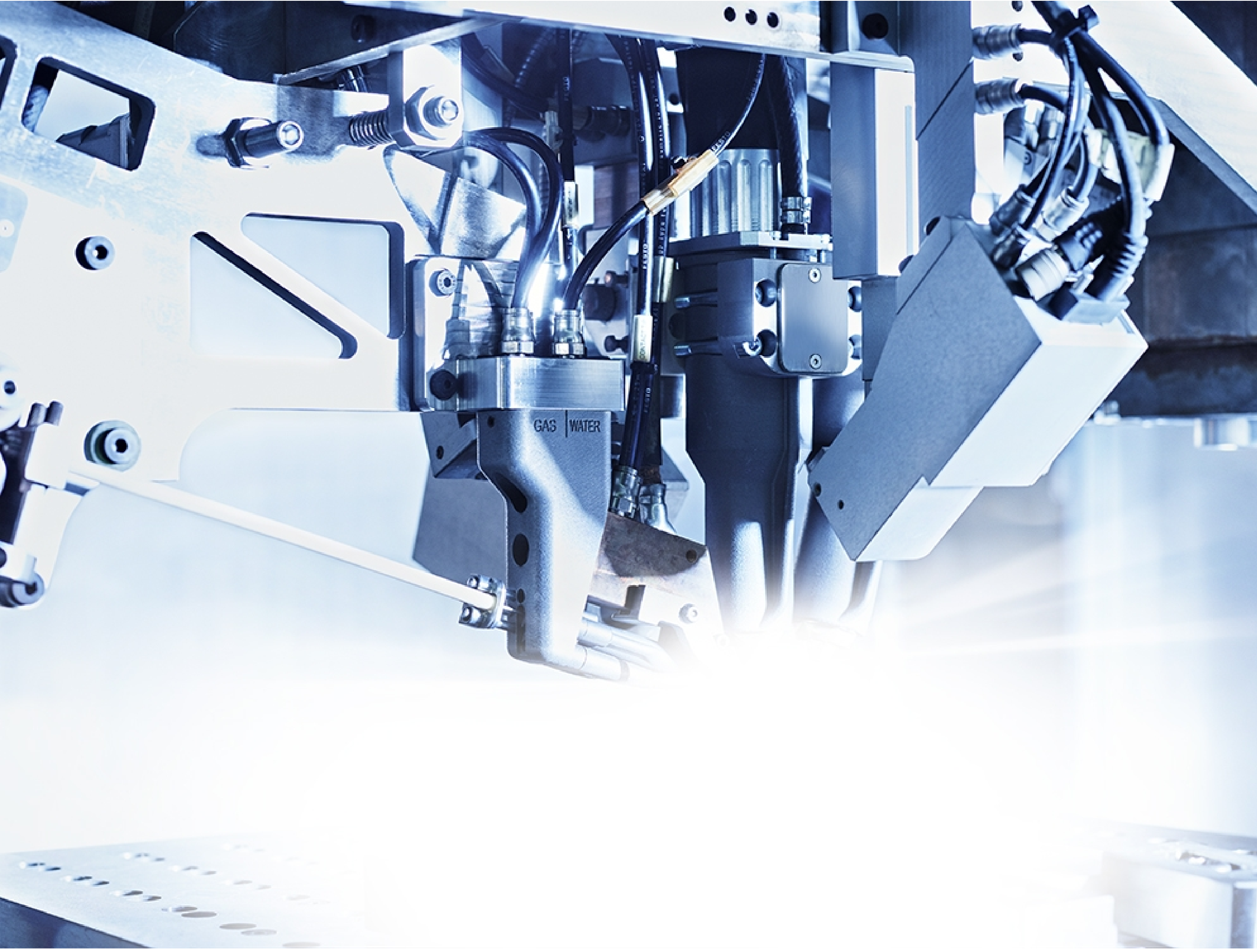


# ANNUAL REPORT

# 2019

NORSK TITANIUM

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# THE BOARD OF DIRECTORS’ REPORT 2019

