Report for the third quarter 2018

norwegian crystals

3 December 2018

Norwegian Crystals report per third quarter 2018

MARKET PRICES HAVE STABILIZED FOLLOWING ADVERSE DEVELOPMENTS DURING JUNE-AUGUST 2018

The market for monocrystalline wafers experienced strong adverse developments as sales prices fell by 30% during a six-week period due to strategic positioning by one large competitor and exacerbated by incentive changes for PV in the Chinese market. In the period since August, the spot market price for monocrystalline wafers has remained fairly constant within a range of USD 0.39 to 0.42 per wafer with latest reported spot price being USD 0.39.

Following the rapid sales price drop, Norwegian Crystals ("NCR" or the "Company") quickly decided to accelerate its cost reduction roadmap and limit the supply obligations for the remainder of 2018 to already committed volumes and then to close down production for a period and temporarily lay off around 80 employees from the production organization. Around 25 people have remained to plan and execute on the necessary development work and to prepare for a successful restart as soon as acceptable cost competitiveness can be within reach – most prominent amongst the cost reduction actions are larger through-put per puller, sourcing of consumables and slicing services from the Chinese market as well as reduced personnel and fixed costs.

NCR PREPARING TO RESTART OPERATIONS - SECURING FUNDING

The Board of NCR is securing the necessary funding for the Company to restart operations and to implement the process and technology improvements to underpin NCR's redefined, more aggressive scale and cost roadmap. The Company is in the final stages of renegotiating commercial agreements with Tier 1 customers and suppliers to obtain better terms and more balanced risk sharing.

NCR is inviting the shareholders to participate in an EGM on 3 December 2018 to approve a convertible loan of up to USD 10 million offered until 15 February 2019. A first tranche of USD 3 million has been pre-subscribed by existing shareholders and by members of management. The uses of funds include operational improvements to deliver cost reductions and a stable financial base with sufficient liquidity buffer to raise the growth capital needed to increase production capacity and reach positive EBITDA.

NCR is committed to scale from 400 MWp of current production to 3.5 GWp production driven by strong market demand in line with NCR's previous market communications. The production efficiency program is expected to lead to enhanced utilization of the capacity, and hence may yield 4GW with the same capital expenditures.

When the USD 10 million capital is secured, NCR will initiate the first phase of expansion. The funds will be used to install 30 pullers, which produce the monocrystalline silicon ingots. This will bring NCR closer to the 1GW capacity milestone and produce a positive EBITDA. The NCR roadmap toward sustainable scale and profitability long-term beyond the capacity increase continues through 2019 - 2020.

GOING CONCERN ASSESSMENT

As described above, NCR has been in a challenging situation and has reacted to market changes in order to limit further losses. Even if the Company has taken wide mitigating actions, it has not been possible to avoid breaches of loan covenants during third quarter and thereafter. NCR has stayed in close contact with all lenders and kept them informed about the challenges as well as parties to the process leading to the current financial planning. As formal consents or waivers for all covenants were not obtained prior to 30 September 2018, all debt that would have been classified as long-term debt is shown in the balance sheet as temporary short-term debt per 30 September 2018. NCR expects to agree new terms and conditions with all lenders before the year-end, and further expects that the 30 September 2018 classification of debt will be temporary and consequently that the debt again will be considered long term in the 2018 Annual Accounts.

In this situation NCR's Board of Directors have accepted the classification of debt and undertaken a thorough assessment of the requirements for the Company to file the 2018 third quarter accounts as a going concern.

Due to tangible improvements in process efficiency, NCR expects to be able to generate positive gross margins based on the Company's current production capacity. Even so, achieving bottom line profitability will require NCR to attain sufficient scale to cover the fixed costs. To this end, the Company plans a stepwise expansion with identified tranches of investments to be funded.

The first step is to secure short-term funding of approximately 25 MNOK subordinated capital as a convertible loan already committed from existing shareholders and members of the management. This first tranche is to be approved and subscribed at the Extraordinary General Meeting of shareholders to take place on 3 December 2018. Immediately following the EGM, and assuming the EGM's approval, other shareholders, investors and suppliers will be invited to participate in an additional tranche of the convertible loan. Combined with existing debt financing and additional support from customers and other strategic partners, NCR is deemed to be fully funded until 4Q 2019.

