



Interim report Q1 2017

AQUALIS

AQUALIS DELIVERS STRONG OPERATIONAL PERFORMANCE IN CHALLENGING MARKET AND A TURNAROUND QUARTER

HIGHLIGHTS

- Revenues of USD 7.6 million in Q1 2017, increase by 10% from Q1 2016
- Operating profit (EBIT) of USD 0.2 million in Q1 2017 vs. loss of USD 1.5 million in Q1 2016
- Billing ratio for technical staff of 78% in Q1 2017, up from 76% in Q4 2016
- Profitability measures took effect throughout the quarter
- Offshore wind market remains active and new contracts have been secured
- Weak results for ADLER Solar due mainly to weather conditions and project delays
- Order backlog at USD 10.0 million vs USD 6.7 million at the end of Q4 2016
- Bidding activity increasing
- Cash balance of USD 9.6 million at the end of Q1 2017
- Continued solid HSE performance and no lost time incidents (LTIs) during the quarter

“After a challenging 2016, we are extremely pleased with the turnaround achieved in Q1 2017. We are profitable despite continued challenging market conditions characterized by margin pressure and high business volatility.

The result is underpinned by strong operational performance, important contract wins and the phase in of profitability measures. I am proud of the effort our staff and management have made in achieving a turnaround while continuing to deliver a superior service to our clients.

We expect 2017 to remain challenging for us and the oil and gas industry. I am confident that we have a strong basis on which to continue to improve our business and deliver excellent service to our customers” says Mr David Wells, CEO of Aqualis ASA.

KEY FIGURES

<i>Amount in USD thousands (except shares, backlog, employees)</i>	Q1 17	Q1 16	FY 2016
FINANCIAL			
Total revenues	7,550	6,860	27,564
Operating profit (loss) (EBIT)	220	(1,521)	(4,055)
Operating profit (EBIT) adjusted ⁽¹⁾	220	(1,521)	(3,476)
Profit (loss) after taxes	100	(2,358)	(3,874)
Profit (loss) after taxes adjusted ⁽¹⁾	100	(2,358)	(3,295)
Basic earnings per share (USD)	0.00	(0.05)	(0.09)
Average number of outstanding shares (thousands)	42,293	43,093	42,492
Cash and cash equivalents at the end of the period	9,615	13,171	9,910
OPERATIONAL			
Order backlog at the end of the period (USD million) ⁽¹⁾	10.0	10.5	6.7
Employees at the end of the period ⁽²⁾	170	193	151
Billing ratio ⁽³⁾	78%	67%	73%

(1) See note 2 for definition and note 9 for reconciliation of Alternative Performance Measures

(2) Full time equivalent. Numbers include subcontractors on 100% utilization equivalent basis

(3) Billing ratio for technical staff including subcontractors on 100% basis. Excludes management, business development, admin support staff and temporary redundancies. Figure calculated as billable hours / net hours available. Net hours available excludes paid absence and unpaid absence. Figures excluding Adler Solar.

FIRST QUARTER GROUP REVIEW

(Figures in brackets represent same period prior year or balance sheet date 2016. Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.)

Group results

Total operating revenues increased by 10% to USD 7.6 million in Q1 2017 (USD 6.9 million in Q1 2016). The increase in revenues is mainly due to increased activity in the Middle East, China and Europe.

Payroll and other operating expenses decreased by 14% to USD 7.1 million in Q1 2017 (USD 8.2 million in Q1 2016). The reduction in operating expenses were mainly due to the phase in of cost measures.

EBIT amounted to a profit of USD 0.2 million in Q1 2017 (loss of USD 1.5 million in Q1 2016). The results for Q1 2017 were impacted by a loss in ADLER Solar of USD 0.2 million and weak market conditions in the oil and gas sector. Aqualis took significant measures during 2016 to adapt to the weaker market conditions. The phase in of cost measures continued throughout Q1 2017 and contributed to the improved results in the quarter.

