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**Management Discussion and Analysis of Pyrolyx AG
for Financial Year ending 31 December 2014**

CONVENIENCE TRANSLATION

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1. Principles and introduction

Pyrolyx AG develops and implements new, innovative (environmental) technology for the production of basic chemicals and other substances used in the manufacture of rubber and plastic products. Pyrolyx has at its disposal a special process known as ‘Pyrolyx technology’ based on a combination of pyrolysis and depolymerization which is used for the environmentally friendly production of high-quality carbon black. In this process, organic compounds in rubber granules (especially from shredded end-of-life tires) are broken down under the exclusion of oxygen to create Pyrolyx Carbon Black, pyrolysis oils and pyrolysis gas. Pyrolysis oils can be sold as valuable raw materials, processed, or used as an energy source. Once freed of condensable components, the pyrolysis gas is comparable to natural gas and is therefore used by Pyrolyx to generate electricity.

Carbon black is a high-tech substance with internationally standardized features and which decisively influences the characteristics of the final products in which it is used. For example, when employed as filler, carbon black improves the mechanical properties of plastic and rubber products, increases the abrasion resistance of tires, and provides protection against heat and UV light. Special types of carbon black are suitable for different applications depending on their characteristic properties. Experts estimate that global demand for carbon black rose in 2014 to

over 12 million tons, and expect the market to grow by about 4-5% annually, chiefly driven by China and the Asian region.

1.1 Business model

Pyrolyx AG focuses on the role of a Management holding company as well as on developing and protecting the industrial property created within the group. All the operational activities associated with Pyrolyx technology and the products made with it are handled by subsidiaries. This gives the Pyrolyx management team the flexibility it needs for international marketing and to keep internal costs under control.

The objective of Pyrolyx is to establish Pyrolyx technology for the sustainable recycling of end-of-life tires all over the world. The aim is for industrial commercial plants to be built and run by itself as well as affiliated companies and licensees throughout the world. For this purpose, the company continuously evaluates potentially suitable locations and partners. Depending on the region/location, different approaches may be applied and/or capital arrangements be agreed with potential partners.

1.2 R&D

The development of Pyrolyx technology began in 2005. Since that time, it has been continuously improved thanks to the construction of a number of non-industrial pilot reactors. Protracted development work in close collaboration with the internationally renowned plant engineering company Zeppelin Systems GmbH (based in Friedrichshafen) and Van Beek B.V./Celsius (from Drunen, the Netherlands), a specialist in thermal screw conveyor systems, led to the construction of an industrial pilot plant in Drunen.

Research and development in 2014 largely concentrated on:

- The expansion of material tests with top international tire manufactures based on the carbon black produced at the pilot plant in Drunen. This led for example to the production of tires with the addition of Pyrolyx Carbon Black, the subsequent field tests being passed with flying colours.
- The definition of master specifications for the commercial supply of the tire industry with Pyrolyx Carbon Black.
- R&D collaboration in applied polymer research with the University of Budapest, strengthening Pyrolyx's product development capabilities for the tire and industrial rubber industries.
- Expanding internal engineering proficiency to strengthen and safeguard know-how and intellectual property.

- Enlarging the network of manufacturing partners for the production of critical and internally developed plant components.

1.3 Risk management system

Risk management is an integral part of the company's management strategy, which is geared to value and growth. Under Pyrolyx AG's systematic risk management, the potential risks of all main business transactions and processes are analyzed and monitored. The risk strategy applied always begins with an early assessment of the risks and the opportunities associated with them.

In addition, the management team only assumes reasonable, manageable and controllable risks if they are likely to result in an increase in the company's value. Speculative transactions and measures are therefore precluded. Important decisions are only taken after consulting the Supervisory Board.

To control non-financial operating performance indicators, in 2014 the company introduced a project management system. The Supervisory Board regularly receives a detailed report on financial (equity, income statement, liquidity) and non-financial performance indicators. This creates high transparency and forms a solid basis for the assessment of risks and opportunities. As a result, the Management Board is immediately able to take appropriate action in order to keep the company stable.

2. Course of business in 2014

2.1 Course of business and economic environment

All in all, 2014 was a positive, eventful year for Pyrolyx. In February, Pyrolyx AG returned to the world-famous Tire Technology Expo in Cologne with a joint stand shared with its plant engineering partner Zeppelin Systems GmbH. As a result, several more tire manufacturers from all over the world signaled their interest in conducting trials with Pyrolyx Carbon Black. For example, in 2014 more international tire manufacturers carried out extensive testing on Pyrolyx Carbon Black and confirmed its fundamental suitability and quality. In early 2014, these positive tests led for instance to the agreement of concrete master specifications for future commercial orders. Moreover, in early 2015, field trials were successfully conducted on tires manufactured with the addition of Pyrolyx Carbon Black. These steps constitute additional milestones for Pyrolyx AG in the further planning and implementation of the commercial production of Pyrolyx Carbon Black. In the meantime, the company is now working with six of the top ten international tire manufacturers on various laboratory and field trials involving the use of Pyrolyx Carbon Black.

