is the only business segment used for internal reporting. The table below shows operating revenues and profit in different geographical areas.

<i>Amounts in USD thousands</i>	<b>Q1 16</b>	<b>Q1 15</b>	<b>FY 2015</b>
<b>Revenues</b>			
Middle East	3 022	3 707	12 953
Far East	1 598	3 543	13 298
Europe	1 836	3 779	12 030
Americas	919	1 504	5 662
Eliminations	(515)	(1 174)	(2 945)
<b>Total revenues</b>	<b>6 860</b>	<b>11 359</b>	<b>40 998</b>
<b>Operating profit (loss)</b>			
Middle East	(262)	167	(404)
Far East	(181)	516	709
Europe	(614)	830	768
Americas	(81)	(144)	(719)
Share of net income from associates	(79)	-	(197)
Central costs	(281)	(275)	(933)
Elimination	(23)	(576)	(2 132)
<b>Total operating profit (loss)</b>	<b>(1 521)</b>	<b>518</b>	<b>(2 908)</b>

**Note 6: Intangible assets**

<i>Amounts in USD thousands</i>	<b>Customer contracts</b>	<b>Goodwill</b>	<b>Total</b>
<b>Cost</b>			
At 01.01.2016	547	18 540	19 087
Additions	-	-	-
Effect of movements in exchange rates	-	636	636
<b>At 31.03.2016</b>	<b>547</b>	<b>19 176</b>	<b>19 723</b>
<b>Amortisation and impairment</b>			
At 01.01.2016	547	1 421	1 968
Impairment charge for the period	-	-	-
Effect of movements in exchange rates	-	109	109
<b>At 31.03.2016</b>	<b>547</b>	<b>1 530</b>	<b>2 077</b>
<b>Net book value at 31.03.2016</b>	<b>-</b>	<b>17 646</b>	<b>17 646</b>

**Note 7: Investment in associates**

Aqualis acquired a 49.9% share in ADLER Solar Services GmbH ("ADLER Solar") on 29 October 2015. The investment is classified as an associate in which Aqualis has significant influence. The investment is accounted for through the equity method in the group financial statements.

In order to conclude on the classification of the investment, management has considered the relevant facts and circumstances including the ownership of shares, the composition of remaining shareholders, options to acquire further shares, composition of the Board of Directors and the decision-making processes related to relevant activities. Aqualis has an option right to acquire an additional 10.1% in ADLER Solar during the period 1 April 2017 through 31 March 2019.

<i>Amounts in USD thousands (100%)</i>	<b>31.03.2016</b>	<b>31.12.2015</b>	<b>29.10.2015</b>
Current assets	2 434	1 972	3 650
Non-current assets	1 066	1 003	958
Current liabilities	(1 882)	(1 350)	(2 452)
Non-current liabilities	(378)	(305)	(439)
<b>Net assets</b>	<b>1 240</b>	<b>1 320</b>	<b>1 717</b>

<i>Amounts in USD thousands (100%)</i>	<b>Q1 16</b>	<b>29.10.15- 31.12.15</b>
Revenue	4 142	1 481
Profit (loss) after taxes	(129)	(378)

<i>Amounts in USD thousands (49,9%)</i>	<b>31.03.2016</b>	<b>31.12.2015</b>	<b>29.10.2015</b>
Proportion of the Group's ownership interest in ADLER Solar	619	659	857
Goodwill	2 421	2 466	2 488
Deferred tax	(45)	(45)	(47)
Customer related assets	283	287	300
Effect of movements in exchange rates	153	(84)	-
<b>Carrying amount of Group interest in ADLER Solar</b>	<b>3 431</b>	<b>3 283</b>	<b>3 598</b>

**Note 8: Significant events and transactions after balance sheet date**

There are no significant events after balance sheet date.



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