## INTRODUCTION

Norsk Titanium (“NTi” or “the Group”) is the world’s pioneering supplier of additive-manufactured, structural titanium components, distinguished in the aviation industry by its patented high deposition Rapid Plasma Deposition™ (RPD™) process. Based on plasma arc welding technology and with titanium wire as the main feedstock, RPD™ produces “near net shape” titanium components at deposition rates not achieved by similar technologies. RPD™ produces high-quality titanium components that require far less raw material and substantially less processing / machining compared to similar products produced with conventional technologies. The result is parts manufactured at a significantly lower cost while meaningfully reducing production lead times. The technology provides significant energy and waste savings and is therefore more environmentally friendly than conventional processes.

NTi is currently supplying parts qualified by Federal Aviation Administration to the Boeing 787 program in serial production and working with Boeing, Airbus and other aerospace OEMs to expand adoption of RPD™ components in the industry.

The Company’s business office is located in Oslo, with production facilities and technology center at Eggemoen, Norway (the Eggemoen Technology Center or “ETC”). During 2015 the company established a subsidiary in the United States that operates a qualified production facility located in Plattsburgh, NY (the Plattsburgh Development and Qualification Center or “PDQC”) and developed in 2019 an industrial scale production center nearby (the Plattsburgh Production Center or “PPC”).

At year end 2019 the 498,212 shares in Norsk Titanium AS are owned 43.3% by Norsk Titanium Cayman Ltd, 18.6% by NTi Holding AS, 8.7% by Triangle Holdings L.P., 3.9% by MB Precision Investment Holdings LLC, 3.3% by Disruptive Innovation Fund L.P.2.6% by Orchard International Inc., 2.5% by RTI Europe, Ltd., 1.7% by Applied Ventures, and 1.6% by MP Pensjon PK. The remaining 13.8% are shares owned by employees and other investors and the company itself.

## BUSINESS ACTIVITY OF 2019

NTi achieved several milestones pertaining to its industrialization strategy during 2019. Most notable was that Boeing released the purchase order for Fatigue Phase 2 testing and approved to move the first Leonardo 787 parts into production. Boeing also funded the non-recurring engineering for the first 11 Leonardo parts. Spirit committed to run parallel fatigue testing to enable an independent data set and is moving eight 787 and eight 737Max parts through the Boeing change board process. Airbus launched their RPD™ material qualification program and issued purchase orders for the first article qualification of the first four production parts. Northrop Grumman approved funding to create a set of design allowables for RPD™ material in 2020.

NTi was awarded five new patents in 2019, bringing our total to 78 patents. Additionally, we filed three new priority applications and 42 national applications and now have 59 applications pending. The first two large format Generation 4 Large RPD™ machines are in assembly at ETC and nearing completion. The new machines can print double-sided parts without removal and retooling. Many of the new features are backward integrable to our existing Generation 4B RPD™ machines.

NTi and New York State completed build-out of PPC with receipt of the formal Certificate of Occupancy on December 20, 2019. The facility will represent the largest 3D printing mass production facility in the US.

NTi has maintained 100% on-time delivery for the 787 Boeing AFT Galley Brackets for the past 32 months with 100% quality for each delivery. NTi was successful in re-certifying to AS9100D at both our sites.

In July 2019 the main shareholders extended the shareholder loan agreement from 2018. The loan was extended from USD 32.9 million, up to a principal amount of USD 42.5 million. A subscription right of additional 13,422 warrants was granted related to the extension of the loan. In December 2019, NTi shareholders approved funding of USD 5.0 million under a subordinated facility agreement and in January 2020, NTi shareholders approved funding of an added USD 5.0 million under an addendum to the subordinated facility agreement. A subscription right of 10,000 warrants was granted related to the loan of USD 5.0 million in December 2019.

## CONSOLIDATED FINANCIAL STATEMENTS

NTi prepares its consolidated financial statements in accordance with IFRS as adopted by the European Union (EU), and the presentation currency is US dollars.