The production of the main plant components for a licensee of Pyrolyx technology begun in H1 2014 was completed in late 2014 by Pyrolyx Invent GmbH. However, the resulting turnover could not be entered until January 2015. This revenue also reflects turnover and earnings mentioned in the 'Outlook' section of the 2013 Management Report. With Pyrolyx AG increasingly concentrating on holding activities, the operational activities which led to these earnings were assigned to Pyrolyx Invent GmbH.

In H1 2014, Pyrolyx AG had a life cycle assessment study carried out by a prestigious consulting firm. It was ascertained that by using Pyrolyx technology, up to 2,5 metric tons of CO₂ per ton of Pyrolyx Carbon Black could be saved by avoiding the production of conventional carbon black and oil.

Efforts addressing the global patenting of Pyrolyx technology are continuing to bear fruit. Following Russia and Ukraine, in 2014 the patent authorities in the two biggest tire and carbon black markets in the world registered the patent protecting Pyrolyx's core technology: China (no. 2009801626128) and the USA (13/498,032).

Furthermore, in 2014, Pyrolyx intensively weighed up alternative locations in Germany and abroad for the operation of its own turnkey system, especially in the light of the revised legislation in summer 2014 regarding renewable energies in Germany.

At the same time, the company continued to evaluate strategic partnerships. This culminated in the signing of two non-binding memorandums of understanding with cct AG (Germany) and CH2E (USA). Appraisals and contract negotiations with the two companies continued until March 31, 2015.

cct - Carbon Clean Tech (Germany)

The takeover of cct Stegelitz GmbH by Pyrolyx AG was agreed in a non-binding memorandum of understanding. Both companies complement each other superbly in the areas of production, R&D, sales and finance. One key aspect of the acquisition is the expansion of resources enabled by the planned installation of an additional production facility based on Pyrolyx patented technology alongside the existing cct plant.

The proposed merger of the two companies will strengthen Pyrolyx's capabilities in production, R&D and product sales and help promote a sustainable polymer industry. rCB obtained from end-of-life tires instead of oil makes an affordable, sustainable alternative to conventional carbon black for a variety of plastics and rubber applications, especially rubber compounds for tires.

CH2E (USA)

A non-binding memorandum of understanding was signed by the CH2E Group (USA) and Pyrolyx in which the two sides agreed to enter into a strategic partnership. The American CH2E Group owns the largest tire dump in the US

with a volume of roughly 600.000 tons. Under the future partnership, Pyrolyx plans to erect a commercially usable production plant based on its patented technology at CH2E's site in Hudson, Colorado. The US company will provide high-quality shredded scrap tires and the land required to build the plant. Following commissioning scheduled for 2016, additional Pyrolyx production plants are to be built on CH2E's site.

2.2 Development of the asset and capital structure

At the shareholders' meeting on June 30, 2014, two new capital resources were created to give the Management Board and Supervisory Board sufficient flexibility for future equity measures. Both capital resources were entered in the commercial register on August 6, 2014.

The AGM on June 30, 2014 approved the suspension of Authorized Capital 2013/I, the creation of Authorized Capital 2014/I, and the creation of Contingent Capital 2014/I, as well as the amendment of Section 3 ('Share capital') of the Articles of Association.

Authorized Capital 2014/I

The Management Board was authorized by the shareholders' meeting on June 30, 2014 to increase the share capital with the approval of the Supervisory Board until June 29, 2019 on one or more occasions by a total of up to EUR 197.886 in the form of cash and/or contributions in kind, with the possibility of shareholders' subscription rights being excluded (Authorized Capital 2014/I).

Contingent Capital 2014/I

The company's equity was conditionally increased by EUR 50.500 by the shareholders' meeting on June 30, 2014 (Contingent Capital 2014/I). This conditional capital serves to grant subscription rights to the holders or creditors of convertible bonds and/or bonds with warrants.

The Management Board of Pyrolyx AG decided on October 10, 2013 with the approval of the Supervisory Board to issue convertible bonds. The bonds with a total volume of up to EUR 10.071.600 were offered to Pyrolyx shareholders from October 23, 2013. After the subscription period had expired on November 6, 2013, the convertible bonds not taken up by shareholders were offered to other investors under a private placement. By December 31, 2014, convertible bonds with a total value of EUR 4.728.090 had been subscribed.