The billing ratio for technical staff (including subcontractors) was 78% in Q1 2017, up from 76% in Q4 2016. Most entities have had strong operational performance in the quarter.

Results from associated companies amounted to a loss of USD 0.2 million in Q1 2017 (USD 0.1 million in Q1 2016) and relates to the investment in ADLER Solar. ADLER Solar is gradually moving a larger share of its resources to new services launched at the start of 2016. A cost reduction program commenced in mid 2016 which is expected to lower the quarterly operating costs by around USD 0.5 million once fully phased in at the end of Q2 2017. The results in Q1 2017 were impacted by project delays and weather conditions. ADLER Solar must improve its financial position.

Net currency loss of USD 0.1 million in Q1 2017 (USD 0.8 million in Q1 2016) mainly represents unrealised losses on revaluation of USD bank accounts.

Profit after taxes for Q1 2017 of USD 0.1 million (loss of USD 2.4 million in Q1 2016).

Financial position and liquidity

At 31 March 2017, cash and cash equivalents amounted to USD 9.6 million. This compares with USD 9.9 million as of 31 December 2016. The decrease in the cash and cash equivalents is mainly due to an increase in net working capital. Aqualis does not have any interest bearing debt.

Order backlog

The order backlog at the end of Q1 2017 increased to USD 10 million compared with USD 6.7 million at the end of Q4 2016 following important contract wins. Services are now primarily shifting towards "call out contracts" which are driven by day-to-day operational requirements. An estimate for backlog on "call out contracts" are only included in the order backlog when reliable estimates are available. Aqualis has won some larger renewable, marine and engineering contracts during Q1 2017.

Organisational development

At end of Q1 2017, Aqualis had 170 employees (full time equivalents, including contractors on 100% equivalent basis), up from 151 at the end of Q4 2016. The increase is mainly due to increased use of subcontractors.

Resource availability is no longer an issue in the current market with a surplus of experienced people actively seeking work.

Health, safety, environment and quality

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 now exceeded 1.1 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 is weak and very competitive. The industry continues to be under pressure to reduce costs and be more efficient. The gradual increase in rigs / vessels being stacked and off-contract continues. Until the oil companies resume new infrastructure investment, the oil service industry will have a reduced momentum. Visibility is short term.

The overall activity level in Q1 2017 was higher than in the previous quarter due to stronger market conditions in the Middle East, China and Europe.

During the quarter more opportunities manifested themselves with increased bidding activity.

Focus remains on supporting our clients with their day-to-day offshore operations, since capex related opportunities remain weak. Some success has been achieved into expansion into other market niches and the group's organizational structure is becoming leaner and gradually more flexible.

Renewables

Offshore Wind Consultants (OWC) had high activity level in Q1 2017 and secured important new contract awards, including project management services for the Kincardine floating offshore wind farm. Through this

contract, OWC has gained a strong position to service the future floating offshore wind market. Recruitment processes for both technical staff and subcontractors are ongoing. The staff have had high billing ratios in the quarter. OWC continues to build and expand its client base with a number of good market opportunities. Nevertheless, the industry remains competitive and faces rate pressures and low margins as new players continue to enter the market.

The demand for ADLER Solar's services in the solar market was weak in Q1 2017 due to seasonal effects and slow phase in of new services. The bidding activity and pipeline has increased.

Outlook

Aqualis financial performance is driven primarily by activity within the European renewables sector and the global oil and gas markets.

The activity in the offshore renewables market remains high and Northern Europe has a reasonable project pipeline predicted through to 2020. Offshore wind has improved its competitiveness towards other energy sources as the levelized cost of energy for offshore wind has fallen significantly. OWC has strengthened its market position in Europe over the past quarters and is also exploring growth opportunities in other emerging offshore wind market such as China, Taiwan, and the US.

Germany is a mature market with 41 GW cumulative solar capacity at the end of 2016. The demand for ADLER Solar's services is expected to grow as the installed solar plants age and new solar plants are installed. ADLER Solar targets to break even in Q2 2017 subject to increased market penetration for new services and current market outlook. Further profitability measures to be implemented.