NTi's total revenue and other income in 2019 was USD 0.4 million, compared to USD 7.9 million in 2018. Profit after tax for the year was negative USD 36.6 million in 2019, compared to negative USD 32.1 million in 2018. Revenue in 2019 consist of sale of parts of USD 0.3 million, and Other income consist of margins for sale of RPD™ machines of USD 0.1 million. Comparable Revenue in 2018 consist of sale of parts of USD 0.4 million, and Other income consist of margins for sale of RPD™ machines of USD 7.1 million. In addition to generating revenue, the total operating cost of USD 35.0 million in 2019 was used to develop PDQC and qualify NTi as a supplier of titanium components to the aerospace.

NTi's intangible assets of USD 9.2 million by end of 2019 are mainly related to the development of the production platform, consisting of the RPD™ technology related qualification programs, and the G4 production machine technology**.** Property, plant and equipment of USD 5.7 million mainly consist of the three G4 machines at ETC and related production infrastructure at ETC and PDQC.

Non-current liabilities of USD 48.9 million consist of loans from Shareholders and The Development Corp Clinton County NY. Interest bearing short-term debt of USD 0.1 million consist of first year's principal repayments of loans from The Development Corp Clinton County NY.

NTi's net cash flow from operating activities was negative USD 27.2 million, and the net cash used in investing activities was negative USD 0.1 million. Net cash flow from financing activities was positive USD 10.3 million, resulting in a net decrease in cash and cash equivalents of USD 17.1 million during the year 2019.

The Board of Directors is of the opinion, that the consolidated financial statements give a fair and true view of NTi's assets and liabilities, financial position, and operating results.

## PARENT COMPANY

The parent company Norsk Titanium AS has prepared its financial statements in accordance with Norwegian Accounting principles, and the presentation currency for the Norsk Titanium AS standalone financial statements is Norwegian kroner. In 2019, Norsk Titanium AS was also the entity within the NTi Group which was responsible for developing the technology and the commercial production of titanium parts.

Norsk Titanium AS' total revenue and other income in 2019 was NOK 4.0 million, compared to NOK 63.8 million in 2018. Profit after tax for the year was negative NOK 169.6 million, compared to negative NOK 117.4 million in 2018. Revenues of NOK 4.0 million consist of sale of goods and services from Norsk Titanium AS to its 100% owned subsidiaries Norsk Titanium Equipment AS and Norsk Titanium US Inc. Norsk Titanium AS' costs are related to salaries, professional services, cost of goods and other operating costs.

Norsk Titanium AS' intangible assets were NOK 81.1 million, and property, plant and equipment were NOK 37.1 million by end of 2019. The non-current interest-bearing liabilities of NOK 481.6 million consist of loans from Shareholders.

Total sick leave for Norsk Titanium AS was 2.5% in 2019.

## GOING CONCERN

In accordance with the Norwegian Accounting Act § 3-3a, we confirm that the financial statements have been prepared under the assumption of going concern. The Group is still in a commercial ramp-up phase with negative operating cash flow. During 2019, funding activities included shareholder loans, in total USD 19.6 million.

In December 2019, NTi shareholders approved funding of USD 5.0 million under a subordinated facility agreement and in January 2020, NTi shareholders approved funding of an added USD 5.0 million under an addendum to the subordinated facility agreement. The USD 10.0 million will enable NTi to meet its obligations through the first quarter of 2020.

A second addendum to the subordinated loan facility agreement is prepared, against which Lenders can make available up to USD 10.0 million, subject to approval in the general meeting in April 2020. In the absence of the COVID-19 impacts, Management believes NTi's present cash balance, funding and forecasted operating cash flows can enable the company operations to continue through June 2020. However, operating cash flow has been reduced as a consequence of measures taken related to the outbreak of a novel strain of coronavirus, COVID-19T (see "Subsequent Events"). NTi has closed its New York Plattsburgh operations and placed most employees on temporary furlough until 19 April, or further notice. The Eggemoen-based operations will be closed by 1 April 2020, for at least the same period of time as the Plattsburgh-based operations remain closed. With the expected reduced activity level and decreased cash outflows as a result of the outbreak of the coronavirus, Management believes NTi's present cash balance, funding and forecasted operating cash flows can enable the company operations to continue through 2020. Although the outcome of such reduced activity level is uncertain.