These five-year convertible bonds bear interest at the rate of 10% p.a. from the date of issue which is due at maturity. If bondholders exercise their conversion rights with legal effect, their claim to interest is void. The bonds were divided into up to 143.880 convertible bearer bonds with a nominal value of EUR 70,00 each. Since December 1, 2013, bondholders have been able to convert their bonds at any time (except during certain time windows) into

no-par value bearer shares in Pyrolyx AG with dividend rights from the year of conversion. Conversion rights may only be exercised in units of at least 1.000 convertible bonds (unless the total number of convertible bonds to which a bondholder is entitled is below 1.000).

The conversion rights were secured by the Contingent Capital 2013/I of EUR 143.880 approved by the shareholders' meeting of Pyrolyx AG on June 26, 2013 and entered in the commercial register on June 28, 2013.

Contingent Capital 2013/II

The equity of the company was conditionally increased by the shareholders' meeting on June 26, 2013 by €35.970 by means of Contingent Capital 2013/II. The contingent capital serves to grant subscription rights to members of the company's Management Board, company employees, and the management of affiliated companies. By December 31, 2014, 35.162 options from Conditional Capital 2013/II had been allocated under an employee stock option program.

The company's financial position and capital structure at December 31, 2014 and developments since December 31, 2013 are shown in EUR'000 in the following balance sheets.

Development of assets

	31.12.14		31.12.13		Change	
	TEUR	%	TEUR	%	TEUR	%
A. Long term assets						
I. Intangible assets						
1. Proprietary IP	3,3	0,0	3,8	0,0	-0,5	-13,6
II. Tangible assets						
1. Technical plant and equipment	58,4	0,7	65,5	0,8	-7,1	-10,9
2. Other equipment, stationary	112,0	1,4	84,6	1,0	27,4	32,4
3. Payments in advance, plants under construction	129,8	1,6	0,0	0,0	129,8	0,0
III. Financial assets						
1. Shares in affiliated companies	4.078,0	50,2	4.065,5	46,6	12,5	0,3
	4.381,4	53,9	4.219,4	48,3	162,0	3,8
B. Short term assets						
II. Receivables & other assets						
1. Accounts receivable	51,2	0,6	25,1	0,3	26,1	104,2
2. Receivables to affiliated companies	303,1	3,7	58,0	0,7	245,1	422,4
3. Other short term assets	177,3	2,2	245,8	2,8	-68,5	-27,9
III. Liquid funds	137,6	1,7	1.529,6	17,5	-1.392,0	-91,0
	669,1	8,2	1.858,5	21,3	-1.189,4	-64,0
C. Accruals	37,8	0,5	103,2	1,2	-65,4	-63,4
D. Deferred taxes	3.038,5	37,4	2.546,2	29,2	492,3	19,3
	8.126,9	100,0	8.727,4	100,0	-600,5	-6,9

Development of the capital structure

	31.12.14		31.12.13		Change	
	TEUR	%	TEUR	%	TEUR	%
A. Equity						
I. Paid-in capital	411,7	5,1	359,7	4,1	52,0	14,5
II. Capital reserve	9.661,7	118,9	6.066,0	69,5	3.595,7	59,3
III. Profit/ Loss for the year	-8.295,4	-102,1	-5.348,9	-61,3	-2.946,5	55,1
	<u>1.778,0</u>	<u>21,9</u>	<u>1.076,7</u>	<u>12,3</u>	<u>701,3</u>	<u>65,1</u>
B. Provisions						
2. Other provisions	529,3	6,5	586,2	6,7	-56,9	-9,7
	<u>529,3</u>	<u>6,5</u>	<u>586,2</u>	<u>6,7</u>	<u>-56,9</u>	<u>-9,7</u>
C. Liabilities						
1. Bonds	1.089,2	13,4	2.858,2	32,8	-1.769,0	-61,9
2. Accounts payable	861,7	10,6	1.036,8	11,9	-175,1	-16,9
3. Other liabilities	3.868,7	47,6	3.169,4	36,3	699,3	22,1
	<u>5.819,6</u>	<u>71,6</u>	<u>7.064,4</u>	<u>80,9</u>	<u>-1.244,8</u>	<u>-17,6</u>
	<u>8.126,9</u>	<u>100,0</u>	<u>8.727,4</u>	<u>100,0</u>	<u>-600,5</u>	<u>-6,9</u>

Compared to December 31, 2013, total assets decreased by EUR 600,5 thousand or 6,9% to EUR 8.126,9 thousand.