The Company sees the restarting of production with current capacity as a stepping stone to the next level, in which approximately 30 additional pullers will be installed in the Glomfjord facility from second half of 2019. This investment is needed to enable NCR to generate positive EBITDA. This expansion stage requires another 55 MNOK in subordinated capital and access to additional funding from Innovation Norway and further grants from ENOVA. When executing the 2018 private issue of equity, and thus before the dramatic sales price reductions in the PV-market, the Company estimated that a first expansion step of 15 pullers would be sufficient to generate positive EBITDA.

NCR expects to sign customer contracts on conditions that underpin the assumptions made above in time to offtake the production volumes of the restarted capacity.

Based on the above discussion of developments in the industry in general and for NCR in particular, the Company's management and Board of Directors have assessed that it is justified to close the accounts for the third quarter 2018 under the assumption that NCR satisfies the requirements of a going concern.

COMMENTS ON THIRD QUARTER FINANCIAL ACCOUNTS

The accounts are prepared on a going concern basis and have been subject to review procedures by the Company's elected auditors – KPMG.

The reason for temporary short-term classification of long-term debt is described above.

In accordance with the going concern evaluation, NCR must install about 30 pullers in order to realize the necessary production volumes to generate a positive EBITDA. These pullers are classified as fixed assets. The remaining 114 already acquired, dismantled and packed pullers are considered tradeable assets and thus 46.4 MNOK is reclassified from fixed to current assets.

Fixed assets impairments of 5.3 MNOK are identified and written off. Falling market prices on raw materials and finished goods led to 4.3 MNOK in current assets write-off in the third quarter.

Net Loss is 144.2 MNOK per third quarter 2018.

NORWEGIAN CRYSTALS' MARKET CONTINUES ITS STRONG GROWTH

The global PV market is expected to stay in the 90-110 GWp range in 2018 and 2019. NCR's core product, monocrystalline P-type silicon, is the fastest growing technology thus creating a demand which exceeds current monocrystalline supply.

Aside from China and US, the European markets show healthy growth, particularly in France where NCR is one of the leading suppliers. The French incentive programmes focusing on low carbon footprint (“CRE”) will be continued. More than 3.5GWp of awarded and new projects remain to be installed in France alone.

Outside of France we see very strong growth in India, the Middle East, Australia, the Netherlands, Turkey, and both Spain and Portugal are launching solar installations without FIT schemes, with grid-parity thus now being reached in these markets.

On behalf of Norwegian Crystals AS,

Gøran Bye, Chief Executive Officer; goran.bye@crystals.no; -+47 918 30 827

Condensed Profit & Loss Statement

Norwegian Crystals AS

	Note	2017 Audited	YTD Q3 2018 Reviewed
Sales revenue		361 574 945	165 066 166
Other operating income		12 532 729	-
Total operating income	**12**	**374 107 674**	**165 066 166**
Raw materials and consumables		-364 171 600	-191 969 099
Personnel costs	**1**	-63 214 691	-57 750 952
Depreciation of fixed assets	**3**	-11 045 477	-14 623 967
Other operating expenses	**16**	-42 654 333	-30 616 976
Total operating cost		**-481 086 101**	**-294 960 994**
Operating profit (loss)		**-106 978 428**	**-129 894 829**
Interest income		4 010	1 212
Other financial income	**17**	667 145	306 767
Total financial income		**671 154**	**307 979**
Interest cost		-5 042 179	-12 859 976
Other financial expense	**17**	-1 189 678	-1 716 673
Total financial expenses		**-6 231 857**	**-14 576 649**
Total financial items		**-5 560 702**	**-14 268 669**
Profit (loss) before taxation		**-112 539 130**	**-144 163 498**
Net Profit (loss)		**-112 539 130**	**-144 163 498**

Condensed Balance Sheet

Norwegian Crystals AS

	Note	31.12.2017 Audited	30.09.2018 Reviewed
ASSETS			
Fixed assets			
Land, buildings and other real property		3 429 000	3 315 000
Fixtures and fittings, tools, office machinery, etc	18	102 081 370	108 703 362
Total Fixed assets	3, 14	**105 510 370**	**112 018 362**
Long-term financial assets			
Other receivables		24 000	37 000
Total long term financial assets		**24 000**	**37 000**
Total fixed assets		**105 534 370**	**112 055 362**
Current assets			
Inventories and store stock	14	67 410 039	50 174 213
Other assets available for sale		-	46 397 682
Total operating assets	13	**67 410 039**	**96 571 895**
Receivables			
Trade receivables	5, 14	5 999 533	2 053 325
Other receivables	15	26 193 246	4 631 190
Capital Increase approved not yet received		112 660 090	
Total receivables		**144 852 869**	**6 684 515**
Cash and cash equivalents		12 637 772	8 335 115
Total bank deposits, cash in hand, etc	6	**12 637 772**	**8 335 115**
Total current assets		**224 900 681**	**111 591 525**
Total assets		**330 435 051**	**223 646 888**