In parallel, NTi has launched a financing process with J.P. Morgan contemplating convertible debt to raise funding that will enable the company to operate well into 2021. An outreach target list, strategy and draft term sheet have been developed and an outreach to financial sponsors and strategic parties is underway.

NTi is gradually moving from an R&D operation to a commercial business with manufacturing and sales of titanium components and of RPD™ equipment. The technology qualification process is making good progress and the Board of Directors believes that revenue and margins will increase significantly in the coming years. In the near-term, however, COVID-19 implications on the global economy present uncertainties that cannot be fully assessed or estimated relative to potential impacts on the Company's future business, revenues, financial condition and results of operations.

## WORKING / EQUAL OPPORTUNITIES / DISCRIMINATION

At the end of 2019 NTi had 139 employees, of whom 25 are women. The Board of Directors has no female Board members. The Board has not found it necessary to take special measures with regards to equality at the Board level. All appointments will continue to be based on the person best qualified for the position regardless of gender or nationality. The working environment is considered to be good. The Company's personnel policy focuses on and supports a workplace with no discrimination. No serious injuries and one accident on the parking lot have been reported in 2019.

## ENVIRONMENTAL REPORTING

NTi's current business involves no direct pollution to the environment. The Company's core business is to contribute to the development and future production of titanium in environmental-friendly processes. The company's intention is to develop technologies that contribute to energy-efficient production processes and the products will therefore have a positive effect on the environment compared to conventional technologies.

## ALLOCATION OF THE RESULT FOR THE YEAR

The Board of Directors proposes that the loss for the year of NOK 169,611,489 is charged to other equity. The equity in Norsk Titanium AS as of 31st December 2019 is NOK 190.4 million.

## SUBSEQUENT EVENTS

The outbreak of a novel strain of coronavirus, COVID-19, has severely restricted the level of activity around the world. The governments of many countries, states, cities and other geographic regions have taken preventative or protective actions. These actions have expanded significantly in the past several weeks and are expected to continue to expand in scope, type and impact.

The United States, State of New York and Norwegian government actions have directly impacted the Company's business. On 12 March 2020, Norway invoked emergency powers to close a wide range of public and private institutions. The State of New York's directed that 100% of the workforce (excluding essential services) must stay home beginning 22 March 2020; consequently, the Company has closed its New York Plattsburgh operations and placed most employees on temporary furlough until 19 April, or further notice. Because NTi cannot efficiently operate the Norway activities alone, it will close its Eggemoen-based operations by 1 April 2020, for at least the same period of time as the Plattsburgh-based operations remain closed.

The foregoing actions will affect the Company's ability to meet its customer and supplier commitments but not have a material impact on the Company's short-term financial results as the reduced spending will more than offset revenue impacts.

The Company intends to resume business and continuing fulfilling customer commitments after Government restrictions are lifted. However, the aforementioned uncertainties may result in delays or modifications to these plans, ability of suppliers to operate, increases to operating costs, and availability of employees following temporary furloughs. These effects may negatively impact the Company's ability to meet its customer commitments.

For the reasons set forth above and other reasons that may come to light if this coronavirus outbreak and any associated protective or preventative measures expand, as of the date hereof, the Company cannot reasonably estimate the impact to its business, revenues, financial condition or results of operations; however, such impact could be significantly negative.

Eggemoen, March 25, 2020

| | | |
|---|---|---|
| John Andersen Jr.<br>**Chairman** | Shan A. Ashary<br>**Board Member** | Bart van Aalst<br>**Board Member** |
| Timothy Lintott<br>**Board Member** | Michael Canario<br>**Board Member** | Jeremy F. Barnes<br>**Board Member** |

