Pyrolyx AG

Munich

Management Report

- Convenience Translation Only-

31. December 2015

Contents

1. Principles and introduction

Pyrolyx AG (**'Pyrolyx'**) develops and implements new, cutting-edge (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 recovered 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, pyrolysis gas has a heat of combustion comparable to natural gas and can be used 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 in 2015 exceeded 12 million tons and expect the market to grow by about 3–4% annually, chiefly driven by China and the Asian region.

1.1 Business model

Pyrolyx focuses on the role of a holding company as well as on developing and protecting the industrial property (**'IP'**) created within the group. All the operational activities associated with the Pyrolyx technologies and the products made with them are handled by subsidiaries. This enables the Pyrolyx management team to keep its international marketing flexible and internal costs under control.

The objective of Pyrolyx is to establish these technologies for the global sustainable recycling of end-of-life tires. The aim is for industrial commercial plants to be built and run by Pyrolyx as well as by affiliated companies and licensees throughout the world. For this purpose, the company continuously evaluates potentially suitable locations and partners. The exact approach and the financial arrangements agreed with future partners vary from one region to the next.

1.2 R&D

Pyrolyx's research and development in 2015 concentrated on the following areas:

- Stepping up material tests with leading international tire manufactures. This led for example to the production of tires with the addition of recovered carbon black, and the subsequent field tests were passed with flying colors.
- The definition of master specifications for the commercial supply of recovered carbon black to the tire industry. The first commercial deliveries have now been effected from the plant in Stegelitz acquired in June 2015.
- Preparation of a development partnership with one of the world's top five tire manufacturers (which was then signed in early February 2016). Under this development partnership, the properties of recovered carbon black are to be specially adapted for widespread use in various tire applications. Another aspect of this partnership is to optimize pyrolysis oil in order to further improve this technology's environmental footprint. Both partners are convinced that pyrolysis technology still has plenty of untapped potential for the recycling of end-of-life tires and rubber waste for the production of new tires. An agreement of this nature is currently regarded as unique and confirms Pyrolyx's foremost technological position in the recovery of carbon black from scrap tires.
- R&D collaboration with the University of Budapest in applied polymer research, which strengthened Pyrolyx's product development capabilities for the tire and industrial rubber industries. This collaboration expired at the end of May 2015. R&D is now carried out by the laboratory and test center belonging to subsidiary cct Stegelitz GmbH.
- Expanding internal engineering capabilities to strengthen and safeguard know-how and IP.
- Enlarging the network of manufacturing partners for the production of critical, internally developed plant components.

1.3 Control system

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

In addition, the management team only takes on 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 always precluded. Important decisions are only taken after consulting the Supervisory Board.

Non-financial operational performance indicators are regularly reported in detail to the Supervisory Board alongside financial performance indicators (equity, profit and loss statement, and liquidity). This creates high transparency and forms a solid basis for the assessment of risks and opportunities. As a result, the Management Board and other executives are immediately able to take appropriate action in order to constantly ensure the stable control of the company.

2. Course of business in 2015

2.1 Course of business and economic environment

All in all, 2015 was a positive, eventful year for Pyrolyx. New operational milestones were achieved: the acquisition of cct Stegelitz GmbH, the first commercial sale of recovered carbon black to a global tire manufacturer, and the granting of a new patent. On the other hand, distortions in the global oil markets forced Pyrolyx to enforce strict cost management at all levels.

cct Stegelitz GmbH

The acquisition of cct Stegelitz GmbH by Pyrolyx announced in February 2015 was successfully completed with the closing in June 2015. The two companies complement each other superbly in the areas of production, R&D, sales and finance. Because cct Stegelitz GmbH already sells recovered carbon black and pyrolysis oil made at its existing industrial production plant, joint market development can be accelerated.

The erection of an additional production facility based on Pyrolyx technology alongside the existing cct plant planned at the time of acquisition has been postponed due to the current weak oil price environment. Instead, the company is now focusing on measures to boost the efficiency of the existing plant.

CH2E (USA)

In February, a non-binding memorandum of understanding concerning strategic partnership between the CH2E Group (USA) and Pyrolyx was signed. Talks to flesh out the partnership had been suspended at the reporting date.

Even so, Pyrolyx is continuously evaluating ways of getting a foothold on the important US market.

