

# CHIEF EXECUTIVE OFFICER'S REPORT

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At Montauk we are very proud to be an industry leader in the provision of fully integrated solutions for the management, recovery and conversion of biogas from waste sources into renewable energy. Montauk's industry is at the forefront of the sustainability movement through the capture and beneficial use of organically generated methane. Methane, with a global warming potential 25 times greater than carbon dioxide ("CO<sub>2</sub>"), is a potent greenhouse gas ("GHG") that is a key contributor to global climate change.

The Company captures methane, preventing it from being released into the atmosphere, and converts it into pipeline-quality renewable natural gas ("RNG") for use as either a vehicle fuel (ultimately in the form of compressed natural gas ("CNG") or liquefied natural gas ("LNG")), or for electricity generation.

## INDUSTRY OVERVIEW

Biogas, whose primary component is methane, is naturally produced from the decomposition of organic waste. Common sources of biogas include landfills, manure from dairy and swine farms, and wastewater treatment facilities. The decomposition of organic material occurs under conditions, where oxygen is absent, by micro-organisms breaking down the biodegradable material. Biogas can be collected and processed for use as RNG, electricity or boiler heat (a form of medium-Btu fuel). RNG has the same applications as natural gas produced from fossil fuels and can serve as a replacement for pipeline-quality natural gas. Methane is the primary component of both biogas and natural gas. Unlike intermittent forms of renewable energy like wind and solar, electricity produced from RNG is a baseload resource that can run 24 hours a day.

## BUSINESS OVERVIEW

The business, with all of its social and environmental benefits, is challenging at times due to high capital costs, environmental attribute pricing volatility and the variable nature of the biogas derived from organic waste that we collect and process. The production costs of RNG are inherently higher than fossil fuel-based energy products such as natural gas due to the additional steps required to process the biogas; however, the costs are generally more than off-set by the market value of our renewable energy products, which can be significantly more than the market value of the comparable non-renewable energy. Factors such as climate, waste intake and waste composition all impact the quality and quantity of the biogas feedstock required for production of the RNG. Montauk's extensive experience and expertise in designing, constructing, operating and maintaining process facilities enables us to optimise the production of RNG across our portfolio.

The pricing of the various types of renewable energy produced by the Company is an ever-changing balance between the underlying energy commodity price and any associated environmental attribute premiums that can be realised. With

electricity and natural gas commodity pricing in the US having been depressed for several years, while still maintaining a relatively high degree of short-term volatility (due to weather, supply and demand, and other market forces), the premiums associated with the various environmental attributes are currently the driving factor in the profitability of the business.

The market prices of D3 cellulosic Renewable Identification Numbers ("RINs") weakened during the third and fourth quarters of FY 2019 largely due to several factors. The cellulosic industry produced 312.3 million D3 RINs in calendar 2018 compared to the Renewable Volume Obligation ("RVO") of 288 million. The RNG industry was responsible for generating 97% of those D3 RINs. While these production numbers evidence the continuing growth and viability of the industry consistent with the intent of the Renewable Fuel Standard ("RFS"), overproduction relative to the RVO has an adverse impact on pricing. During calendar 2018 the United States Environmental Protection Agency ("EPA") granted a record number (35) of small refinery exemptions ("SREs") for 2017, which resulted in additional volumes of vintage 2017 RINs being carried forward by obligated parties into 2018, negatively impacting demand. There are 38 pending SREs awaiting action by the EPA for the 2018 compliance year. The uncertainty regarding the status of these SREs has had a negative impact on RIN pricing in calendar 2019. The Company, both individually and through its industry trade group, the Coalition for Renewable Natural Gas, is active in the education and policy discussions with members of Congress and EPA staff on the negative impacts SREs have on the RFS and RVO programme structure. In December 2018 the EPA announced the cellulosic waiver credit ("CWC") pricing for 2019 would be \$1.77, a drop from the \$1.96 CWC in 2018, disincentivising carry-forwards of 2018 vintage D3 RINs into 2019.