## Consolidated statement of total comprehensive income

For the years ended 31 December

| USD 1000 | Notes | 2019 | 2018 |
|---|---|---|---|
| Revenue | 2.1 | 336 | 406 |
| Other income | 2.2 | 57 | 7 457 |
| **Total revenues and other income** | | **393** | **7 863** |
| Raw materials and consumable used | 2.3 | (3 195) | (5 465) |
| Employee benefits expense | 2.5 | (20 872) | (20 413) |
| Other operating expenses | 2.6 | (6 796) | (10 637) |
| Depreciation and amortisation | 3.1,3.2 | (3 404) | (2 476) |
| Impairment of intangible assets | 3.2 | (713) | 0 |
| **Operating profit** | | **(34 586)** | **(31 128)** |
| Financial income | 4.5 | 15 386 | 8 178 |
| Financial expenses | 4.5 | (17 380) | (9 227) |
| **Profit or loss before tax** | | **(36 580)** | **(32 177)** |
| Income tax expense | 5.1 | (7) | 125 |
| **Profit or loss for the year** | | **(36 587)** | **(32 052)** |
| | | | |
| Profit/loss attributable to owners of the parent | | (36 587) | (32 052) |
| | | | |
| **Other comprehensive income** | | | |
| | | | |
| *Items that subsequently may be reclassified to profit or loss:* | | | |
| Exchange differences on translation of foreign operations | | (40) | (3 440) |
| **Other comprehensive income for the period** | | (40) | (3 440) |
| **Total comprehensive income for the period** | | **(36 626)** | **(35 491)** |
| | | | |
| Total comprehensive income attributable to owners of the parent | | (36 626) | (35 491) |

## Consolidated statement of financial position

| USD 1000 | Notes | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Deferred tax asset | 5.1 | 0 | 126 |
| Right of use of assets | 7.3 | 1 601 | 0 |
| Property, plant and equipment | 3.1 | 5 728 | 7 715 |
| Intangible assets | 3.2 | 9 235 | 10 462 |
| **Total non-current assets** | | **16 564** | **18 304** |
| **Current assets** | | | |
| Inventories | 2.4 | 4 317 | 3 946 |
| Trade receivables | 2.7 | 907 | 3 955 |
| Other current assets | 2.7 | 1 577 | 1 655 |
| Cash and cash equivalents | 4.4 | 2 145 | 19 402 |
| **Total current assets** | | **8 945** | **28 958** |
| **TOTAL ASSETS** | | **25 509** | **47 262** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 4.7 | 464 | 464 |
| Share premium | | 92 726 | 92 726 |
| Treasury shares | 4.7 | (10) | (10) |
| Other capital reserves | | 2 857 | 1 315 |
| Other equity | | (133 090) | (96 463) |
| **Total equity** | | **(37 052)** | **(1 969)** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 5.1 | 0 | 218 |
| Long term liabilities | 7.3 | 1 657 | 0 |
| Derivative financial liabilities | 4.2, 4.10 | 6 665 | 15 011 |
| Loan measured at fair value | 4.2, 4.10 | 40 614 | 18 676 |
| **Total non-current liabilities** | | **48 936** | **33 905** |
| **Current liabilities** | | | |
| Trade and other payables | 2.8 | 2 391 | 3 109 |
| Interest bearing debt - Short term | 4.2, 4.9 | 74 | 536 |
| Contract liabilities | | 6 518 | 6 994 |
| Other current liabilities | 7.1, 7.3 | 4 594 | 4 658 |
| Tax payable | 5.1 | 48 | 29 |
| **Total current liabilities** | | **13 624** | **15 325** |
| **Total liabilities** | | **62 561** | **49 230** |
| **TOTAL EQUITY AND LIABILITIES** | | **25 509** | **47 262** |