The global patenting of Pyrolyx technology continues to move from strength to strength. After China, the USA, Russia and Ukraine, in H1 2015, the Japanese Patent Office registered the patent protecting the core technology of Pyrolyx under number JP 2012-530134. Moreover, Pyrolyx was awarded a new patent in Germany in October 2015 under number DE102012105796. This breakthrough allows the direct incorporation of a desired percentage of Pyrolyx recovered carbon black during the production of conventional furnace carbon black. Tests have confirmed that the resulting homogeneous blend can be directly used in the manufacture of new tires.

2.2 Development of the asset and capital structure

At December 31, 2015, the subscribed share capital of the company amounted to €2,806,205 divided into 2,806,205 no-par-value bearer shares each with a notional value of €1.00 in the share capital. All 2,806,205 shares issued are fully paid-up and are traded on the primary OTC market at Düsseldorf Stock Exchange. All shares in Pyrolyx are part of the company's equity. The company does not hold any treasury stock.

In Q2 2015, the following capital measures were carried out in connection with the acquisition of cct Stegelitz GmbH.

Capital increase in kind dated June 1, 2015

In accordance with Section 3(4) of the Articles of Association of Pyrolyx, the resolution adopted by the AGM on June 30, 2014 and entered in the Register of Companies on August 6, 2014 authorized the Management Board to increase the company's share capital with the approval of the Supervisory Board on one or more occasions by June 29, 2019 to a total of up to €197,886 by issuing up to 197,886 no-par-value bearer shares in return for cash and/or contributions in kind (Authorized Capital 2014/I). Authorized Capital 2014/I included the authorization of the Management Board to exclude subscription rights for shareholders if the shares were issued within a capital increase in return for contributions in kind.

Making partial use of the above authorization, on June 1, 2015 the Management Board decided to increase the company's share capital amounting to €411,687 from Authorized Capital 2014/I by €104,000 to €515,687 in return for contributions in kind to the exclusion of shareholders' subscription rights. This decision was approved by the Supervisory Board on June 2, 2015. The capital increase was subscribed to the full amount of €104,000 and entered in the Register of Companies on June 11, 2015.

The new shares were issued to the exclusion of existing shareholders' subscription rights at a subscription price of €55.00 per share. They carry full dividend rights from January 1, 2015.

The issue price was 11.3% above the arithmetic mean (€49.40) of the closing prices of the company's shares on the primary market at Dusseldorf Stock Exchange on the five trading days prior to the Management Board's resolution to issue the new shares.

By excluding shareholders' subscription rights, the company exercised the possibility of excluding subscription rights in connection with capital increases in kind. This exclusion of subscription rights was required in this case in order to be able to act quickly and flexibly and acquire the 20% interest in cct Stegelitz GmbH to improve the company's competitive position. The granting of shares in return was expedient in order to protect the company's liquidity. In addition, pricing the shares above the market price at that time adequately protected the shareholders' interests and ensured that the capital increase did not result in the dilution of shareholders. Given this, the exclusion of subscription rights as stipulated in connection with Authorized Capital 2014/I was altogether objectively justified.

Capital increase dated June 1, 2015

In accordance with Section 3(4) of the Articles of Association of Pyrolyx, the resolution adopted by the AGM on June 30, 2014 and entered in the Register of Companies on August 6, 2014 authorized the Management Board to increase the company's share capital with the approval of the Supervisory Board on one or more occasions by June 29, 2019 to a total of up to €197,886 by issuing up to 197,886 no-par-value bearer shares in return for cash and/or contributions in kind (Authorized Capital 2014/I). Authorized Capital 2014/I included the authorization of the Management Board to exclude subscription rights for shareholders if the capital increase against cash contributions did not exceed 10% of the share capital and the issue price was not significantly below the shares' market price.

Making partial use of the above authorization, on June 1, 2015 the Management Board decided with the approval of the Supervisory Board on the same day to increase the company's share capital amounting to €515,687 from Authorized Capital 2014/I by up to €39,577 to up to €555,264 to the exclusion of shareholders' subscription rights. The capital increase was subscribed to the full amount of €39,577 and entered in the Register of Companies on June 30, 2015.

The new shares were issued to the exclusion of existing shareholders' subscription rights pursuant to Section 186(3), clause 4 AktG German Stock Corporation Act at a subscription price of €103.00 per share. They carry full dividend rights from January 1, 2014.

