Transcript of
Aemetis, Inc.
Aemetis Second Quarter 2023 Earnings Review Conference Call
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Presentation

Operator

Welcome to the Aemetis Second Quarter 2023 Earnings Review Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Todd Waltz, Executive Vice President and Chief Financial Officer of Aemetis, Inc. Mr. Waltz, you may begin.

Todd Waltz - EVP and CFO, Aemetis, Inc.

Thank you, Kelly. Welcome to the Aemetis’ Second Quarter 2023 Earnings Review Conference Call. Joining us for the call today is Eric McAfee, Founder, Chairman and CEO of Aemetis; and Andy Foster, President of Aemetis Advanced Fuels and Aemetis Biogas.

We suggest reading our website at aemetis.com to review today's earnings press release, the Aemetis Corporate and Investor Presentations, filings with the Securities and Exchange Commission, recent press releases and previous earnings conference calls. The presentation for the call today is available for review or download on the Investors section of aemetis.com website. Before we begin our discussion today, I'd like to read the following disclaimer statement.

During today's call, we will be making forward-looking statements, including, without limitation, statements with respect to our future stock performance, plans, opportunities and expectations with respect to financing activities and the execution of our business plan. These statements must be
considered in conjunction with the disclosures and cautionary warnings that appear in our SEC filings. Investors are cautioned that all forward-looking statements made on this call involve risks and uncertainties and that future events may differ materially from the statements made. For additional information, please refer to the company's Securities and Exchange Commission filings, which are posted on our website and are available from the company without charge.

Our discussion on the call today will include a review of non-GAAP measures as a supplement to financial results based on GAAP because we believe these non-GAAP measures serve as a proxy for the company's sources or uses of cash during the periods presented. A reconciliation of non-GAAP measures to most directly comparable GAAP measures is included in our earnings release for the three and six months ended June 30, 2023 which is available on our website. Adjusted EBITDA is defined as net income or loss plus to the extent deducted in calculating such net income, interest expense, income tax expense, intangible and other amortization expense, accretion and other expenses of Series A preferred units, loss on lease termination, gain on litigation, depreciation expense and share-based compensation expense.

Let's review the financial results for the Second Quarter of 2023.

Revenues during the second quarter of 2023 were $45.1 million, compared to $65.9 million for the second quarter of 2022, principally driven by $33.6 million of sales from India Biodiesel. Our California ethanol operation restarted after an extended maintenance cycle, which allowed for the acceleration of the implementation of several important ethanol plant efficiency upgrades, allowing for the generation of $11.3 million of revenue during late May and June. Delivery corn price decreased significantly from an average price of $10.21 per bushel during the second quarter 2022 to $6.80 per bushel during the second quarter 2023.

Gross profit for the second quarter of 2023 was $2 million, a significant improvement compared to a $214,000 gross loss during the second quarter of 2022.

Selling, general and administrative expenses were $9.7 million during the second quarter of 2023, compared to $7.4 million during the second quarter of 2022, including $1.3 million for fixed cost of goods sold that were allocated to selling, general and administrative expenses during the Keyes plant maintenance period. SG&A included $1.8 million of non-cash expense related to stock options and other considerations issued under stock incentive plans.

Operating loss was $7.8 million and $7.7 million for each of the second quarter quarters of 2023 and 2022.

Interest expense during the second quarter 2023 was $9.6 million, excluding accretion and other expense in connection with Series A preferred units in our Aemetis Biogas subsidiary, compared to $6.7 million during the second quarter 2022. Additionally, our Aemetis Biogas subsidiary recognized $6.9 million of accretion and other expenses in connection with preference payments on its preferred stock during the second quarter of 2023, compared to $1.5 million during the second quarter of 2022.

Net loss was $25.3 million for the second quarter 2023, compared to a net loss of $209,000 for the second quarter of 2022, including the impact in 2022 of a grant of $14.2 million received from the
United States Department of Agriculture (“USDA”) Biofuel Producer Program and the release of a litigation reserve of $1.4 million.

Our India plant contributed $5.1 million of adjusted EBITDA during the three months ended June 30, 2023, offset by adjusted EBITDA from the restart of the Keyes plant and other operations for a total company negative adjusted EBITDA of $4.2 million for the second quarter of 2023.

Cash at the end of the quarter was $3.5 million, compared to $4.3 million at the close of 2022.

This completes our review of the Second Quarter of 2023.

During the first half of 2023, investments in capital projects were $9.8 million. Investments in capital projects related to Aemets Biogas were $7.8 million. Investments in capital projects related to reduction of carbon intensity of Aemets ethanol and other company initiatives were $2 million.

Now I'd like to introduce the Founder, Chairman and Chief Executive Officer of Aemets, Eric McAfee for a business update. Eric?

**Eric McAfee - Founder, Chairman and CEO, Aemets, Inc.**

Thank you, Todd.

Aemets is focusing on producing below zero carbon intensity products.

By growing and diversifying our existing dairy renewable natural gas and ethanol businesses in California and expanding our biodiesel and tallow feedstock business in India, we are executing on a Five Year Plan to grow to $2 billion of annual revenues and more than $600 million of annual positive cash flow. We invite investors to review the company presentation on the homepage of the Aemets website.

The Aemets Five-Year Plan includes growth in our five business segments to produce sustainable aviation fuel and renewable diesel, biodiesel, renewable natural gas and low carbon ethanol, along with carbon sequestration of the CO2 produced by these businesses in California. Byproducts of these businesses include distillers corn oil in California and refined tallow from India. So, we plan to use as feedstocks for our SAF and RD production facilities, as well as using our dairy renewable natural gas to replace diesel while trucking our feedstocks and finished products, reducing fuel cost, carbon intensity and air emissions.