The share of non-current assets within total assets rose from 48,3% at the end of 2013 to 53,9% at the end of 2014.

The share of medium and short term assets (current assets, prepaid expenses and deferred tax assets) within total assets dropped by EUR 762,5 thousand or 16,9% to EUR 3.745,4. This was mainly caused by cash on hand and deferred tax assets as well as receivables from affiliated companies.

Receivables from affiliated companies represent money owed to Pyrolyx AG by Pyrolyx Invent GmbH, largely in order to pre-finance accounts payable.

The company's equity rose by EUR 701,3 thousand or 65,1% to €1.778,0 thousand. The equity ratio of the company at the balance sheet date was 21,9%. This positive development is explained by the fact that in 2014, bonds totaling €3.639,1 thousand were converted into shares in Pyrolyx AG, which had a positive impact on equity. Accordingly, subscribed capital rose by EUR 52,0 thousand to EUR 411,7 thousand.

The increase in other liabilities mainly results from the accounting of bullet interest liabilities from the existing loans and taking out new loans amounting to EUR 450 thousand.

2.3 Cash flow statement

The following cash flow statement provides an overview of the source and use of the company's financial resources. It shows cash flows using the indirect method and the principles of German Accounting Standard No. 2 (DRS 2) drawn up by the DSR German Standardization Council.

Cash flow statement according to German GAAP Nr. 2 (DRS 2)
"Indirect Method"

	2014 TEUR	2013 TEUR
1. Net earnings	-2.946,5	-2.028,5
2. +/- Depreciation/ write-ups on long-term assets	41,9	341,7
3. +/- Increase/ decrease of accruals	-56,9	-4,9
4. +/- Other non-cash expenses/ income	-492,3	-972,4
5. -/+ Profit/ loss from disposal of long-term assets	0,0	-790,7
6. -/+ Increase/ decrease of working capital assets (inventory, accounts receivable, ...)	-128,6	345,7
7. +/- Increase/ decrease of working capital liabilities (accounts payable, ...)	338,2	590,6
8. = Cash flow aus laufender Geschäftstätigkeit	-3.244,2	-2.518,5
9. - Investment into long-term assets	-190,2	-402,4
10. - Investment into long-term intangible assets	-1,2	-4,6
11. - Investment into financial assets	-12,5	-12,5
12. = Cash flow from investing activities	-203,9	-419,4
13. + Cash inflow from equity capital increases	0,0	1.300,7
14. + Cash inflow from debt	2.320,8	2.858,2
15. - Amortization of debt	-264,8	0,0
16. = Cash flow financing activities	2.056,0	4.158,9
17. Change in liquidity	-1.392,1	1.221,0
18. + Cash beginning of period	1.529,6	308,6
19. = Cash end of period	137,6	1.529,6

The company is planning extensive capital measures in order to further finance its operating activities and to implement the strategic partnerships mentioned under 2.1 ('Course of business and economic environment'). Until these capital measures have been effected, Pyrolyx is financing itself by taking out loans. By March 31, 2015, the company had raised an additional EUR 415,6 thousand in this way.

2.4 Earnings and financial position

The development of the earnings situation is shown by a comparison of the performance summaries derived from the profit and loss statements for 2014 and 2013:

Profit & Loss Statement	01.01. - 31.12.2014		01.01. b- 31.12.2013		Change	
	TEUR	%	TEUR	%	TEUR	%
Revenues	0,0	0,0	16,0	0,0	-16,0	-100,0
+ Other operating income	231,3	0,0	921,1	0,0	-690,4	-74,9
- Raw material	1,5	0,0	61,2	0,0	-59,7	-97,5
= Gross earnings	229,8	0,0	876,5	0,0	-646,7	-73,8
- Personnel	1.407,5	0,0	1.329,9	0,0	77,6	5,8
- Depreciation	41,9	0,0	335,8	0,0	-293,9	-87,5
- Other operating expenses	1.648,1	0,0	1.828,5	0,0	-180,4	-9,9
= Operating income	-2.867,6	0,0	-2.617,7	0,0	-249,9	9,5
+ Financial income	27,9	0,0	96,1	0,0	-68,2	-70,9
- Financial expenses	512,7	0,0	476,5	0,0	116,2	24,4
= Financial result	-564,3	0,0	-380,4	0,0	-184,4	48,5
= Earnings before taxes	-3.432,4	0,0	-2.998,1	0,0	-434,3	14,5
- Income taxes	-488,1	0,0	-972,4	0,0	484,3	-49,8
- Other taxes	2,1	0,0	2,8	0,0	-0,7	-25,4
= Net earnings	-2.946,5	0,0	-2.028,5	0,0	-918,0	45,3

Other operating income was primarily comprised of billing for work carried out by Pyrolyx AG for Pyrolyx Invent GmbH, reimbursable expenses in connection with trade fairs, payment in kind, and also the release of provisions.