The issue price was 108.5% above the arithmetic mean (€49.40) of the closing prices of the company's shares on the primary market at Dusseldorf Stock Exchange on the five trading days prior to the Management Board's resolution to issue the new shares.

Moreover, as the 39,577 new shares did not exceed 10% of the share capital, the limit for shares issued with the exclusion of subscription rights in return for cash contributions provided for in Authorized Capital 2014/I was not exceeded.

By excluding shareholders' subscription rights, the company exercised the statutory possibility of excluding subscription rights in connection with cash increases provided for in Section 186(3), clause 4 AktG. This exclusion of subscription rights was required in this case in order to exploit the favorable situation (in the management's view) for a capital increase of this type at short notice by making partial use of Authorized Capital 2014/I and in order to achieve the highest possible proceeds by pricing above the current average market price. A successful placement in connection with a capital increase with subscription rights usually entails a reduction of the current average market price and is unlikely to have resulted in such favorable terms. Accordingly, excluding subscription rights was in the company's interests. Moreover, owing to pricing above the current market price and the limitation of the quantity of newly issued shares with the exclusion of subscription rights to 9.6% of the previous share capital, the shareholders' interests were also adequately protected – for in principle they were able to maintain their relative stake in the company by purchasing shares on the stock exchange on similar terms. In addition, issuing new shares for a price substantially exceeding their current market value ensured that the capital increase did not result in the dilution of shareholders.

Given this, the exclusion of subscription rights as stipulated in connection with Authorized Capital 2014/I was altogether objectively justified

The capital increase was fully subscribed. The premium of €102.00 per new share was allocated to the capital reserve. Thanks to this capital increase, Pyrolyx released new funding totaling €4.076 million (before expenses) for further business development.

Contingent Capital 2013/I

The Management Board of Pyrolyx 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 €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 July 31, 2015, the convertible bonds had been fully subscribed and their issue was therefore closed.

The 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 €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. 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 Contingent Capital 2013/I amounting to €143,880 approved by the shareholders' meeting of Pyrolyx on June 26, 2013 and entered in the Register of Companies on June 28, 2013.

Authorized Capital

The Management Board was empowered by a resolution passed by the AGM on October 15, 2015 to increase the share capital of the company on one or more occasions until October 14, 2020 with the approval of the Supervisory

Board to a total of up to €1,403,102 by issuing up to 1,403,102 new no-par-value bearer shares in return for cash and/or contributions in kind.

The Management Board is authorized to exclude shareholders' subscription rights with the approval of the Supervisory Board in the following cases:

a) The capital increase in return for cash contributions does not exceed 10% of the share capital and the issue price is not significantly below the market price of shares in the company
b) In connection with fractional amounts resulting from the subscription ratio
c) If the new shares are issued in connection with a capital increase in return for contributions in kind

The Management Board is ultimately authorized, subject to the Supervisory Board's approval, to decide the conditions under which shares are issued, including the issue price and the content of share rights. The start of dividend entitlement may be backdated to the beginning of a fiscal year which is already over if the distribution of profits for the year concerned has not yet been decided. This resolution was entered in the Register of Companies on December 2, 2015.

The Management Board availed itself of this authorization on April 28, 2016 with the Supervisory Board's approval and passed the following resolution:

> The share capital of Pyrolyx is to be increased against cash contributions by up to €150,000.00 from €2,806,205.00 to up to €2,956,205.00 through the issue of up to 150,000 (in words: one hundred and fifty thousand) new no-par-value bearer shares (the "New Shares") each with a notional value of €1.00 in the share capital. This equates to an increase in the existing share capital of up to 5.3%.
>
> The issue price is set at €11.00 per New Share. The New Shares will carry dividend rights from January 1, 2015. The subscription rights of shareholders of Pyrolyx are excluded.
>
> The issue price exceeds the arithmetic mean (€6.08) of the closing price of shares in Pyrolyx in the Primary Market of the Düsseldorf Stock Exchange over the five trading days prior to the resolution passed by the Management Board concerning the issue of the New Shares.