Our focus will continue to be to position the Company and its facilities to capitalise on and leverage the opportunities that develop in the renewable energy markets. The evolving federal and state regulatory environments mandating the use of renewable fuels can lead to opportunities that allow existing projects to capture additional premiums as they become available. To that end the Company plans to remain flexible in its offtake contract strategy with the goal of capturing and maximising value from these programmes.

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## OPERATIONS

When a new RNG facility commences commercial operation there is a period when a facility may experience technical issues that are characteristic of our industry as it ramps up production. In FY 2019 the Company commenced commercial operation of the Atascocita RNG facility located in Humble, Texas and the Apex RNG facility in Amsterdam, Ohio. Both facilities encountered these types of challenges related to the processing facility, and landfill gas collection and control system (“GCCS”) that extended the time it took each RNG facility to reach steady-state production. The Company believes the underlying causes of the technical issues have now been fully identified and are either resolved or are in the process of being addressed.

Montauk uses a three-year trailing average of landfill gas (“LFG”) production as part of its forecast of GCCS output for each subsequent financial year, including monthly sculpting for seasonal impacts on LFG generation and collection. In FY 2019 the winter was unusually cold and wet, particularly compared to many of the previous financial years which were uncharacteristically mild. In addition, day-to-night temperature fluctuations affected GCCS components, causing swings in gas quality which created the need for continuous GCCS tuning. Unusually heavy precipitation also affected the accessibility of the wellfield to accomplish this tuning. These factors impacted biogas production during FY 2019, especially for Montauk’s facilities located in the north-eastern US.

## ENVIRONMENTAL ATTRIBUTE PROGRAMMES

### Renewable Fuel Standard

RNG derived from landfill methane, agricultural digesters and wastewater treatment facilities that is used as a vehicle fuel qualifies as a D3 cellulosic RIN under the EPA’s RFS programme. The RFS is a federal programme administered by the EPA requiring transportation fuel sold in the US to contain a minimum volume of renewable fuel. Under the RFS refiners and importers of gasoline or diesel fuel are obligated to blend renewable fuels into transportation fuel to meet an EPA-specified RVO. RINs are compliance units for fuel blenders, created as part of the RFS to promote renewable fuel utilisation for the purpose of achieving significant GHG reductions, reducing imported petroleum and developing the renewable fuel sector in the US. One million British thermal units (“MMBtus”) of RNG represents approximately 11.7 RINs. The RFS programme does not have a sunset date and remains in effect absent Congressional action to repeal it. The Company has participated in the programme since 2014 and looks for opportunities to increase its participation in the RFS programme as production from RNG facilities

becomes available through the development of additional RNG projects or acquisitions. While the RFS allows RNG produced anywhere in the US to qualify and potentially offer premiums significantly in excess of commodity prices for natural gas, uncertainty as to how the RFS will continue to be administered and supported by the EPA and the current Presidential Administration has impacted the stabilisation of the RIN market, resulting in price volatility and limited ability to sell RINs on a forward basis. Although the market remains relatively illiquid, the Company has been able to successfully monetise blocks of D3 cellulosic RINs at pricing levels commensurate with general market conditions.