The activity level and demand visibility remains short term across the oil and gas market. The oil and gas market is expected to remain challenging for the rest of 2017 with continued price and margin pressure. The drop in overall activity is currently leveling off and in some regions it seems to be slightly increasing. There are reasons therefore to believe that the industry is at the bottom or close to the bottom of this cycle.

The marine consultancy and engineering industry is oversupplied and too fragmented to likely give a reasonable return to stakeholders in the near to medium term. Aqualis aims to be proactive in the expected M&A activity in the industry.

Strong project execution, adaptability to market changes and demand, responsiveness and a continued broadening of the client base provides the foundation for developing Aqualis. Aqualis' greatest long term growth potential lies with its' ability to widen and strengthen the global client portfolio and client loyalty. A more flexible business model with ability to quickly

adapt to market demand fluctuations will be important to ensure consistent profitability.

Asker, 26 April 2017

The Board of Directors of
Aqualis ASA

Condensed interim Financial Statements Q1 2017

Consolidated Statement of Income

<i>Amounts in USD thousands</i>	Note	Q1 17	Q1 16	FY 2016
Revenues	5	7,550	6,860	27,564
Total revenues		7,550	6,860	27,564
Payroll and payroll related expenses		(4,088)	(5,652)	(19,303)
Other operating expenses		(2,969)	(2,578)	(11,016)
Depreciation, amortisation and impairment	6	(32)	(72)	(794)
Share of net profit (loss) from associates	7	(240)	(79)	(506)
Operating profit (loss) (EBIT)	5	220	(1,521)	(4,055)
Finance income		19	11	47
Finance expenses		-	-	(0)
Net foreign exchange gain (loss)	4	(120)	(831)	(10)
Profit (loss) before taxes		120	(2,341)	(4,018)
Income tax income (expenses)		(20)	(17)	144
Profit (loss) after taxes		100	(2,358)	(3,874)

Consolidated Statement of other Comprehensive Income

<i>Amounts in USD thousands</i>	Note	Q1 17	Q1 16	FY 2016
Profit (loss) after taxes		100	(2,358)	(3,874)
Other comprehensive income				
Currency translation differences		340	1,485	(516)
Income tax effect		-	-	66
Total comprehensive income		440	(873)	(4,324)
Attributable to:				
Equity holders of the parent company		440	(873)	(4,324)
Non-controlling interests		-	-	-
Earnings per share (USD): basic and diluted		0.00	(0.05)	(0.09)

Condensed interim Financial Statements Q1 2017

Consolidated Statement of Financial Position

<i>Amounts in USD thousands</i>	Note	31.03.2017	31.12.2016
ASSETS			
Non-current assets			
Equipment		163	184
Intangible assets	6	16,470	16,257
Investment in associates	7	2,632	2,853
Loan to associates		296	289
Deferred tax assets		125	122
Total non-current assets		19,686	19,705
Current assets			
Trade receivables	8	5,130	5,475
Other current assets		3,510	2,815
Cash and cash equivalents	4	9,615	9,910
Total current assets		18,255	18,200
Total assets		37,941	37,905
EQUITY AND LIABILITIES			
Equity			
Share capital		690	690
Share premium		47,344	47,344
Other paid in capital		557	543
Retained earnings		(15,056)	(15,496)
Total equity		33,535	33,081
Non-current liabilities			
Deferred tax liability		426	425
Other non-current liabilities		573	527
Total non-current liabilities		999	952
Current liabilities			
Trade payables		1,055	1,093
Other current liabilities		2,352	2,779
Total current liabilities		3,407	3,871
Total liabilities		4,406	4,824
Total equity and liabilities		37,941	37,905