Contingent capital

The AGM on October 15, 2015 passed the following contingent capitals:

- Contingent Capital 2015/I amounting to €692,900 serving the provision of convertible bonds and/or bonds with warrants with a total nominal value of up to €70 million
- Contingent Capital 2015/II amounting to €100,770 serving the provision of share options in connection with the 2015 Share Option Program

This resolution was entered in the Register of Companies on February 4, 2016. The Management Board has not yet made use of this authorization.

Furthermore, Pyrolyx has two other contingent capitals:

- Contingent Capital 2013/I amounting to €429,580 comprising not yet converted bonds from the 2013/18 Convertible Bond issued by Pyrolyx in October 2013
- Contingent Capital 2013/II amounting to €179,850 serving the provision of share options under the 2013 Share Option Program

The adjustments to the amounts on which Contingent Capital 2013/I and II are based resulting from the capital increase from company funds were entered in the Register of Companies on December 10, 2015.

Figures in the following tables have been rounded up or down to the nearest €1,000, possibly resulting in discrepancies.

Development of assets

		31.12.2015		31.12.2014		Change	
A.	**Long term assets**	TEUR	%	TEUR	%	TEUR	%
I.	Intangible assets						
	1. Properietary IP	212.5	1.4	3.3	0.0	209.2	6,353.9
II.	Tangible assets						
	1. Technical plant and equipment	51.3	0.3	58.4	0.7	-7.1	-12.2
	2. Other equipment, stationary	82.3	0.5	112.0	1.4	-29.7	-26.5
	3. Payments in advance, plants under construction	12.4	0.1	129.8	1.6	-117.4	0.0
III.	Financial assets						
	1. Shares in affiliated companies	12,418.2	81.9	4,078.0	50.2	8,340.2	204.5
	2. Loans to affiliated companies	1,155.4	7.6	0.0	0.0	1,155.4	0.0
		13,932.1	91.8	4,381.4	53.9	9,550.7	218.0
B.	**Short term assets**						
I.	Receivables & other assets						
	1. Accounts receivable	46.3	0.3	51.2	0.6	-4.9	-9.5
	2. Receivables to affiliated companies	764.6	5.0	303.1	3.7	461.6	152.3
	3. Other short term assets	42.0	0.3	177.3	2.2	-135.3	-76.3
II.	Liquid funds	364.9	2.4	137.6	1.7	227.4	165.3
		1,217.9	8.0	669.1	8.2	548.8	82.0
C.	**Accruals**	21.5	0.1	37.8	0.5	-16.3	-43.2
D.	**Deferred taxes**	0.0	0.0	3,038.5	37.4	-3,038.5	-100.0
		15,171.5	**100.0**	**8,126.9**	**100.0**	**7,044.6**	**86.7**

Development of the capital structure

		31.12.2015		31.12.2014		Change	
A.	**Equity**	TEUR	%	TEUR	%	TEUR	%
I.	Paid-in capital	2,806.2	18.5	411.7	5.1	2,394.5	581.6
II.	Capital reserve	4,182.1	27.6	9,661.7	118.9	-5,479.6	-56.7
III.	Profit/ Loss for the year	-1,928.1	-12.7	-8,295.4	-102.1	6,367.4	-76.8
		5,060.3	33.4	1,778.0	21.9	3,282.3	184.6
B.	**Provisions**						
	1. Other provisions	928.6	6.1	529.3	6.5	399.3	75.4
		928.6	6.1	529.3	6.5	399.3	75.4
C.	**Liabilities**						
	1. Bonds	6,014.1	39.6	1,089.2	13.4	4,924.9	452.2
	2. Liabilities to banks	0.0	0.0	0.0	0.0	0.0	0.0
	3. Accounts payable	785.3	5.2	861.7	10.6	-76.4	-8.9
	4. Other liabilities	2,381.7	15.7	3,868.7	47.6	-1,486.9	-38.4
		9,181.1	60.5	5,819.6	71.6	3,361.6	57.8
D.	**Accruals**	1.4	0.0	0.0	0.0	1.4	0.0
		15,171.5	**100.0**	**8,126.9**	**100.0**	**7,044.6**	**86.7**

Compared to December 31, 2014, total assets increased by k€7,044.6 or 86.7% to k€15,171.5.

The share of non-current assets within total assets rose by k€9,550.7 from 53.9% at the end of 2014 to 91.8% at the end of 2015. This is primarily due to the acquisition of cct Stegelitz GmbH.