In November 2018, the EPA released the final volume obligations for 2019 of 418 million gallons cellulosic D3 RINs, representing a 45% increase over the 2018 volume obligations for cellulosic D3 RINs of 288 million gallons. The EPA calculated the 2019 RVO using the same “rate of growth” methodology as used to set the 2018 RVO. By comparing D3 RIN generation for the 12-month period of October 2017 to September 2018 to the 12-month period of October 2016 to September 2017, the EPA arrived at a 29% growth factor used to determine the 2019 RVO. On 5 July the EPA released the proposed volume obligations for 2020 of 540 million gallons cellulosic D3 RINs, representing a 29.2% increase over the 2019 volume obligations for cellulosic D3 RINs of 418 million gallons. The EPA is accepting public comments through 30 August and Montauk is taking an active role in the process by providing comments both individually and collectively through various renewable energy organisations to assist the EPA in setting volume obligations that balance the supply-demand dynamics of the RIN market. The 2020 RVO is expected to be finalised by 30 November 2019. The EPA is also currently working on a “Reset” of the volume obligations for the 2021 and 2022 calendar years and the expectation is that the EPA will issue the Reset Final Rule by the end of FY 2020 that will establish the volume obligations for all RIN categories for each year in advance. The EPA is also required to finalise the “Set” for volume obligations commencing in 2023 by 1 November 2021. The EPA has yet to determine if the Set Rule will be for just the 2023 calendar year or for additional years beyond 2023 all in the same Rule. The issuance by the EPA of timely and sufficient annual volume obligations to accommodate the RNG industry’s growing production levels and impact of SREs is paramount to the stabilisation of the RIN market. Notwithstanding the growth of the RNG space, given the environmental premiums available for the prior two years, the Company remains, and expects to remain, a significant contributor to the overall generation of D3 RINs in the RFS programme. The table below provides the total RIN

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generation per calendar year from Montauk's RNG portfolio regardless of the monetisation strategy employed:

## D3 RINS generation

Category	2017 million	2018 million
Montauk portfolio D3 generation	46.8	<b>52.9</b>
Total industry D3 generation	250.6	<b>312.3</b>
Montauk % of total industry D3	18.6%	<b>16.9%</b>
Final RVO cellulosic standard	311	<b>288</b>
Montauk % of RVO	15.0%	<b>18.4%</b>

## Low Carbon Fuel Standard ("LCFS")

The LCFS programme is a California-specific fuel policy designed to incentivise the use of cleaner low-carbon fuels. The programme accomplishes this objective by setting annual carbon intensity ("CI") standards, which are intended to reduce GHG emissions from the state's transportation sector. This reduction occurs by encouraging the use of low-carbon transportation fuel in vehicles as an alternative to fossil fuels. RNG derived from sources such as LFG and dairy digester biogas that is used as a transportation fuel in California qualifies for LCFS credits. The number of LCFS credits for RNG from dairy digesters is significantly higher than the number of LCFS credits for RNG from landfills due to the relative CI scores of the two fuel sources. For dairy digester RNG projects, in particular, LCFS credits are a substantial revenue driver. Only two states have adopted programmes of this nature, the other being Oregon with its Clean Fuels Program. To the extent that RNG from Montauk's facilities is used as a transportation fuel in states that have adopted a state-specific programme, it is eligible to receive an environmental attribute additional to the RIN value under the federal RFS. Montauk is actively working to increase our penetration into markets with state-specific programmes as we consider the development of new projects.

## Renewable Portfolio Standards ("RPS")

The environmental premiums associated with renewable energy produced by Montauk's electric facilities are centred on various state RPS, requiring that a stated percentage of the electricity produced in that state comes from a renewable resource. Such premiums are in the form of renewable energy credits ("RECs"). The value and requirements for each state programme vary widely, which can limit the ability of similar facilities located in different states from having a similar pricing structure. In addition, only 29 states and the District of Columbia have adopted RPS.

## RESULTS

The Company produced 4.8 million MMBtus of RNG volumes during FY 2019, compared to 3.9 million MMBtus of RNG volumes during FY 2018. The increase in RNG volumes is driven by two new RNG facilities commencing operations in FY 2019.

Revenues from the Company's RNG segment increased by \$10.4 million or 11.6% for FY 2019 from the prior year. The weighted average index pricing impacting the Company's gas commodity revenues for the year ended 31 March 2019 was 10.0% higher than the prior year. During FY 2019, the Company self-marketed 25.9 million RINs, an 8.7 million increase from the prior year. The increase was driven by the two new RNG facilities commencing operations in FY 2019. Average pricing realised on RIN sales during FY 2019 was 28.2% lower than average pricing realised in the prior year, primarily attributed to a decrease in the D5 RIN pricing. In FY 2019, D5 RIN prices averaged approximately \$0.43 per RIN, compared to \$0.96 per RIN in FY 2018. At 31 March 2019 the Company had approximately 1.8 million RINs generated and unsold in inventory and 0.3 million MMBtus produced and not dispensed, approximately 1.2 million more RINs and 0.1 million MMBtus, respectively, than at 31 March 2018. For FY 2019, 20.3% of RNG segment revenues were derived from the monetisation of RNG volumes at fixed prices.