We already have achieved many of the significant milestones for the current year of the Five Year Plan, though several important events are scheduled over the next few months.

In the India Biodiesel business, $33.5 million of biodiesel contracts were fulfilled by Aemets for the three India government oil marketing companies during the second quarter of 2023 generating $5.1 million of positive adjusted EBITDA during the second quarter. We are now shipping new OMC orders for the third quarter. We are seeing steady improvement in the speed of the OMC procurement processes and note the positive impact of Cost-Plus pricing that's now being used by
the OMCs to purchase biodiesel. The India business is debt free and now generally funds its own operation without outside working capital financing. The planned export of refined tallow from the India facility to renewable diesel producers in the U.S. is making steady progress with final negotiations underway for storage tanks at two California ports and feedstock sales to several biorefinery customers in active discussions.

In the Aemetis Biogas business, we closed the second $25 million USDA guaranteed loan to build dairy biogas digesters for an additional eight dairies, bringing our total to 15 fully funded dairies that are designed to produce a combined 400,000 MMBtus of renewable natural gas each year. At $100 per MMBtu of future expected revenues, when the Low Carbon Fuel Standard carbon intensity pathways for the Aemetis Biogas project are issued by the California Air Resources Board, these 15 dairies are estimated to generate approximately $40 million of annual revenues and more than $30 million per year of annual positive cash flow under primarily 35 year contracts, including optional extensions. Until the California Air Resources Board pathway approval is processed, and we are able to begin selling into the renewable natural gas markets at its full LCFS value, we will be storing the renewable natural gas we produce underground and carrying it on our books as inventory. We already have signed agreements to build biogas digesters for 37 dairies and plan to build digesters for 65 dairies in the Five-Year Plan. We now have built and are operating seven dairy digesters, a 40-mile biogas pipeline, a central biogas to RNG production facility, and a PG&E utility gas pipeline interconnection unit. The 20-year long-term debt financing provided by the U.S. Department of Agriculture Renewable Energy for America Program (known as REAP) has now funded $50 million of project financing to Aemetis Biogas. An additional $75 million of USDA guaranteed project funding is in process, with an expectation of obtaining USDA commitment letters later this year. In total, we plan to receive $125 million of USDA REAP funding and commitments for Aemetis Biogas by the end of this year.

Though we plan to continue to utilize USDA REAP loans for the construction and operation of the Aemetis Biogas projects, we are negotiating a repayment of the Third Eye Capital financing by a new lender. We expect to close a new financing for Aemetis Biogas this fall and along with an allocation of investment tax credits to fully repay the Third Eye Capital financing that funded the launch of the Aemetis Biogas project.

The Aemetis Biogas Central Dairy Project is expected to generate more than $60 million of federal tax credits under the Inflation Reduction Act by bringing the 40-mile biogas pipeline, the Central RNG production facility and other biogas -- Aemetis Biogas assets In Service in the first half of 2023. We are in the process of selling these tax credits to a large corporate buyer and expect to receive more than $50 million of cash proceeds upon closing of the IRA investment tax credit sale.

In the Aemetis Sustainable Aviation Fuel and Renewable diesel business, we have nearly completed the two primary permits for the construction of the 90 million gallon SAF and RD plant at the Riverbank site. The Conditional Use Permit and California Environmental Quality Act approval allowing the use of the 24-acre site for construction of a sustainable aviation fuel and renewable diesel plant was posted for public notice and is expected to be approved in the next month. The Authority to Construct air permit is expected to be approved by the end of September in order to allow project financing to close early next year.
In the Aemetis Carbon Capture and Sequestration Business, we designed CO2 carbon capture and sequestration systems for the Riverbank and Keyes site and recently were awarded the first CO2 Characterization Well Permit ever issued by the State of California. The CO2 Characterization Well is designed to provide soil data for the EPA Class VI injection well planned for the Riverbank site. The well site compacted access road and high capacity well drilling pad have now been engineered, permitted and constructed at a cost of about $500,000.

Let's briefly review progress with external legislation regulations and incentives including the Federal Inflation Reduction Act and the California LCFS.

The external political and regulatory environment for renewable fuels and the reduction of carbon pollution in the U.S. and India has improved significantly during the past year. The passage of the Inflation Reduction Act in August 2022 provides an estimated $400 billion of funding towards renewable energy and carbon reduction projects. On June 21st of this year, the IRS issued guidance for the process to transfer IRA tax credits. The IRA investment tax credits the Aemetis Biogas business generated during Q1 and Q2 of 2023 from placing six digesters, 40 miles of biogas pipeline and the renewable natural gas production facility with utility interconnect into service in late January are expected to be sold to a single corporate buyer in the next month or so. We expect that more than $450 million of Inflation Reduction Act, transferable tax credits will be generated by the Aemetis Biogas business in the next four years and substantial amounts are expected to be generated by the reuse of CO2 by the ethanol plant, construction and operation of the SAF plant, and underground sequestration of CO2. The sale of investment tax credits is expected to be booked as other income and could generate a substantial amount of adjusted EBITDA cash and after-tax earnings.

During the second quarter, the California Air Resources Board held an LCFS Scoping Plan webinar where staff stated that CARB plans to significantly increase the number of credits required under the Low Carbon Fuel Standard Program starting in 2024 by significantly expanding the LCFS mandates. CARB expects the increased mandates will raise the price of LCFS credits to more than $240 per credit in the next two years. Recent discussions have focused on a 48% reduction in greenhouse gas emissions by year 2030, up from 40% which should have a positive impact on LCFS credit prices.

LCFS credits generate revenues for Aemetis and all of our U.S. businesses and indirectly benefit our India business that produces feedstock for renewable diesel and sustainable aviation fuel biorefineries.