Condensed interim Financial Statements Q1 2017

Consolidated Cash Flow Statement

<i>Amounts in USD thousands</i>	Note	Q1 17	Q1 16	FY 2016
Cash flow from operating activities				
Profit (loss) before taxes		120	(2,341)	(4,018)
Non-cash adjustment to reconcile profit before tax to cash flow:				
Estimated value of employee share options		14	40	111
Depreciation, amortisation and impairment		32	72	794
Share of net loss from associates	7	240	79	506
Changes in working capital:				
Changes in trade receivables and trade creditors		308	497	2,157
Changes in other assets and other liabilities		(1,076)	(373)	(2,783)
Interest received		(19)	(3)	(4)
Income tax paid		(20)	(17)	(691)
Effects related to currency unrealised		75	579	(199)
Cash flow used in operating activities		(325)	(1,467)	(4,127)
Cash flow from investing activities				
Purchase of equipment		(6)	(4)	(16)
Interest received		19	3	4
Loan to associates		-	-	(370)
Cash flow from/(used in) investing activities		14	(2)	(382)
Cash flow from financing activities				
Buy back of shares		-	(368)	(368)
Cash flow used in financing activities		-	(368)	(368)
Net change in cash and cash equivalents		(312)	(1,837)	(4,877)
Cash and cash equivalents beginning period		9,910	14,864	14,864
Effect of movements in exchange rates		17	142	(77)
Cash and cash equivalents end period	4	9,615	13,170	9,910

Condensed interim Financial Statements Q1 2017

Consolidated Statement of Changes in Equity

<i>Amounts in USD thousands</i>	Share capital	Share premium	Other paid in capital	Retained earnings	Foreign currency translation reserve	Total equity
Equity at 01.01.2017	690	47,344	543	(1,082)	(14,414)	33,081
Profit (loss) after taxes	-	-	-	100	-	100
Foreign currency translation reserve	-	-	-	-	340	340
Share-based payment	-	-	14	-	-	14
Equity at 31.03.2017	690	47,344	557	(982)	(14,074)	33,535

Condensed interim Financial Statements Q1 2017

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 were 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 21 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 the year ended 31 December 2016.

The European Securities and Markets Authority (ESMA) issued guidelines on Alternative Performance Measures ("APMs") that came into force on 3 July 2016. The Company has defined and explained the purpose of the following APMs:

Operating profit adjusted

Management believes that "Operating profit adjusted" which excludes impairments of goodwill and other charges/(income) is a useful measure because it provides an indication of the profitability of the Company's operating activities for the period without regard to significant events and/or decisions in the period that are expected to occur less frequently. A reconciliation between reported operating profit/(loss) and operating profit adjusted is shown in note 9.

Profit (loss) after taxes adjusted

Management believes that "Profit (loss) after taxes adjusted" which excludes impairments of goodwill and other charges/(income) is a useful measure because it provides an indication of the profitability of the Company's operating activities for the period without regard to significant events and/or decisions in the period that are expected to occur less frequently. A reconciliation between profit (loss) after taxes adjusted and profit (loss) after taxes is shown in note 9.

Order backlog

Order backlog is defined as the aggregate value of future work on signed customer contracts or letters of award. Aqualis' services are shifting towards "call out contracts" which are driven by day-to-day operational requirements. An estimate for backlog on "call out contracts" are only included in the order backlog when reliable estimates are available. Management believes that the order backlog figure is a useful measure in that it provides an indication of the amount of customer backlog and committed activity in the coming periods.

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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The most significant items affected by estimates in the consolidated group accounts includes intangible assets, investments in associates 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>	31.03.2017	31.12.2016
Cash at banks	9,615	9,910
Total	9,615	9,910

Distributed in the following currency:

<i>Amounts in USD thousands</i>	Local Currency	USD	Local Currency	USD
US Dollars (USD)	7,939	7,939	8,423	8,423
Norwegian Krone (NOK)	2,927	340	6,010	697
Other currencies		1,336		790
Total		9,615		9,910

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 for entities in different geographical areas.