The share of medium and short term assets (current assets, prepaid expenses and deferred tax assets) within total assets dropped by k€2,506.1 or 66.9% to k€1,239.3. This was mainly caused by the deferred tax assets, which the company decided to release with effect from June 30, 2015 since they cannot be expected with sufficient certainty to be used within the next five years.

The company's equity rose by k€3,282.3 or 184.6% to k€5,060.3. The equity ratio of the company at the balance sheet date was 33.4%. This positive development is attributable to capital measures taken in 2015.

Liabilities increased by k€3,361.6 or 57.8% to k€9,181.1. This is mainly due to the increase in 'Bonds', which includes the 2013/18 Convertible Bond. In July 2015, a further k€1,918 of the convertible bonds was subscribed. By July 31, 2015, the convertible bonds had been fully subscribed and their issue was therefore closed.

The decrease in other liabilities largely results from the repayment of loans amounting to k€3,686. However, this decrease was reduced by the balance of bullet interest payable on existing loans and taking out new loans from investors.

2.3 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 2015 and 2014:

Profit & Loss Statement

		01.01. - 31.12.2015 TEUR	%	01.01. - 31.12.2014 TEUR	%	Change TEUR	%
	Revenues	120.4	0.0	0.0	0.0	120.4	0.0
+	Other operating income	345.8	0.0	231.3	0.0	114.4	49.5
-	Raw material	0.0	0.0	1.5	0.0	-1.5	-100.0
=	Gross earnings	466.2	0.0	229.8	0.0	236.4	102.8
-	Personnel	1,883.0	0.0	1,407.5	0.0	475.5	33.8
-	Depreciation	55.0	0.0	41.9	0.0	13.0	31.1
-	Other operating expenses	1,624.8	0.0	1,648.1	0.0	-23.2	-1.4
=	Operating income	-3,096.6	0.0	-2,867.6	0.0	-228.9	8.0
+	Financial income	6.5	0.0	27.9	0.0	-21.5	-76.8
-	Financial expenses	797.8	0.0	592.7	0.0	205.0	34.6
=	Financial result	-791.3	0.0	-564.8	0.0	-226.5	40.1
=	Earnings before taxes	-3,887.9	0.0	-3,432.4	0.0	-455.4	13.3
-	Income taxes	3,042.3	0.0	-488.1	0.0	3,530.3	-723.4
-	Other taxes	2.4	0.0	2.1	0.0	0.3	14.4
=	Net earnings	**-6,932.5**	**0.0**	**-2,946.5**	**0.0**	**-3,986.1**	**135.3**

The revenues and other operating income primarily comprise sales and earnings with affiliated companies.

Personnel costs were higher due to an increase in bonus accruals and the recruitment of new employees.

Despite the transaction costs involved in the acquisition of cct Stegelitz, other operating expenses were slightly reduced again compared to the previous year thanks to strict cost management.

The reduced interest income results from the fact that unlike in the previous year, default interest from a no longer collectible debt was not entered after all. Increased interest expenditure is due to the interest rate structure of existing loans and interest associated with the convertible bonds.

The income taxes of €3,042.3 reflect the release of deferred tax assets.

2.4 Cash flow statement

The following cash flow statement provides an overview of the sources and uses 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"

			2015 TEUR	2014 TEUR
1.		**Net earnings**	**-6,932.5**	**-2,946.5**
2.	+/-	Depreciation/ write-ups on long-term assets	55.0	41.9
3.	+/-	Increase/ decrease of accruals	399.3	-56.9
4.	+/-	Other non-cash expenses/ income	3,038.5	-492.3
5.	-/+	Profit/ loss from disposal of long-term assets	71.1	0.0
6.	-/+	Increase/ decrease of working capital assets (inventory, accounts receivable, …)	-305.0	-128.6
7.	+/-	Increase/ decrease of working capital liabilities (accounts payable, …)	471.5	338.2
8.	=	**Cash flow aus laufender Geschäftstätigkeit**	**-3,202.2**	**-3,244.2**
9.	-	Investment into long-term assets	-4.3	-190.2
10.	-	Investment into long-term intangible assets	-176.7	-1.2
11.	-	Investment into financial assets	-3,775.7	-12.5
12.	=	**Cash flow from investing activities**	**-3,956.7**	**-203.9**
13.	+	Cash inflow from equity capital increases	4,076.4	0.0
14.	+	Cash inflow from debt	5,743.7	2,320.8
15.	-	Amortization of debt	-2,433.8	-264.8
16.	=	**Cash flow financing activities**	**7,386.2**	**2,056.0**
17.		Change in liquidity	227.4	-1,392.1
18.	+	**Cash beginning of period**	**137.6**	**1,529.6**
19.	=	**Cash end of period**	**364.9**	**137.6**