Now, Andy Foster, the President of Aemetis Biogas and Aemetis Advanced fuels businesses, will review some highlights.

Andy Foster - President, Aemetis Advanced Fuels and Aemetis Biogas
Thanks, Eric. Late last year, we closed our first USDA $25 million financing and just last week our second USDA $25 million financing utilizing the Renewable Energy for America Program. Allow me to quickly recap the Aemetis biogas RNG Q1 project milestones:

- We completed the installation of 40 miles of biogas pipeline.
- We completed commissioning of the biogas-to-RNG upgrading facility.
- We completed commissioning of the RNG interconnection unit with PG&E's Pipeline.
- We now have seven fully operating digesters and will be constructing eight additional digesters this year.

These 15 dairy digesters are expected to generate approximately 400,000 Mmbtu per year of renewable natural gas.

We recently received our Default negative 150 Carbon Intensity pathway approval for four dairies to begin generating LCFS credits and expect two more approvals in the coming weeks. While we await the approvals of our Provisional LCFS pathways for credit generation, we are storing our RNG underground and carrying it as inventory until we deliver it to customers.

With the dairy RNG business now operating seven digesters, and with eight more dairies fully funded and underway. The approval of CARB LCFS pathways for each digester will significantly increase revenues for RNG that is already being produced. We are working diligently to obtain the Provisional LCFS carbon intensity pathways as quickly as possible, which we expect to be in the negative 415 CI range, resulting in significantly more revenue than the negative 150 Default Pathway that we are currently using, while the full pathway applications are in process.

Operationally, we're focusing on executing the construction of additional dairy digesters to fill our 40-mile biogas pipeline, the centralized biogas-to-RNG production facility, and the PG&Е interconnection unit, which are all currently on operating.

Let's briefly discuss progress at our Keyes California ethanol production plant.

During Q1 and a portion of Q2 this year, we completed an extended maintenance and upgrade cycle for our Keyes ethanol plant, which helped us to avoid significant losses during the quarter due to extraordinarily high natural gas prices. But equally important, helps us avoid future plant shutdowns that would have been required to install key components of our energy efficiency upgrades. The results is an acceleration of our reduction of energy costs and driving lower carbon intensity of our biofuel through several plant efficiency and electrification projects. We also accelerated the installation of an entirely new Allen Bradley Decision Control System, or DCS with Artificial Intelligence capabilities, along with several other important process upgrades.

While a top priority for Aemetis is to maintain our decade long track record of continuously operating the Keyes plant to supply feed and fuel to local markets, doing so under extremely negative conditions that developed late last year and continued into the second quarter of this year in California natural gas markets would have been unsustainable and frankly, irresponsible. Rather than just shutting down and furloughing our employees, we instead chose to use this time to conduct an extensive plant maintenance program and pull forward many of the critical components
of our energy efficiency projects. In the long run, this decision to focus on fundamental improvements in our energy efficiency will save us millions of dollars in project costs through avoided down days and lost production, and save us time in completing the projects. Ultimately, this also puts us on a faster path to improving our operational expenses through increased energy efficiency.

We restarted the Keyes ethanol plant in late May and ramped up production during June and July.

As a strong endorsement of our carbon reduction and energy efficiency projects, Aemetis has been awarded $16 million of energy efficiency and other grants by PG&E, the California Public Utilities Commission, and other entities to supplement our own funding to complete these projects. Our goal is to significantly reduce or even eliminate the use of petroleum-based natural gas at the Keyes plant. When these projects are completed in 2024, we expect that natural gas usage at the Keyes ethanol facility will be reduced by 80% or more. This transformation from traditional natural gas to renewable electricity will put Aemetis at the forefront of decarbonized manufacturing facilities in California and is expected to reduce the carbon intensity of the fuel ethanol produced at the Keyes plant by double-digits.

The installation of the solar microgrid mechanical vapor recompression or MVR, operation of the all-electric Mitsubishi ZEBREX dehydration unit, the replacement or upgrading of various heat exchangers and other process equipment, and the installation of a new AI enabled DCS system will allow Aemetis to achieve meaningful energy cost savings and increased revenue through lower carbon intensity fuel ethanol sales.

In summary, despite facing some temporary and highly unusual external headwinds in the first and second quarters of this year in our ethanol business, operational performance and project milestones for the Aemetis biogas and Ethanol Plant business continue to be on track with our Five-Year Plan.

Eric?

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

Thank you, Andy.

Let's review our growing biodiesel tallow feedstock refining and glycerin refining businesses in India.

The National Biofuels Policy in India was updated in 2022 and now is being implemented to achieve a 5% blend of biodiesel that is equal to about 1.25 billion gallons per year.

During the second quarter of 2023, the three government oil marketing companies issued tender offers to purchase biodiesel under a “feedstock plus” pricing formula that was used very successfully last fall to bring biodiesel plants into production.
The tender offers were for a delivery during the second quarter of 2023. Aemetis selected specific delivery locations and amounts then received supply contracts for about $34 million of biodiesel to be delivered during April, May and June of this year.

The cost-plus pricing formula used by the oil marketing companies is expected to be the ongoing format for sales to the OMCs. We expect the formula to be a successful mechanism for the rapid growth of biodiesel production in India due to the predictability of the pricing formula. Our plant in India is uniquely situated to benefit from the successful feedstock plus pricing mechanism in India, since importing biodiesel or renewable diesel is not allowed under India law. And Aemetis owns and operates the largest production capacity biodiesel plant in India.

We're negotiating the sale of tallow feedstock that's refined by our tallow pretreatment unit in India for export to the U.S. for the production of renewable diesel and sustainable aviation fuel.