<i>Amounts in USD thousands</i>	Q1 17	Q1 16	FY 2016
Revenues			
Middle East	3,368	3,022	10,867
Far East	1,643	1,598	6,725
Europe	2,052	1,836	7,658
Americas	772	919	4,081
Eliminations	(285)	(515)	(1,767)
Total revenues	7,550	6,860	27,564
Operating profit (loss) (EBIT)			
Middle East	299	(262)	(524)
Far East	131	(181)	(146)
Europe	196	(614)	(1,010)
Americas	(3)	(81)	(226)
Share of net income from associates	(240)	(79)	(506)
Corporate group costs	(148)	(281)	(952)
Eliminations	(14)	(23)	(691)
Total operating profit (loss)	220	(1,521)	(4,055)

Note 6: Intangible assets

<i>Amounts in USD thousands</i>	Customer contracts	Goodwill	Total
Cost			
At 01.01.2017	547	18,394	18,941
Additions	-	-	-
Effect of movements in exchange rates	-	254	254
At 31.03.2017	547	18,648	19,195
Amortisation and impairment			
At 01.01.2017	547	2,137	2,684
Impairment charge for the period	-	-	-
Effect of movements in exchange rates	-	40	40
At 31.03.2017	547	2,178	2,725
Net book value at 31.03.2017	-	16,470	16,470
Net book value at 31.12.2016	-	16,257	16,257

Goodwill is tested for impairment at least annually, or when there are indications of impairment. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculations requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

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.

Movement during 2017 and 2016 are as follows:

<i>Amounts in USD thousands</i>	2017	2016
Balance at beginning of the period	2,853	3,283
Share of net profit (loss)	(226)	(445)
Amortisation of customer relationships (net of taxes)	(14)	(60)
Effect of movements in exchange rates	19	76
Balance at end of the period	2,632	2,853

Following are Adler Solar's consolidated financial position and consolidated statement of income:

<i>Amounts in USD thousands</i>	31.03.2017	31.12.2016
Current assets	1,931	2,800
Non-current assets	1,057	1,096
Current liabilities	(3,023)	(3,482)
Non-current liabilities	(0)	(0)
Net assets	(35)	414

<i>Amounts in USD thousands</i>	Q1 17	FY 2016
Revenue	2,739	13,355
Profit and loss for the period	(452)	(893)

Reconciliation of the above summarised financial information to the carrying amount of the interest in ADLER Solar recognised in the consolidated financial statements presented below:

<i>Amounts in USD thousands (49.9%)</i>	31.03.2017	31.12.2016
Proportion of the Group's ownership interest in ADLER Solar	(18)	207
Goodwill	2,270	2,241
Customer relationships	208	220
Deferred tax liability	(33)	(32)
Currency translation differences	206	217
Carrying amount of Group investment in ADLER Solar	2,632	2,853

Note 8: Trade receivables

The ageing analysis of unimpaired trade receivables at the reporting date is as follows:

<i>Amounts in USD thousands</i>	31.03.2017	31.12.2016
Not overdue	2,601	1,934
Overdue 1-30	424	1,364
Overdue 31-60	79	368
Overdue 61-90	632	312
More than 90 days	1,394	1,497
Total	5,130	5,475

As at 31 March 2017, trade receivables of USD 224 thousands (31 December 2016 - USD 151 thousands) were impaired.

Note 9: Reconciliation of selected Alternative Performance Measures

<i>Amounts in USD thousands</i>	Q1 17	Q1 16	FY 2016
Operating profit (loss) (EBIT)	220	(1,521)	(4,055)
Goodwill impairment	-	-	579
Operating profit (loss) adjusted	220	(1,521)	(3,476)

<i>Amounts in USD thousands</i>	Q1 17	Q1 16	FY 2016
Profit (loss) after taxes	100	(2,358)	(3,874)
Goodwill impairment	-	-	579
Profit (loss) after taxes adjusted	100	(2,358)	(3,295)

Note 10: Subsequent events

There are no significant events after balance sheet date.



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