Condensed Balance Sheet

Norwegian Crystals AS

EQUITY AND LIABILITIES	Note	31.12.2017 Audited	30.09.2018 Reviewed
Equity			
Paid-in capital			
Share capital	7,8	14 602 800	21 078 978
Share premium reserve		374 109 716	579 864 435
Other paid-in capital		136 753 089	-
Total paid-in capital		**525 465 605**	**600 943 413**
Retained earnings			
Retained profits (losses) from previous years		-397 386 267	-397 386 267
Current profit (loss)		-	-144 163 498
Total retained earnings		**-397 386 267**	**-541 549 765**
Total equity	9	**128 079 338**	**59 393 648**
Liabilities			
Long-term liabilities			
Debt to credit institutions		41 761 095	0
Total long-term liabilities		**41 761 095**	**0**
Total long-term liabilities		**41 761 095**	**0**
Current liabilities			
Debt to credit institutions	14	52 060 092	36 566 521
Trade creditors		41 647 684	15 531 834
Payable taxes and duties		3 405 976	533 820
Other short-term liabilities		13 734 685	9 750 214
Shareholder loans	19	49 746 181	58 437 121
Temporary short-term debt to credit institutions	14	-	43 433 730
Total current liabilities		**160 594 617**	**164 253 240**
Total liabilities		**202 355 713**	**164 253 240**
Total equity and liabilities		**330 435 051**	**223 646 888**

Condensed Cashflow
Norwegian Crystals AS

	2017	YTD Q3 2018
Cashflow from operations	**Audited**	**Reviewed**
Net profit	-112 539 130	-144 163 498
+/- Loss/profit from sales of fixed assets		
Net Financial Cost		14 268 669
Extraordinary Financial cost (Augusta)		
+ Depreciations/Impairments	11 045 477	14 623 967
Gross cash flow from operations (EBITDA)	-101 493 653	-115 270 862
+/- Change in inventories, accounts receivables and accounts payables		
Changes inventory	37 857 535	17 235 826
Changes in inventory due to impairment (above EBITDA not cash)		
Changes in receivables		3 946 208
Changes in payables		-26 115 850
Changes other receivables		21 562 056
+/- Change from other periodization items	-129 524 625	-6 856 627
A = Net cash flow from operations	-193 160 743	-105 499 250
Cashflow from investments		
- Investments in fixed assets	-55 514 680	-73 742 641
+/- Other investments	-24 000	
B = Net cash flow from investments	-55 538 680	-73 742 641
Cashflow from financing		
+ Issuance of new debt (short and long term) (Credit line)	116 609 213	14 690 940
- Payment of old debt		-4 327 364
Change Credit Facility DNB		-15 493 571
Net Financial Cost		-14 268 669
+ Issuance of new equity	136 753 089	188 137 898
Miscellaneous grants and refunds		6 200 000
Exchange rate differences		
C = Net cash flow from financing	253 362 302	174 939 234
+ Opening cash balance 1 January 2017	7 974 894	12 637 772
A+B+C Net change in cash during year	**4 662 878**	**-4 302 657**
= Closing cash balance	12 637 772	8 335 115

Notes

Accounting principles

Basis for preparation
The condensed financial statements as of September 30, 2018 have been prepared in accordance with the measurement and recognition principles as outlined in the Norwegian Accounting Act and generally accepted accounting principles in Norway. The principles are described below.

Selected explanatory notes
These condensed financial statements do not include all of the information and disclosure requirement required for a complete set of annual financial statements required under the Norwegian Accounting Act and generally accepted accounting principles in Norway. Selected explanatory notes are disclosed as additional information.

Revenues
Revenues from goods sold are recognized at the time of delivery. Goods are recognized as income when delivered.

Classification and assessment of balance sheet items
Current assets and current liabilities include items relating to the product cycle. Other receivables are classified as current assets if due for settlement within one year after the transaction date. Similar criteria apply to liabilities. Fixed assets are assets intended for permanent ownership and use. Long-term debt is debt due later than one year after the transaction date.