Since our India subsidiary has no debt and the 50 million gallon per year biodiesel plant, the 50 million gallon per year tallow refining facility, and the glycerin plant are fully constructed, we are well positioned for profitable operations as we scale up operations to meet OMC requirements for biodiesel blending.

**Let's discuss our carbon zero sustainable aviation fuel and renewable diesel projects in Riverbank, California.**

A year ago, Aemetis took operational control of the 125-acre Riverbank site for construction of our sustainable aviation fuel and renewable diesel plant, as well as the Riverbank portion of our CO2 sequestration well project.

We have signed and announced more than $3.8 billion of sales contracts with Delta Airlines, American Airlines, Japan Airlines, Qantas and other airlines. We've now completed offtake contracts for contracts for about 45 million gallons per year of blended sustainable aviation fuel to be produced at the Riverbank plant.

In addition, we signed a $3.2 billion renewable diesel sales agreement to deliver 45 million gallons per year under a 10 year sales contract with a major travel stop chain for its Northern California locations.

Incentives included in the recently passed IRA legislation, expand the market for sustainable aviation fuel by allowing a price to airlines that is about 10% higher than petroleum jet fuel and is partially or entirely offset by CORSIA carbon credits generated by the airlines.

During Q2 2023, we continued to make steady progress toward air permits and other building permits for the 90 million gallon per year Riverbank SAF/RD plant. We look forward to completing engineering and permitting in order to begin construction of the Riverbank renewable jet diesel plant later this year or early next year.

**Let's review our subsidiary Aemetis Carbon Capture.**
Currently, Aemetis captures the 150,000 metric tonnes per year of CO2 emissions from our ethanol plant near Modesto and reuses the CO2 for local customers. This reuse of CO2 generates 45Q transferable tax credits under the Inflation Reduction Act.

In Phase 1 of the Aemetis Carbon Capture project, we plan to inject up to 400,000 metric tonnes per year of CO2 emissions from our biogas, ethanol and jet diesel plants into two sequestration wells, which are planned to drill near our two biofuels plant sites in California. We expect to construct two CO2 injection wells that each have a minimum of 1 million metric tonnes per year of injection capacity with additional CO2 supplied by other emission sources to sequester a planned total of 2 million metric tonnes per year of CO2.

During 2022, Aemetis completed the purchase of 24 acres at the Riverbank site and built a heavy equipment access road and a well drilling pad for the soil characterization well to provide data for our EPA Class VI injection well permit.

The initial phase of construction includes drilling two characterization wells to provide empirical data for the EPA Class VI permits. We expect to receive our first well drilling permit for the characterization well last month, which we've just recently achieved, but this is key, in that it's on track with our well development plan.

The Direct Pay feature of the Inflation Reduction Act provides a federal tax credit of $85 per metric tonne of CO2 as a cash refund to Aemetis each year for the first five years of production. The planned 2 million metric tonnes of CO2 per year from the Aemetis carbon capture projects would generate an expected $170 million per year from the federal Direct Pay tax credit as well as an estimated $400 million per year at a projected $200 per ton for sequestered CO2 under the low carbon fuel standard in California. We believe the fixed amount of $850 million provided by the Direct Pay funding over the first five years of the project could support the funding of an estimated $250 million capital cost for the two injection wells and related equipment.

**In summary…**

The India biodiesel business showed $5.1 million of adjusted EBITDA on sales of $33.5 million in the second quarter, while the Aemetis ethanol business was in a maintenance and upgrade cycle during the quarter. In response to the temporary exorbitant pricing of natural gas in California during the first quarter and early second quarter of this year. With this extraordinary natural gas price event behind us, we restarted the Keyes plant and continue to expand a diversified portfolio of negative carbon intensity projects dairy, renewable natural gas, biodiesel in India, sustainable aviation and renewable diesel fuel, low carbon ethanol using zero carbon intensity electricity and renewable hydrogen and CO2 sequestration.

All these projects are synergistic and create what we refer to as a “circular bioeconomy” within Aemetis in which we use byproducts and waste products from our facilities and local areas as feedstock to produce low and negative carbon intensity renewable fuels.
Our company's values include a long-term commitment to building value for shareholders, the empowerment of and respect for our employees and business partners and making significant and positive contributions to the communities we serve.

Now, let's take a few questions from our call participants. Kelly?

**Operator**

Thank you, Mr. McAfee. We will now be connecting a question-and-answer session. [Operator Instructions]. Your first question is coming from Manav Gupta with UBS. Please pose your question. Your line is live.

**Manav Gupta:** Eric, you have a closer visibility with CARB than probably anybody else. You know those people very well and they listen to you. They take your inputs. Help us understand. I mean, we hear that CARB wants to fix this, that the price is too low right now for new development. What are the next milestones we should look for, Eric, when we -- as this process unfolds? And when can we expect some kind of firm commitment from their side which helps the higher price of carbon to move higher and benefit Aemetis in multiple ways?

**Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.**

What don’t we have Andy cover that?

**Andy Foster - President, Aemetis Advanced Fuels and Aemetis Biogas**

Hey, Manav. Good question. I think we're sort of in the interim period where CARB is obviously rescoping the LCFS program, a pretty significant undertaking that started last fall, and they're hoping to have wrapped up this fall. They certainly sent a lot of very positive indications about the direction they're going. But currently they're doing things like working on the Tier 1 calculator, which they've sent out to all the various stakeholders to receive comment and feedback and any kind of insights from industry and other groups to help them as they start to finalize the rules that will be a part of this new LCFS.