Eggemoen, March 25, 2020

John Andersen Jr.
Chairman of the Board

Michael Canario
Member of the Board

Timothy Lintott
Member of the Board

Bart Van Aalst
Member of the Board

Shan A. Ashary
Member of the Board

Jeremy F. Barnes
Member of the Board

## Consolidated statement of cash flows

For the years ended 31 December

**USD 1000**

| Cash flows from operating activities | Notes | 2019 | 2018 |
|---|---|---|---|
| **Profit before tax** | | **(36 580)** | **(32 177)** |
| *Adjustments to reconcile profit before tax to net cash flow:* | | | |
| Depreciation and amortisation | 3.1,3.2 | 3 404 | 2 476 |
| Impairment of intangible assets | 3.2 | 713 | 0 |
| Net financial income/expense included in financing activities | 4.5 | 1 813 | (1 361) |
| Net foreign exchange differences | 4.5 | 181 | 312 |
| Tax payable | 5.1 | (48) | (29) |
| | | | |
| *Working capital adjustment:* | | | |
| Changes in inventories and right of use assets | 2.4 | (1 973) | (2 310) |
| Changes in trade and other receivables | 2.7 | 3 048 | 17 920 |
| Changes in other current assets | 2.7 | 78 | 5 584 |
| Changes in trade and other payables | 2.8 | (719) | (4 241) |
| Changes in other accruals | 7.1 | 2 892 | (14 487) |
| **Net cash flows from operating activities** | | **(27 189)** | **(28 312)** |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 3.1 | (56) | 577 |
| Investment in intangible assets | 3.2 | (156) | (249) |
| Interest received | 4.5 | 77 | 77 |
| **Net cash flow from investing activities** | | **(135)** | **405** |
| | | | |
| **Cash flow from financing activities** | | | |
| Proceeds from issuance of shared capital | | 0 | 4 231 |
| Purchase of treasury shares | 4.7 | (9) | 0 |
| Sale of treasury shares | 4.7 | 114 | 1 147 |
| Payment of principle portion of lease liabilities | 7.3 | (896) | 0 |
| Increase and Repayment of debt | 4.2 | 11 064 | 30 938 |
| Net interests paid | 4.5 | (3) | (268) |
| **Net cash flow from financing activities** | | **10 270** | **36 047** |
| | | | |
| Net change in cash and cash equivalents | | (17 055) | 8 140 |
| Effect of change in exchange rate | | (203) | (664) |
| Cash and cash equivalents, beginning of period | 4.4 | 19 402 | 11 925 |
| **Cash and cash equivalents, end of period** | | **2 145** | **19 402** |

## Consolidated statement of changes in equity

| USD 1000 | Share capital | Share premium | Treasury shares | Other capital reserves | Cumulative translation effect | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| | Attributable to the equity holders of the parent | | | | Other equity | | |
| Profit (loss) for the year | | | | | | (32 052) | (32 052) |
| Other comprehensive income | | | | | (3 440) | | (3 440) |
| Issue of share capital | 7 | 4 230 | | (6) | | | 4 231 |
| Purchase of treasury shares | | | | | | | 0 |
| Sales of treasury shares | | | 2 | 1 145 | | | 1 147 |
| Shared-based payment | | | | 1 033 | | | 1 033 |
| **Balance as of 31 December 2018** | **464** | **92 726** | **(10)** | **1 315** | **(999)** | **(95 464)** | **(1 969)** |
| | | | | | | | |
| **Balance as of 31 December 2018** | **464** | **92 726** | **(10)** | **1 315** | **(999)** | **(95 464)** | **(1 969)** |
| Profit (loss) for the year | | | | | | (36 587) | (36 587) |
| Other comprehensive income | | | | | (40) | | (40) |
| Issue of share capital | | | | | | | 0 |
| Purchase of treasury shares | | | (0) | (9) | | | (9) |
| Sales of treasury shares | | | 1 | 114 | | | 114 |
| Shared-based payment | | | | 1 437 | | | 1 437 |
| **Balance as of 31 December 2019** | **464** | **92 726** | **(10)** | **2 857** | **(1 038)** | **(132 051)** | **(37 052)** |

# Notes to the Consolidated financial statements
## 1.1 Corporate information

The consolidated financial statements of Norsk Titanium AS and its subsidiaries (collectively, "the Group" or "Norsk Titanium") for the year ended 31 December 2019 were authorized for issue in accordance with a resolution of the directors on 25 March 2020. Norsk Titanium AS (the Company or the parent) is a limited liability Company incorporated and domiciled in Norway. The registered office is located at Karenslyst Allé 9C, Oslo in Norway.