Current assets are valued at the lower of cost and fair value. Current liabilities are capitalized at nominal value amount at the time of establishment.

Fixed assets are valued at cost. Long-term fixed assets are depreciated over economic useful life. The assets are written down to its recoverable amount if this is lower than book value, and the impairment that is not expected to be temporary. Long term debt with the exception of other provisions, are capitalized at nominal amount at the date of establishment.

Receivables
Trade receivables and other receivables are recognized in the balance sheet at nominal value deducted for provisions for expected losses. Provisions for losses are made on the basis of individual assessments of the individual receivable. Provision for loss on receivables is booked when ascertained.

Inventories
The inventory of purchased goods is valued at the lower of cost according to the FIFO principle and fair value, i.e net realizable value. Self-produced finished goods and work in progress are valued at variable cost of production. Write-downs are made for predictable obsoleteness.

Fixed assets
Tangible fixed assets are recognized at cost less depreciation over the economic useful lives of the assets. This applies to asset with useful lives over 3 years and a cost price that exceeds NOK 15 000. Direct maintenance of fixed assets is expensed on an ongoing basis as operating costs, while costs or improvements are added to the cost of the asset and depreciated.

Currency
Transactions in foreign currency are converted using the exchange rate at the transaction date. Exchange rate movements are recognized continuously in the accounting period as other financial items.

Pension
The company has a defined contribution plan for its employees. The payments to the contribution plans are expensed as incurred and paid on a monthly basis.

Tax
The tax expense in the income statement includes both the tax payable for the period and changes in deferred tax. Deferred tax is calculated at 23% of the temporary differences existing between the tax base and the carrying amount of assets and liabilities in the financial statement, including tax losses carried forward at the end of the accounting year. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets.

Note 1 Personnel cost

Payroll expenses	YTD Q3 2018	2017
Salaries/wages	50 180 832	55 690 471
Social security fees	2 614 069	3 094 719
Pension expenses	2 597 779	1 690 660
Other remuneration	2 358 272	2 738 840
Total	57 750 952	63 214 691

In 2017 the company employed 94 full-time equivalents.

Note 2 Audit fee

Audit and other services

The audit fee for 2017 amounts to NOK 176 583. Fees for other services amounted to NOK 0.

Note 3 Tangible fixed assets

Fixed assets	Land, buildings and other property	Fixtures, fittings and similar assets	Total fixed assets
Historic cost 01.01.	3 429 000	102 081 370	105 510 370
Additions 2018		67 529 641	67 529 641
Disposals 2018	0	0	0
Historic cost 30.9.	3 429 000	169 611 011	173 040 011
Accumulated depreciation 01.01.	672 060	19 392 093	20 064 153
Accumulated depreciation 30.09.	-786 060	-33 902 060	-34 688 120
Reclassification of 114/144 Pullers SW		-46 397 682	-46 397 682
Net book value 30.09	3 315 000	108 703 362	112 018 362
This year's depreciation	-114 000	-9 199 036	-9 313 036
This year's impairment		-5 310 931	-5 310 931
Expected useful life	27 years	0 - 10 years	
Depreciation plan: Linear (incl impairment)	3,70 %	0 - 25%	-14 623 967

Note 4 Deferred tax

Deferred tax is not recognized in the balance sheet.

Note 5 Trade receivables

Trade receivables are recognized in the balance sheet at nominal value deducted for provisions for expected losses.

Trade receivables	YTD Q3 2018	2017
Trade receivables	2 053 325	5 999 533
Provisions to cover doubtful receivables	0	0
Net trade receivables	2 053 325	5 999 533

Note 6 Cash and cash equivalents

Cash and cash equivalents of 8 335 115 includes a separate tax withholding account of NOK 2 150 364. In addition, a bank deposit amount of NOK 91 820 is included in the restricted funds. Advance tax deduction is NOK 2 132 475.

Note 7 Share capital

The company has 7 026 326 shares with a face value of NOK 3.00, which equals a total share capital of NOK 21 078 978. The company has one class of shares.