So, I think in that period of time, Manav, it's natural that there's some level of kind of wait and see and we did see a nice little run up in the LCFS price about a month ago. I think there's a record number of credits that are out there, which obviously, that's not helping the price. So, I think our view is that take the long-term view of your investment or the marketplace and how we're building our business; probably seeing improvement in the first quarter. Hopefully, they'll send some more clear signals by the end of this year. But in the first quarter of next year, when they begin the reauthorization and the implementation of the new LCFS, we know that they're going to increase the requirements of the program. We know that for a fact. They've stated it publicly. They've set up to 48%. So unfortunately, we're in that kind of middle zone right now where everybody's sort of waiting for this to happen. A lot of projects are being built out.

As you know, CARB has a huge backlog of applications that are sitting with temporary or default pathways. So, there's a lot of projects that want to come online, a lot of projects that are looking to
actively participate in the program that are sort of in the queue right now waiting for CARB to get through those applications where we have six of them ourselves in there and we're meeting with CARB and having good open dialog with them about how we can help them as an industry, how we can help them improve that process. Because I think once people start to see these projects really flow through the pipeline, that's also going to have a very positive effect because the State of California needs to be mindful of their obligations and meeting their own goals.

And the renewable natural gas business is really at the front of that line in terms of helping them advance the program and meeting their obligations under the LCFS. So long answer. I apologize for being windy, but I hope that gives you some insight.

**Manav Gupta**: Perfect. I'm going to keep it to the macro again. Looks like the EPA also came out and with their RVO is going to be very supportive of renewable natural gas. Maybe not as supportive of Renewable Diesel, but definitely very supportive of renewable natural gas. And we have seen the price of D3 respond to that. So, any thoughts on EPA being supportive of RNG? Maybe it was not as supportive earlier and EV RINs was a little tricky area, but looks like now they want to grow RNG and they want you to use it in the transportation vehicles.

**Andy Foster - President, Aemetis Advanced Fuels and Aemetis Biogas**

That's right. And I think they received a lot of input from industry, to be honest with you. Over the last few months, we work with the Renewable Gas RNG Coalition and other groups, giving a lot of feedback, submitted a lot of information to the EPA and it appears that they were listening.

So yes, we're happy with the developments there and hope that they continue to show strong support for renewable fuels in general because despite the lofty goals and aspirations for EVs, which we certainly we support EVs, but there's an aggressive timeline that everybody's looking at in the one sector that can deliver and has proven it can deliver is renewable fuels.

**Manav Gupta**: Thank you so much, guys. And congrats on all the positive developments that are happening at Aemetis.

**Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.**

Thanks, Manav. Appreciate you joining the call.

**Operator**

Your next question is coming from Derrick Whitfield with Stifel. Please pose your question. Your line is live.

**Derrick Whitfield**: Thanks and good morning, Eric and team.

**Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.**

Hey, Derrick.
Derrick Whitfield: For my first question, I actually wanted to pick it up with where Manav left it there on macro, but really focus more on Riverbank. In light of the less favorable D4 RVO announcement, could you update us on your latest thoughts on the macro environment for RD and SAF investments? And separately, could you comment on your degree of flexibility that you will have in your operation and supply agreements to produce and allocate production to SAF?

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

Absolutely. Let's take the second one first. We invested, it's about an extra $30 million investment to use the Haldor Topsoe HydroFlex process. What HydroFlex allows is we can run the plant 100% renewable diesel. Any percentage of SAF all the way up to 100% Sustainable Aviation Fuel. The yield is less on aviation fuel. But the economics would drive the decisions of what percentage of SAF and RD we produce. Currently, we've done our contracts with 50% RD and 50% SAF.

So, let's then talk about what would drive our decisions. The D4 RIN and the D5 RIN under the renewable volume obligation of 2023, '24 and '25 is being discouraged by the EPA. They have set targets that are below the known volume that are coming into the market and frankly, the signal was don't produce as much biodiesel as you're producing now and just kind of trying to play the magic of go make SAF happen. But by the way, don't produce as much renewable diesel as you plan to either. So it's essentially a discouragement signal from the EPA for building renewable diesel plants which is the kind of plant that makes an SAF molecule.

So, there's a contradiction between the White House's 3 billion gallon 2030 target for Sustainable Aviation Fuel production and an RVO that is below the current capacity to produce existing biodiesel and renewable diesel. Now, our response to that is that we believe people will be discouraged. Well, in any market in which your other producers are discouraged means that the amount of capacity they produce is less. But I tell you, the people that are not discouraged are our customers in the SAF business.

The airline industry consumes about 100 billion gallons per year worldwide of aviation fuel. There will be no battery or hydrogen or nuclear powered airplanes anytime soon to displace this petroleum jet fuel. And the airline industry is fully committed, driven by penalties in Europe and incentives in the U.S. to a rapid displacement of as much of that 100 billion gallons as possible. So, we end up with one of these classic situations which customers want the product, but government policy is lagging what industry needs, which is to have supportive policy.

So, we, as I said in our commentary, will be fully permitted and frankly going to the financing closure here very soon. And so- we see it as many projects that are year or two or three years behind us due to litigation or other problems, very possibly may be further delayed or not to get built at all, providing even a bigger gap between the reality of the customer, the airline's willingness to pay for this Sustainable Aviation Fuel solution to their decarbonization goals and the actual production.

So, what the EPA has set up is basically a miss on the 2030 3-billion gallon goal by telling us we don't need to build any Renewable Diesel or SAF production capacity, whereas airlines who are
our customers, and frankly our partners, are very encouraging and very supportive and trying every way possible to participate in our project.

So, we are very enthusiastically moving forward in partnership with our customers and frankly our technology providers. And one of the reasons we have high level of comfort and confidence is we are a feedstock supplier to our own plant. Many of the reasons why these projects will get delayed is a lack of feedstock supply chain confidence. Either price or just the physical, you can have a great price, but if you can't get the physical volumes then obviously the plant is not going to operate.