The Company produced 0.2 million MWh in renewable electric generation ("REG") volumes, a decrease of 16.6% over the prior year. Revenue from the Company's REG facilities decreased by \$0.6 million or 3.1% for FY 2019 from the prior year. The volume and revenue decreases are primarily attributed to the conversion of the Atascocita REG facility to an RNG facility during FY 2019 and the run-to-failure operations of the Coastal Plains REG facility, pending its conversion to an RNG facility. For FY 2019, 83.7% of REG segment revenues were derived from the monetisation of REG volumes at fixed prices.

Expenses for the Company's RNG facilities increased 34.1% for FY 2019 from the prior year. The increase is primarily attributed to the two new RNG facilities commencing operations in FY 2019. Expenses for the Company's REG facilities decreased 11.9% for FY 2019 from the prior year. The decrease is largely attributed to non-capitalisable optimisation costs for the Bowerman electricity generation facility in FY 2018. The Company recognised losses of approximately \$0.3 million related to its hedging programmes for the year ended 31 March 2019, compared to gains of approximately \$0.2 million in the prior year.

In FY 2019 the Company received approximately \$0.4 million in business interruption insurance proceeds related to a

forced interconnection curtailment at the Bowerman Power REG facility. Also during FY 2019, the Company recognised a gain on the sale of emission allowances of approximately \$0.9 million. These gains were partially off-set by losses on disposal of assets of approximately \$0.2 million.

During FY 2018 the Company realised a gain of \$2.6 million, attributable to one-time settlement proceeds from arbitration, and recognised \$1.6 million in expenses related to the early extinguishment of debt. Total cash paid associated with debt extinguishment was \$1.1 million.

The Company calculated and recorded an impairment loss during FY 2019 of \$2.4 million. The impairment loss was due to the pending conversion of certain REG facilities to RNG facilities and the continued deterioration in market pricing for electricity and calculated based upon replacement cost and pre-tax cash flow projections.

For FY 2019 the Company recognised \$5.9 million in tax expense, of which \$4.0 million was off-set against the Company's deferred tax asset. For FY 2018 the Company recognised \$16.0 million in tax expense, of which \$14.7 million was off-set against the Company's deferred tax asset.

## MONTAUK'S PORTFOLIO

Set out below is a summary of each of the projects in Montauk's portfolio:

### Renewable natural gas facilities

Site	Location	Capacity*
Rumpke	Cincinnati, OH	7 270 MMBtus/day
Atascocita	Humble, TX	5 570 MMBtus/day
McCarty	Houston, TX	4 415 MMBtus/day
Apex	Amsterdam, OH	2 670 MMBtus/day
Monroeville	Monroeville, PA	2 370 MMBtus/day
Valley	Harrison City, PA	2 370 MMBtus/day
Raeger Mountain	Vintondale, PA	1 850 MMBtus/day
Shade	Cairnbrook, PA	1 120 MMBtus/day
Southern	Davidsville, PA	852 MMBtus/day
<b>Total</b>		<b>28 487 MMBtus/day</b>

### Renewable electric facilities

Site	Location	Capacity
Bowerman Power	Irvine, CA	23.6 MW
Monmouth	Tinton Falls, NJ	10.0 MW
Security	Cleveland, TX	3.4 MW
Tulsa/AEL	Sand Springs, OK	3.2 MW
Pico	Jerome, ID	2.3 MW
<b>Total</b>		<b>42.5 MW</b>

\* Assumes inlet methane content of 56% and process efficiency of 91%

## Development update

In April 2018 the Company entered into an agreement with one of its existing landfill counterparties to build, own and operate an RNG facility at the Galveston County Landfill located in Santa Fe, Texas for a term of 20 years from commercial operation. Upon commercial operation the output from this new RNG facility will be contracted for use in the transportation sector to allow for the generation of RINs under the RFS. Commercial operation at this RNG project is targeted to commence in the second quarter of FY 2020.