Note 8 Shareholders and ownership structure

CEO Gøran Bye (Schoutbynacht AS) has 12 500 shares that equals ownership at 0,2%

Title	Name	Number of shares
Chairman	Reidar Langmo (Rebelijo AS)	790 184
Board member	Joachim Cock (Joco Holding as)	9 400
Board member	Hans Furuholmen (Storstein as)	164 764
Board member	Dipender Saluja (Capricorn Investment Group)	715 251
Board member	Tore Schiøtz (Energy Future Invest AS)	970 869
Board member	Paul Kloppenborg (GCC NC Co-invest, CHE 6 CV, NC Invest)	2 011 952
Board member	Christie Franchi (GCC NC Co-invest, CHE 6 CV, NC Invest)	

The Company's shareholders as of 30.09.2018

The Company has 61 shareholders. The 20 largest shareholders are listed below.

Shareholder's name	Number of shares	Ownership
GCC NC Co-invest Coop	625 188	8,90 %
CEH 6 CV	943 900	13,43 %
ENERGY FUTURE INVEST AS	970 869	13,82 %
REBELIJO AS	790 184	11,25 %
CAPRICORN LIBRA TEAM LLC	715 251	10,18 %
NC INVEST BV	442 864	6,30 %
PARETO INVESTMENT FUND	237 500	3,38 %
NOVUS SPECIAL SITUATIONS LLC	210 900	3,00 %
DANSKE KAPITAL NORGE	187 500	2,67 %
HAFSLUND HANDEL AS	176 200	2,51 %
STORSTEIN AS	164 764	2,34 %
SPENCER TRADING INC	166 500	2,37 %
VINTAGE CAPITAL AS	143 700	2,05 %
AS VIDSJÅ	143 700	2,05 %
FIRMAMENT AS	97 200	1,38 %
LITHINON AS	70 800	1,01 %
JAKOB HATTELAND HOLDING AS	62 500	0,89 %
ARTEL AS	62 500	0,89 %
CORINTHIAN FINANCIAL MANAGEMENT	59 544	0,85 %
KRISTIAN FALNES AS	58 300	0,83 %
Andre	696 462	9,91 %
Total	7 026 326	100,00 %

Note 9 Equity

Specification of Equity	Share capital	Premium on Shares	Capital increase not reg.	Uncovered loss	Total
Equity 01.01.2018	14 602 800	510 862 805		-397 386 267	128 079 338
Capital increase approved 15.12.17	3 476 178	-3 476 178			-
Capital increase June 2018	3 000 000	72 477 808			75 477 808
Result of the year				-144 163 498	-144 163 498
Equity 31.12.2017	21 078 978	579 864 435	-	-541 549 765	59 393 648

437 762 warrants are issued to existing owners and give right to subscribe shares at NOK 3 per share. In addition, 348 050 warrants are reserved for employees, but only parts of those are eligible now. The Warrants granted to employees have an average subscription price of NOK 88 per share. At the general assembly 15 December 2017, the Company issued Anti-Dilution Warrants (ADWs). The ADWs gave the subscribers in the December 2017 share issue the right to subscribe for new shares at NOK 3 per share until their new average share price equaled the share price in the next issue which took place in June 2018 at a price of NOK 80 per share. This share price defines the new average and thus an issuance of 713 500 ADWs. These ADWs mature 31 December 2019. The Company also have issued convertible loans to its shareholders with a right per 30 September 2018, to convert into 730 464 shares at NOK 80 per share. The loans and the right to convert matures 30 June 2019.

Note 10 Pensions

Occupational pension

The company has an occupational pension scheme that satisfies the requirements of the Norwegian Act on Compulsory Occupational Pensions. The scheme comprised 103 employees September end 2018.

Note 11 Remuneration to senior executives

Bonus agreements

Bonus agreements include Management at the Glomfjord production plant, in addition to the persons holding the positions of positions as CCO, CFO and CEO. Bonus calculation is three folded. Level 1 includes performance related to revenue and EBITDA. Level 2 is divided into four different sections and involves assessment of performance at the production team at the Glomfjord factory, the team handling slicing suppliers, the sales team and for the administration as a whole. Level 3 includes individual performance of the individual employee. The bonus scheme is such that if level 1 does not trigger bonus, the possibility of bonus valued at levels 2 and 3 also lapses.

Note 12 Revenues

The company's sales are mainly to foreign countries, where companies from Asia accounts for the largest sales of approximately 77%. The rest is sold in Europe. The goods that are traded are mainly silicon blocks and silicon wafers, where about 90% of sales are wafers

Note 13 Inventories

The company's inventories are valued at the lower of cost according to the FIFO principle and fair value, i.e net realizable value. The finished goods have been written down by NOK 1 281 487. Work in progress are valued at variable cost of production. The Board of the Company has made the decision to reclassified 114 out of 144 pullers (purchased from SW) from fixed assets to other operational assets available for sale.