And our 50 million gallon tallow refinery already built and already debt free in India, plus our distilled corn oil production in our plant in California and other access to other domestic tallow supply puts us in a very unique position to be confident and move quickly. While at this point in time, I would suspect that many projects are being looked at again very closely.

Feedstock has always been something to look at closely, but now with D4 and D5 and D6 RINs is largely a question mark of what the price is going to be. I think it's going to provide less competition for the Aemets SAF plant, and that's good news for our customers. We have been asked to expand the capacity of our plant in Phase 2 and Phase 3. And I can tell you right now we could easily triple the amount of contracts we have with our existing customers and still not be anywhere close to what their goals are.

Derrick Whitfield: That's great, and I completely agree with you on the SAF macro backdrop. With my follow-up, I know that you were expecting your first ITC to close in late Q2 or early Q3. Could you offer your latest thoughts on timing of when it will close and note if there are any meaningful remaining hurdles to clear?

Eric McAfee - Founder, Chairman and CEO, Aemets, Inc.

Yes, current guidance is in the next month or so. I feel very comfortable that as of today, that's conservative guidance. And there's been a team working on this, of at least a half dozen law firms and accounting firms and a bunch of other people, consultants, et cetera for many months. And we're reaching the end of that process. So, we're looking forward to a $50 million plus closing. We believe it will certainly be one of the largest ever done in the United States, maybe the first large transaction in the United States.

So, dealing in that environment of uncertainty has required the work of a lot of industry leading tax lawyers and accountants. And so, I think we've gotten that guidance in place. I would thank the IRS for their June 21 guidance, 264 pages. Tremendous amount of work by the IRS, and it was very, very helpful in bringing this transaction to a near close where we're at today and hopefully closing here in the next month or so.

Derrick Whitfield: That's great. Thanks for your time.

Eric McAfee - Founder, Chairman and CEO, Aemets, Inc.
Thank you, Derrick.

Operator

Your next question is coming from Jordan Levy with Truist. Please pose your question. Your line is live.

Jordan Levy: Hey all and appreciate all the details. Maybe just on the tallow business in India, just curious, if we could get a little more detail on how you expect that to progress. I think you discussed that you're in negotiations for some space in California ports and that sort of thing. So, anything there on timing or realizing of revenues out of that?

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

We are very well positioned for production in India. That's not really been our constraint. The constraint has been tankage at the ports. Tallow requires a heated tank. And then, the actual carbon intensity pathway in California is about a six month process to get the tallow in the plant to do the 90 days of testing and all the other things required for that process.

So, we are steadily moving forward, and I feel very solid about the ability to get the tankage in place. We're actually in contract process there. And then in terms of customers, we have pretty much every renewable diesel producer in California or our neighboring state, Nevada, who are excellent candidates for this.

And so we have one particular refinery that is looking to take all of our capacity. So we do not have a projected shipment date yet, but we hope to have that in place by the end of this quarter and be looking at revenues in the fourth quarter.

Shipments, of course, from India take a little time and then you've got to post it through the storage tank into our customer before it's really revenue. But we are targeting to have fourth quarter revenue and we'll see whether that flow starts. We of course, if we sell the one customer with pretty much all of our capacity would be looking to scale this up rather quickly. And so really the scale up speed is what we're focusing on. And I think once we get the tankage in place, we'll be in a much better position to start the shipments.

Jordan Levy: Thanks for that. Maybe shifting over to the RNG side. Just curious now that you have seven digesters online. You've built a lot of scale on that business. How has the reception, I guess, been from the dairy owners in that area? Either the ones that are already part of the business or that you're looking to add on to the business and what's your confidence level? And I think the 65 dairy target in the Five Year Plan?

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

Andy spent a lot of time with dairy. So, Andy, why don't you give us an update on that?

Andy Foster - President, Aemetis Advanced Fuels and Aemetis Biogas
Jordan, I think over the last three years we've seen a real kind of evolution in this process where when we first started. Frankly, I first started talking to dairies back in the summer of 2018 and it was sort of like, “what are you talking about?!?” To now going in and them asking us questions about the LCFS price and they've become a lot more sophisticated. So, I would say that I think most of the dairies that we are targeting, all of the dairies that we are targeting, certainly know that this is something they need to move forward with. I think the biggest obstacle for everybody in this business right now is just the fact that the dairy business as a whole is not doing well. Margins in the price of milk is low. And so, our approach has always been to look at well capitalized dairies, dairies that can sustain these peaks and valleys.

It's not altogether too different from the ethanol business, honestly, when you have these peaks and valleys from a margin perspective. So, I think the folks that we're dealing with are nobody is happy right now because it has nothing to do with RNG, it has everything to do with the fact that their milk price is not very great.

I've heard some encouraging signs about where that's going, so I bring that into the equation because while RNG is a central business point for us and we come into work every single day beating on RNG and thinking about RNG from a dairy producer perspective, it's the last thing they're thinking about.

And so, our challenge there is just trying to keep people focused and hey, we're moving forward. We're paying for all these projects at their facilities and trying to just keep people energized to realize that this will be another stream of revenue for them. And the faster we get these projects built the more it will help their bottom-line from a revenue perspective and hopefully improving their margins a little bit. So, there's great education about what's going on and the requirements of the program and their requirements as producers. I think a lot of these -- most of the dairymen have really educated themselves, and so we're dealing with a shorter sales cycle from the perspective of we walk in the door, they're informed and they're excited. I think the fact that we have the 40-mile biogas pipeline, it was a significant capital investment for us that has paid off time and time again.

When we go in and we talk about it, it's something that's real in the ground. They can see it; they saw it being built. They know that there will be a home for this gas. So, it makes it very real. And the fact that it's connected to the ethanol plant, which they have seen operating for the last 12 years, it kind of completes a nice circle. So, I would say no lack of enthusiasm for RNG projects. It's just overall the environment in the dairy world right now is not super happy just because of the price of milk.