Norsk Titanium specializes in additive manufacturing (AM) and producing structural titanium parts with reduced lead time and cost from traditional methods.

**Basis of preparation**

The consolidated financial statements of Norsk Titanium AS comprise of consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity, and related notes. The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The consolidated financial statements have been prepared on a historical cost basis, except for the following; Financial instruments at fair value through profit or loss, loans, receivables and other financial liabilities which are recognized at amortized cost. The consolidated financial statements are presented in USD and all values are rounded to the nearest thousand (000), except when otherwise indicated. Comparative financial information is provided for the preceding period in the Consolidated statement of comprehensive income, Consolidated statement of financial position and Consolidated statement of cash flows.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its return. Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group’s voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

**Foreign currencies**

The Group's consolidated financial statements are presented in USD. The parent company's functional currency is NOK. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method. P&L figures are converted from functional currency to presentation currency by use of average rates. Balance sheet figures are converted from functional currency to presentation currency by use of spot rate on the balance sheet date.

## 1.2 Key source of estimation uncertainty, judgement and assumptions

**Significant accounting judgements, estimates and assumptions**

In connection with the preparation of the Group's consolidated financial statements, the management has made assumptions and estimates about future events and applied judgements that affect the reported values of assets, liabilities, revenues, expenses and related disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. The assumptions, estimates and judgements are based on historical experience, current trends and other factors that the Group's management believes to be relevant at the time the consolidated financial statements are prepared.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The estimates and the underlying assumptions are reviewed on an ongoing basis. The accounting policies applied by the Group in which judgments, estimates and assumptions may significantly differ from actual results are discussed below:

**Judgements**

**Sale and lease agreement with Fort Schuyler Management Corporation ("FSMC")**

In 2015 the Group signed a contract with FSMC under which FSMC is responsible for building a manufacturing facility and purchase manufacturing equipment from Norsk Titanium, and subsequently lease the manufacturing facility and equipment to Norsk Titanium at a yearly rent of 1 USD with an option of extending the term. During the third quarter 2016 the group entered a Master

Equipment Purchase Agreement with FSMC, where Norsk Titanium shall build and sell in total 32 RPD™ machines to FSMC. In the fourth quarter 2018 NTi executed an Amendment to the Alliance Agreement. The RPD™ machines are the main part of the Manufacturing Equipment that shall be leased to Norsk Titanium under the agreement with FSMC. In return for the subsidized lease, The Group has committed itself to operations related to the manufacturing facility and hire new employees as production increases for the 10 years period from 1 September 2019 to 31 August 2029. The production facility is located in Plattsburg, New York.

Based on IAS 17, management treated the lease of the facility and equipment as an operating lease and presented the gain/loss from sale of equipment under the sale/leaseback agreement net in the statement of profit and loss since the equipment are used in production.

Upon transition to IFRS 16, NTi is not required to to reassess the sale of the RPD machines to FSMC, and therefore no adjustments related to these sales have been recorded in 2019. The only transition impact for NTi will be the recognition of a lease liability reflecting the remaining lease payments and a corresponding right-of-use asset.

The last RPD machines delivered in 2019 are accounted for under IFRS 16. In order to determinate if a sale-leaseback constitute a sale an entity must apply the requirements in IFRS 15. NTi has assessed that the transfer of the asset does not satisfy the requirements of IFRS 15 to be accounted for as a sale. NTi has therefore recognised the transferred asset and a financial liability equal to the transfer proceeds. The financial liability is accounted for applying IFRS 9.

As FSMC meets the definition of a government in accordance to IAS 20, the difference between market rent and agreed rent is treated as a government grant. Applying the guidance in IAS 20, NTi has a choice of presenting the grant either as a reduction of the carrying amount of the machines (net presentation), with the grant offsetting the depreciation of the asset, or as deferred income that is recognised over the useful life of the asset (gross presentation). NTi has elected to present the deferred revenue as a reduction of the carrying amount of the machines (i.e. net presentation), with difference between the sales price and cost of the RPD machines being recognized as other income over the lease term.