Personnel costs were higher due to the arrival of new employees, enabling the company to successfully fill additional core positions.

Other operating expenses were reduced by 9,9% over the previous year, the main drivers being consulting costs and the costs of raising capital.

The reduced depreciation is largely explained by the transfer of the industrial pilot plant in Drunen (the Netherlands) from Pyrolyx AG to Pyrolyx Invent GmbH with effect from December 2013.

Interest earnings declined due to the fact that the company considers a defaulted claims not to be realized anymore. Accordingly, default interests have not been accounted for anymore.

The increased interest expenditure is due to the interest rate structure of existing loans and interest associated with the convertible bonds.

3. Events after the reporting period

Apart from the events discussed in Section 2 in the course of business in 2014, there have been no events of material significance to the course of business since the end of the reporting period.

4. Outlook

Innovative technology and business concepts always contain risks in the introductory phase which may hamper or delay the medium and long term establishment of these new projects. The Company always takes a preventive approach to such risks or mitigates them by for instance working closely together with a high-quality network of plant engineers, technology experts and market players with the strong support of financially powerful partners, enabling any barriers to be overcome jointly, quickly and effectively.

Especially during the market entry phase, the company's forecasting accuracy is subject to scheduling challenges. For example, extensive regulatory approval is required for the construction of a production plant using Pyrolyx technology. However, since licensing rules vary considerably from one location to the next, the approval process may upset the original schedule. Furthermore, Pyrolyx is a potential raw material supplier targeting consumer markets which have high safety requirements and demand prolonged testing. This could sometimes delay the market launch of Pyrolyx products, especially Pyrolyx Carbon Black.

The general factors supporting Pyrolyx AG's business model include rising living standards and consumption in Asia, the depletion of natural resources, and the demand for environmental sustainability. Pyrolyx technology provides positive answers to these trends such as significantly reduced CO₂ emissions compared to conventionally produced carbon black and the conservation of fossil fuels coupled with independence from global oil prices rises.

The procurement markets and the sales markets for Pyrolyx products are characterized by both opportunities and risks and are subject to global, dynamic processes of change driven by economic and political factors. In some regions of the world, there is a growing oversupply of scrap tire granules. On the other hand, other regions, especially the rapidly growing automotive and tire markets in Asia and Russia, are still in the development phase

and have yet to set up structures for the management of end-of-life tires. In addition, if the quality of Pyrolyx Carbon Black is to be consistent, the quality of the waste tire granules supplied must be consistent, too.

Bearing in mind the different uses to which end-of-life tires are put, Pyrolyx will be competing with the incineration and recycling of used tires. Incineration involves burning scrap tires in whole or in part in power plants to generate energy. One of the biggest buyers of scrap tires for incineration is the cement industry. In recycling, once the steel, textiles and fibers have been removed, the tire granules can be used depending on their size in for example surfacing for sports grounds and play areas or as an additive for asphalt in road construction.

The success of Pyrolyx technology all hinges on the acceptance of Pyrolyx Carbon Black and pyrolysis oil among potential customers – who have largely concentrated on examining Pyrolyx Carbon Black's suitability for tires and industrial rubber applications. However, the agreement of the first concrete master specifications and the successful conclusion of field trials on tires produced with the addition of Pyrolyx Carbon Black mean that enormous headway has been made towards future commercial orders from the tire manufacturing industry.

In addition to the qualitative acceptance of Pyrolyx Carbon Black and pyrolysis oils, the development of the price of crude oil on the world market also affects the success of the company. The price of industrial, non-recycled carbon is closely correlated to the global crude oil price. Moreover, the price of Pyrolyx Carbon Black is geared to the price of industrial carbon black.

Weighing up all the opportunities and risks, the company assumes that material turnover and earnings will not be earned from external customers in 2015. Sales and earnings with subsidiaries in the lower six-figure range are expected. Pyrolyx does not anticipate a positive operating result in the 2015 financial year. Accordingly, in 2015, the company will still be dependent on refinancing from the capital market and external investors.

5. Other reporting items

As part of the launch of Pyrolyx products, the company has commenced the implementation of a process-based, EN ISO 9001 certified quality management system. The aims of this are to meet customers' typical expectations in the industry and to ensure customer satisfaction through continuous quality improvement.

Munich, April 08, 2015

Pyrolyx AG

Management Board:

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Niels Raeder

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Fikret Dülger

.....

Michael Hommert

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