In 2015, cash inflow of k€9,420 was generated from the capital measures reported in 2.2. Furthermore, k€650 in financial loans was taken out from investors. The funds raised in this way were used to repay existing debts, make payments related to the acquisition of cct Stegelitz GmbH, and finance the current operations of Pyrolyx and affiliated companies.

The company is confident that it will still continue to have its financing needs met by the capital market in 2016. However, should this prove difficult for the company after all, this could have substantial negative repercussions for the company's net assets, financial position and results of operations and may jeopardize the company's going concern.

3. Events after the reporting period

The purchase price was adjusted in an agreement reached between the company and cct AG (the seller of cct Stegelitz GmbH) on 1 April 2016. Following this, 112,500 shares in cct AG (22,500 shares before the capital increase from company funds) will be transferred to Pyrolyx International GmbH, a wholly-owned subsidiary of Pyrolyx.

Changes have taken place to the Supervisory Board of Pyrolyx since the reporting date. Bernhard Meder resigned from the Supervisory Board in March 2016 followed by Bernhard von Reiche in April.

4. Outlook

Leading-edge technology and business concepts always contain risks in the introductory phase which may hamper or delay the medium and long term establishment of 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 technologies. However, since permission 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 customer markets which have high safety requirements and demand prolonged testing. This may sometimes delay the market launch of Pyrolyx products, especially recovered carbon black produced by Pyrolyx.

The general factors supporting Pyrolyx'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 CO_2 emissions compared to conventionally produced carbon black and the conservation of fossil fuels.

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 raw materials in the form of end-of-life tires (i.e. shredded or granulated scrap tires). On the other hand, other regions, especially the fast 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 recovered carbon black is to be consistent, the quality of the raw materials supplied must be consistent, too.

Bearing in mind the different uses to which end-of-life tires are put, Pyrolyx is competing with the incineration and material 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 material 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.

Pyrolyx's success hinges on the acceptance of recovered carbon black and pyrolysis oil among potential customers, who are mainly examining recovered carbon black's suitability for tires and industrial rubber applications. The agreement of the first concrete master specifications and the successful conclusion of field trials on tires produced with the addition of recovered carbon black made by Pyrolyx mean that Pyrolyx has made enormous headway towards future commercial orders from the tire manufacturing industry. In addition, following the takeover of cct Stegelitz GmbH, customers are now purchasing pyrolysis oil while recovered carbon black is being sold to the plastic and technical rubber industry.

In addition to the qualitative acceptance of recovered carbon black and pyrolysis oils, Pyrolyx's success is also affected by world oil prices. The price of industrial, non-recycled carbon black is closely linked to the global price of crude oil. Moreover, the price of recovered carbon black is geared to the price of industrial carbon black.

Weighing up all the opportunities and risks, the company assumes that significant turnover and earnings will still not be earned from transactions with external customers in 2016. However, revenue is expected from the sales of recovered carbon black and pyrolysis oil within the current operations of Pyrolyx's new subsidiary, cct Stegelitz GmbH.

Once again, a positive operating result is not expected in 2016. Pyrolyx will therefore continue to rely in 2016 on refinancing from the capital market and external investors.

To continue financing current operations and possible international expansion, especially in the USA, the company is planning extensive capital measures again in 2016. These could take the form of both equity and debt capital. Should this prove difficult for the company, this could have substantial negative repercussions for the company's net assets, financial position and results of operations and may jeopardize the company's going concern.

5. Other reporting items

The introduction of a process-based, EN ISO 9001 certified quality management system is being geared to the processes used at the ISO 9001 certified cct Stegelitz GmbH.

Munich, June 10th 2016

Pyrolyx AG

Management Board:

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Signed: Niels Raeder Signed: Fikret Dülger

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Signed: Michael Hommert