In September 2018 the Company acquired 100% of the membership interests of Pico Energy, LLC, which was the owner of a manure digester, two Jenbacher engine generators and a manure supply agreement with a large dairy farm in Jerome, Idaho. The Company plans to build, own and operate an RNG facility at a dairy farm for a term of 20 years from execution of the manure supply agreement. Upon commercial operation the output from this new RNG facility will be contracted for use in the transportation sector to allow for the generation of RINs under the RFS programme and LCFS credits under the California LCFS. Commercial operation at this RNG project is targeted to commence in the third quarter of FY 2020. Upon commercial operation the Company will continue to own and operate the two Jenbacher engines fuelled by natural gas to heat the digester and produce electricity.

In May 2018 the Company entered into an agreement with one of its existing landfill counterparties to convert an existing renewable electric project to an RNG facility by building, owning and operating an RNG facility at the Coastal Plains Landfill located in Alvin, Texas for a term of 20 years from commercial operation. Upon commercial operation the output from this new RNG facility will be contracted for use in the transportation sector to allow for the generation of RINs under the RFS. Commercial operation at this RNG project is targeted to commence in the fourth quarter of FY 2020.

These additions will further strengthen Montauk's position as a leader in the production of renewable RNG from biogas waste sources.

In July 2018 the Company entered into a joint venture agreement with a dairy farm partner to build, own, and operate a manure digester and RNG facility at a small commercial dairy farm in California, with Montauk holding an 80% interest. Although management continues to believe that the dairy RNG segment provides a growth opportunity for the Company as evidenced by the Pico RNG project, we have decided to exit this investment to focus on other opportunities and are exploring options to sell our interest in this project.

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The table below provides a summary of the three development projects described above:

Site	Location	Capacity*
Galveston	Galveston, TX	1 857 MMBtus/day
Coastal Plains	Houston, TX	1 857 MMBtus/day
Pico	Jerome, ID	933 MMBtus/day
<b>Total</b>		<b>4 647 MMBtus/day</b>

## Fuel supply agreements

A critical component of the Company's business is its ability to negotiate and maintain long-term fuel supply agreements. Montauk has nurtured excellent working relationships with our biogas hosts and actively looks to strategically extend fuel supply rights at our project sites. The tables below provide summaries of the expiration periods of those agreements:

### RNG facilities – gas rights expiration dates

Expires	Sites	% of FY 2019 total RNG portfolio production
0 – 5 years	0	0.00%
6 – 15 years	3	8.95%
More than 15 years	6	91.05%

### Renewable electric facilities – gas rights expiration dates\*\*

Expires	Sites	% of FY 19 total electric production
0 – 5 years	1	11.37%
6 – 15 years	1	14.32%
More than 15 years	3**	74.31%

\*\* Includes Pico facility; post-commercial operation date of the RNG project, the electric facility will continue to operate on natural gas

### Development projects – gas rights expiration dates

Expires	Sites
0 – 5 years	0
6 – 15 years	0
More than 15 years	3

The Monmouth site in New Jersey consists of a renewable electricity project under a gas rights agreement that expires 31 December 2020 where the Company sells renewable electricity at market rates in PJM Regional Transmission Organization ("RTO"). In March 2019 the Company notified our host that we were terminating the existing gas rights agreement and surrendering the site due to a lack of landfill gas in commercial quantities effective 27 September 2019.

## SUMMARY

In an industry that continues to experience depressed energy commodity pricing, management believes that Montauk is well positioned to sustain its strategic growth by capturing both existing and emerging value from developing renewable energy markets to drive long-term value for its shareholders.