Jordan Levy: That's really helpful perspective. Appreciate it.

Operator

Your next question is coming from Matthew Blair with Tudor, Pickering, Holt. Please pose your question. Your line is live.
Matthew Blair: Hey, good morning. Thanks for taking my questions here. First one is on the India biodiesel segment. Looks like EBITDA profitability per ton was around 200, which is about half of what it was in the back half of last year. Could you talk about what drove that number lower? And is that a good number going forward or what are your expectations for future profitability?

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

The margins in the second quarter reflected higher feedstock prices. If you track soy prices, for example, for renewable diesel, you would have seen that. We think the margins are sustainable where they are today. But we have some opportunity to expand margins using a proprietary technology we developed over the last half decade or more in India, which allows us to use lower cost feedstocks and generate the same high quality biodiesel we currently produce. And we generate about a 10% additional margin when we use that lower cost feedstock, and about the same yields, actually. So we are going to increasingly have up to a third of our revenues be from this lower cost stock using our proprietary technology.

We've expanded the capital investment in that activity over the last roughly four months and have quadrupled that capacity. And so, we expect that to have an impact increasingly in third quarter and then as we go into the fourth quarter and into next year. I do expect up to a third of our revenues to have that lower cost structure.

Matthew Blair: Sounds good. And then on the California Ethanol segment, could you help us understand what drove the $4 million EBITDA loss in Q2. Was that due to like restart costs or maybe you had to work through higher cost inventory? And as you look into Q3, do you think the EBITDA will be positive for this quarter?

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

On Q2, it was restart. We only really operated for one-third of the quarter, and the combination of yields and just some one-time charges around contracts we had with customers, et cetera, really led to the EBITDA. In fact, there are -- it was not a large amount from any single thing, but you just add up to some smaller things related to the start. And so, we see if these is one-time startup related costs.

In terms of Q3, margins going into Q3 were much better. We're still looking to get our production to be at full maximum and take full advantage of the current margin environment. We're about one month into Q3, and we'll see how corn does. But corn has shown a low price trend, let's say, and unless there's some strange weather effect, that appears to be the market condition that we're in.

Really good questions around ethanol; I personally am looking for E15 to increasingly be part of the discussion we have over the next year or two. E15 is taking our national consumption of ethanol from a 10% blend, which is roughly 14 billion gallons, to over 20 billion gallons. Well, the entire production capacity in the entire United States is only 17 billion gallons, of which we export a little less than 2 billion gallons. So E15, a 15% blend of ethanol, accepted in 49 states by the way, it's not currently allowed in California. California is a 90% petroleum gasoline mandate. And so, we are working closely with our friends at CARB to complete a multi-year process to get 15%
blend approved in California. We're the only state that can set our own blending rules by the way. And that would, in California alone, be over 700 million gallons a year of new ethanol demand in a state that already consumes over 1.2 billion gallons.

So, we're looking at some external realities of E15 being allowed at all 50 states as being the really underlying demand driver. Last little point I would make is that we sell our ethanol for roughly $2.50 or $2.60 a gallon, but then we turn around and across the street, we pay $4.50 to buy it back. It's a 10% blend, but we're paying $2 a gallon more for it. And so there are significant margin opportunities in the Ethanol business simply by solving the supply demand curve, and that's what E15 is doing gradually over the next year or two.

Matthew Blair: Sounds good. Thanks for your comments.

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

Sure. Thank you, Matthew.

Operator

Your next question is coming from Amit Dayal with H.C. Wainwright. Please pose your question. Your line is live.

Amit Dayal: Thank you. Hi, guys. So, with respect to the Keyes plant, Eric, I mean, are we running at full capacity for the third quarter now?

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

We're going to be by the end of the third quarter for sure; really August and September. July was another ramp up, as I mentioned, June, July were ramp up months. So, August and September, we expect to be at full capacity.

Amit Dayal: Understood. Okay, thank you for that. And then the eight digesters targeted for this year, will they be completed and brought online this year, or will that spill into 2024?

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

We have, what half of those under construction?

Andy Foster - President, Aemetis Advanced Fuels and Aemetis Biogas

Yes, there's probably five of those. Four or five of those that are currently under construction. We may have one or two of those completed by the end of the year, but I'd say kind of a safe timeline for you to think about is by the end of Q1 of next year we'll have all eight of those completed and online.

Amit Dayal: Thank you.
Andy Foster - President, Aemetis Advanced Fuels and Aemetis Biogas

But again, they're sort of sequential, and we should have a few of those will be online this year. It gets weird with what kind of winter are we going to have? And if we have a winter like we did last year, it might slow some things down. But by and large, we're pretty far along on a few of those. So, we'll definitely have two to three more that should be completed by the end of this year.

Amit Dayal: And the size that are operating guys, are they running as expected? Are they running at full capacity, et cetera?

Andy Foster - President, Aemetis Advanced Fuels and Aemetis Biogas

Yes, we've actually been -- we've been very happy with our operational uptime and performance. It's exceeded our expectations, honestly. And production is because these are ambient temperature digesters, production is really dependent on the weather. The weather in California this winter or this summer has been slightly cooler than normal, so that has a little bit of an impact. But as far as the nuts and bolts of how these things are running, we've been very, very happy with the performance of the equipment and the pipeline and the RNG upgrading facility and everything that's associated with this project. We've been very happy with the operational uptime and efficiency.

Amit Dayal: Thank you. And then with respect to the…

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

Kelly, I think we lost Amit.

Andy Foster - President, Aemetis Advanced Fuels and Aemetis Biogas

Yes.