Inventory	YTD Q3 2018	2017
Raw materials	39 570 821	43 558 028
Work in progress	0	2 010 361
Finished goods of own production	10 603 392	21 841 650
Other assets available for sale	46 397 682	
Total inventory	96 571 895	67 410 039

Note 14 Debt/guarantees

Booked values of assets and receivables provided as collateral for loans and guarantees	YDT Q3 2018
Trade receivables	2 053 325
Operating Accessories	108 703 362
Inventory	96 571 895
Total	207 328 583

Book value of collateralized short-term debt	36 566 521
One Letter of Credit issued to Wacker at 690kEUR, was supposed to be 229kEUR. The LC was corrected to the amount 229kEUR 21st of October 2018, and that is the amount reflected in the collateralized short-term debt of NOK 36 566 521.	
Book value collateralized long-term debt (temporary short-term)	18 571 429
Registered mortgage charge	
DNB Bank ASA, factoring agreement	30 000 000
DNB Bank ASA, operating accessory	30 000 000
DNB Bank ASA, inventory	30 000 000
DNB Bank ASA, buildings	30 000 000
Innovation Norway, leasehold unit number 12, street number 46	20 000 000
Innovation Norway, operating accessories	20 000 000
Innovation Norway, machines	20 000 000
Innovation Norway, inventory	30 000 000
Innovation Norway, receivables	30 000 000
Meløy Municipality (Meløy Development)	6 000 000

Of long-term debt (temporary short-term), NOK 18 571 429 debts to Innovation Norway, paid 17.03.2016. The loan has a maturity of nine years with two years of exemption from repayment. The loan is a series loan with two equal instalments each year. Remaining debt after five years is NOK 5 714 285.

The Company has financed the purchase of ovens from PVA Tepla AG with a lease agreement with supplier. Funded amount is EUR 2 503 200, with repayment over five years from May 2017, EUR 46 400 per month. Booked balance per. 30.09. is NOK 18 862 302 (temporary classified as short- term).

Of long-term debt (temporary short-term), new debt of NOK 6 000 000 issued from Meløy Municipality Q2 2018. The loan is an annuity loan and has a maturity of 5 years with two terms annually.

As formal consents or waivers for all covenants were not obtained prior to 30 September 2018, all debt that would have been classified as long-term debt is shown in the balance sheet as temporary short-term debt per 30 September 2018. NCR expects to agree new terms and conditions with all lenders before the year-end, and further expects that the 30 September 2018 classification of debt will be temporary. It is expected that the debt again will be considered long term in the 2018 Annual Accounts.

Note 15 Other receivables

Other receivables	YTD Q3 2018
Prepaid expenses	4 235 686
VAT receivable	395 505
Total	4 631 190

Note 16 Other operating expenses

Other operating expenses	YTD Q3 2018	2017
Freight costs	2 916 706	5 608 590
Factor inputs in operation	1 317 873	1 282 189
Rental costs, renovation etc.	4 336 527	5 271 560
Cost of purchases	2 812 345	4 259 151
Repair and maintenance	6 299 463	7 569 558
Foreign services	9 525 385	12 068 040
Travel expenses	1 979 385	3 161 293
Other expenses	1 429 291	3 433 952
Total	30 616 976	42 654 333

Note 17 Foreign exchange gains/losses

Foreign exchange	YTD Q3 2018	2017
Gains	306 767	667 145
Losses	427 705	847 827
Net foreign exchange gain/loss	-120 938	-180 682

Note 18 Grants received from the public sector

Meløy Development gave a grant of NOK 6 200 000 in 2018 based on the purchase of 144 new Pullers. The purchase was completed in the second quarter of 2018.

The Norwegian Research Council gave a grant to Norwegian Crystals of NOK 406 681 in 2018, which belongs to the Locomono Si project. This is initiated by the Research Centre for Environmentlyfriendly Energy, which is mainly funded by Norges Forskningsråd (the Research Council of Norway). This is a long-term ongoing project for the time being without an end date. The grant is based on Norwegian Crystals contribution of internal hours and the Company's costs from Sintef.

Note 19 Shareholder loans

Convertible loans to shareholders amount to NOK 58 437 121.