Amit Dayal: Hello, can you hear me?

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

Yes, we can hear you now. Try it again.

Amit Dayal: Yes, so I was just trying to go back to the tallow feedstock from India. The permitting and the qualification, et cetera, that is required, is this a one-time thing or will it be required for each shipment that takes place?

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.
Good question. It's actually a one-time thing. It's the carbon intensity of the fuel produced when tallow is used from a new region. In this case, from India. So, there's some default pathways, but then you can get a much better score if you actually show for example, we run a 100% biomass energy in our plant in India. The underlying default has coal as the electricity source, and so we get a lower carbon intensity score than the default. So, it's sort of like our biogas business. We're running along at a negative 150 default pathway. We want to move to a negative 415 provisional pathway, which is a word that means our project’s pathway. India has the same kind of dynamic. It's quicker, because it's a Tier 1 pathway. It's not a Tier 2, which Tier 2 is more project specific. Tier 1 is more of a standardized process, but it still takes you six months to get done.

Amit Dayal: Understood. Just last one, again, on the India side. For modeling purposes, should we assume similar levels of production and shipment in India that we saw in Q2?

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

For Q3?

Amit Dayal: Yes, for Q3.

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

I would take it down a little bit. We're doing multiple procurement cycles. They've been expanding the number of locations we're shipping to. And so, it's not the entire quarter we've contracted this point in time, but we're two-thirds of the way there. And, as over the course of August and September, we'll be looking for additional orders. So, we'll probably be press releasing sometime next month as we get the full order for the quarter done. But what they did was they moved quickly, which is what we wanted, so we could continue production and keep on going in at July and August. That meant that they haven't quite gotten all their tenders done for the September timeframe. So, we'll probably put out press release once we have good visibility on the quarter.

Amit Dayal: Okay. Thank you, guys. That's all I have. Appreciate it.

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

Thank you.

Operator

Your next question is coming from Ryan Todd with Piper Sandler. Please pose your question. Your line is live.

Ryan Todd: Thanks. Maybe just one for me. I mean, congratulations on the continued progress on digesters and the RNG side of the business. You're still building gas and storage at this point? Can you maybe walk through your latest thoughts on potential timing of gas monetization? What do you need to see to start monetizing gas and maybe timing or progress on LCFS pathway approval?
Sure. We have our default pathway approved for four of our digesters; we have two more we expect to get here in the next few weeks. So, we'll have six of our digesters that can generate revenue at the negative 150 timeframe. There's a requirement that we have to ship not in the quarter it's produced, not in the next quarter, but in the quarter after that. We have to actually ship the product in order to get LCFS credits. We can't just let it sit in the ground for 18 months, which very possibly might be exactly what we want to do in order to maximize our LCFS revenue.

So, we will be showing some revenues as we meet these minimum thresholds. But we are working diligently with the CARB team to get our provisional pathway, negative 415 is what we estimate, to be completed. And then we'll be able to ship everything that's in the ground in that quarter and the quarter afterwards. So, we are definitely meeting the minimum requirements. And in Q3, we'll be showing revenue as a result of that in Q4, as we have to do a look back to the earlier quarters. But I can tell you our business model would be just leave it in the ground until it's negative 415, and we're working diligently to get that approval in place as quickly as possible.

Ryan Todd: Great. Thanks, Eric.

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

Sure. Thank you.

Operator

Your next question is coming from Dave Storms with Stonegate Capital. Please pose your question. Your line is live.

Dave Storms: Good afternoon. Just two quick ones for me on the dairy digester side. With the additional $75 million in funding expected to close this year, can we just do simple math and say that translates to about 21 new digesters being funded?

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

That's approximately correct. The size of the dairies will have an impact on that. So, it's a range. It'll be somewhere in the 18, which would be six per funding, to 22. So, I would probably plug in 20 and then true it up as you see press releases come out, because we'll announce how many dairies are in each project.

Dave Storms: Perfect. And just following on to that. Is there a critical mass of dairy digesters that you'll hit where you'll have to extend that pipeline?
Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

We're essentially extending the pipeline for every dairy that's just think about as having a main trunk line in place, and if the dairy is a half mile away, we'll run a pipeline out to them. The good news is, it's very quick and relatively cheap. So, it's not a material part of the budget.

Andy Foster - President, Aemetis Advanced Fuels and Aemetis Biogas

Well, the only thing I would add is that, so, Eric is right on track in terms of what we would call sort of the legs to the dairies. But with as many dairies as we're building out, it ends up turning out to be about another 20 miles worth of pipeline, not all at one-time, so it's now you can expect -- you're not going to see a big chunk of money all at one-time. But it's -- as we build out these dairies, when you look back and everything's completed, it's going to be not 40 miles of pipeline, but closer to 60.

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

Yes.

Dave Storms: Understood. That's very helpful. Thank you.

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

Thank you, Dave.

Andy Foster - President, Aemetis Advanced Fuels and Aemetis Biogas

Thanks.

Operator

There are no additional questions in queue at this time. I would now like to turn the floor back over to management for their closing remarks.

Eric McAfee - Founder, Chairman and CEO, Aemetis, Inc.

Thank you, Kelly. And thank you to Aemetis shareholders, analysts and others for joining us today. Please review the Aemetis company presentation that is posted on the homepage of the Aemetis website. We look forward to talking with you about participating in the growth opportunities at Aemetis. Todd?

Todd Waltz - EVP and CFO, Aemetis, Inc.

Thank you for attending today's Aemetis earnings conference call. Please visit the investors section of the Aemetis website where we'll post a written version and an audio version of this Aemetis earnings review and business update. Kelly?
Operator

This does conclude today's conference call. You may disconnect your lines at this time. Thank you for your participation.