The loan can be converted into shares by lender's request at any time until 30 June 2019. Until then, annual interest rate is 10%. Interest accrues and is paid out or converted to shares at the 30. June 2019. As several of the shareholders participate as lenders, there are several loan agreements, one per shareholder. All agreements are identical, except for loan amount. The loan is converted to the lowest of NOK 134 per share and the price per share determined at the first share issue in 2018 which took place in June at a share price of NOK 80 per share.

Note 20 Going concern

NCR's Board of Directors has undertaken a thorough assessment of the requirements for the company to file accounts as a going concern.

Due to tangible improvements in process efficiency, NCR expects to be able to generate positive gross margins based on the company's current production capacity. Even so, achieving bottom line profitability will require NCR to attain sufficient scale to cover the fixed costs. To this end, the company plans a stepwise expansion with identified tranches of investments to be funded.

The first step is to secure short-term funding of approximately 25 MNOK subordinated capital as a convertible loan already committed from existing shareholders and members of the management. This first tranche is to be approved and subscribed at the Extraordinary General Meeting of shareholders to take place on 3 December 2018. Immediately following the EGM, and assuming the EGM's approval, other shareholders, investors and suppliers will be invited to participate in an additional tranche of the convertible loan. Combined with existing debt financing and additional support from customers and other strategic partners, NCR is deemed to be fully funded until 4Q 2019.

The company sees the restarting of production with current capacity as a stepping stone to the next level, in which approximately 30 additional pullers will be installed in the Glomfjord facility from second half of 2019. This investment is needed to enable NCR to generate positive EBITDA. This expansion stage requires another 55 MNOK in subordinated capital and access to additional funding from Innovation Norway and further grants from ENOVA. When executing the 2018 private issue of equity, and thus before the dramatic sales price reductions in the PV-market, the company estimated that a first expansion step of 15 pullers would be sufficient to generate positive EBITDA.

NCR expects to sign customer contracts on conditions that underpin the assumptions made above in time to offtake the production volumes of the restarted capacity.

Based on the above discussion of developments in the industry in general and NCR in particular, the company's management and Board of Directors have assessed that it is justified to close the accounts per Q3 2018 under the assumption that NCR satisfies the requirements of a going concern.

Note 21 Events after the balance sheet date

Reference is made to the Management report which outlines market and company specific events in the third quarter and also afterwards. Most notably the Company's Board of Directors has initiated an Extraordinary General Meeting of shareholders to take place on 3 December 2018. The EGM is asked, amongst other to permit issuance of a convertible loan of minimum 3 to maximum 10 MUSD.

KPMG AS
Sørkedalsveien 6
Postboks 7000 Majorstuen
0306 Oslo

Telephone +47 04063
Fax +47 22 60 96 01
Internet www.kpmg.no
Enterprise 935 174 627 MVA

To the Board of Directors of Norwegian Crystals AS

Independent auditor's report

Report on Review of Interim Financial Information

We have reviewed the accompanying Condensed Balance Sheet of Norwegian Crystals as at 30.09.2018, the Condensed Statements of Profit or Loss, and Condensed Cash Flows for the nine months period then ended, and Notes to the interim financial information ("the Condensed Interim Financial Information"). Management is responsible for the preparation and presentation of this Condensed Interim Financial Information in accordance with the principles described in the accounting principles. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, which applies to a review of historical financial information performed by the independent auditor of the entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Material uncertainty related to going concern

We draw attention to the Going Concern Assessment paragraph in the Norwegian Crystals Condensed Interim Financial Information per third quarter 2018 and Note 20 Going Concern, which describes the present financial position of the Company, including incurred losses and breach of covenants. The information indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our review conclusion is not modified in respect of this matter.

KPMG AS
Sørkedalsveien 6
Postboks 7000 Majorstuen
0306 Oslo

Telephone +47 04063
Fax +47 22 60 96 01
Internet www.kpmg.no
Enterprise 935 174 627 MVA

Emphasis of Matter – Basis of Preparation

We draw attention to the accounting principles to the Condensed Interim Financial Information, which describes the basis of preparation. The Condensed Interim Financial Information do not contain all the disclosures required by the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway. Our review conclusion is not modified in respect of this matter.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Interim Financial Information as at 30.09.2018 is not prepared, in all material respects, in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Oslo, 3. December 2018

KPMG AS

Arve Gevoll

State Authorized Public Accountant