**Research and Development**

Research costs are expensed as incurred. Development expenditures on an individual project, which represents new applications/technology, are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset and the ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually. Estimating recoverable amounts of assets must in part be based on management's evaluations, including determining appropriate cash-generating units, determining discounting rates, estimates of future performance, revenue generating capacity of the assets and assumptions of the future market conditions. The operations are to a large extent affected by economic conditions which result in considerable fluctuations in the Group's fair value. As the market is still immature, these values can vary in time. At 31 December 2019, the carrying amount of intangible assets was USD 9.2 million.

Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. The assessment of when product development is capitalised is highly subjective, as the outcome of these projects may be uncertain.

**Estimates and assumptions**

**Share based payment**

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity-settled transactions with employees at the grant date, the assumptions and models used for estimating the fair value are disclosed in note 4.8.

**Intangible assets**

The useful lives of intangible assets are assessed as either finite or indefinite and may in some cases involve considerable judgements. Intangible assets with indefinite useful lives are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. Intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

**Fair value measurement of shareholder loan**

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of shareholder loan. Further information is disclosed in note 4.2 and 4.10.

## 2.1 Revenues

*Amounts in USD thousand*

| Revenues | 2019 | 2018 |
|---|---|---|
| Sale of titanium components | 336 | 406 |
| **Total revenues** | **336** | **406** |

| Geographic information | 2019 | 2018 |
|---|---|---|
| **Revenues from customers** | | |
| Europe | 0 | (2) |
| USA | 336 | 408 |
| **Total revenues** | **336** | **406** |

| Timing of revenue recognition | 2019 | 2018 |
|---|---|---|
| Goods transferred at a point in time | 336 | 406 |
| Services transferred over time | 0 | 0 |
| **Total revenues** | **336** | **406** |

## 2.2 Other income

*Amounts in USD thousand*

| Other income | 2019 | 2018 |
|---|---|---|
| Gain on disposal of property, plant and equipment - RPD machines | 0 | 7 109 |
| Net gain from RPD machine grant* | 57 | 0 |
| Grants from Amaze | 0 | (29) |
| Grants from European Society of Anaesthesiology (ESA) | 0 | 357 |
| TAD Award | 0 | 20 |
| **Total other income** | **57** | **7 457** |

Government grants have been received for research and development activities but are not related to a specific program. The grants included in other income contains no unfulfilled conditions or contingencies.

*Net gain from RPD machine grant reflect net gain from the sale and leaseback of RPD machines to FSCM, being recognized as other income over the lease term, reference to note 1.2.

## 2.3 Raw materials and consumables used

*Amounts in USD thousand*

| Raw materials and consumables used | 2019 | 2018 |
|---|---|---|
| Cost of materials | 2 424 | 3 674 |
| Cost for machining of components | 288 | 688 |
| Consumables used | 181 | 604 |
| Cost of handling and freight | 302 | 499 |
| **Total cost of goods, raw materials and consumables used** | **3 195** | **5 465** |

Raw materials and consumables used is mainly related to qualification for the aerospace market, research, test production and product development.

## 2.4 Inventories

*Amounts in USD thousand*

| Inventories | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Raw materials | 1 542 | 2 126 |
| Work in progress | 2 775 | 1 820 |
| **Total inventories (gross)** | **4 317** | **3 946** |
| Provision for obsolete inventories 31.12 | 0 | 0 |
| **Total inventories (net)** | **4 317** | **3 946** |

Work in progress consist of manufacturing of production machines, for own or external use, in addition to titanium components in progress.  Inventories consists of wire, argon and substrate for production of titanium components.

## 2.5 Employee benefit expenses

*Amounts in USD thousand*

| Employee benefit expenses | 2019 | 2018 |
|---|---|---|
| Salaries and holiday pay* | 15 925 | 14 721 |
| Social security tax | 1 565 | 1 905 |
| Pension costs defined contribution plans | 719 | 685 |
| Cost of share-based payment | 1 812 | 979 |
| Other personnel costs | 851 | 2 124 |
| Capitalized salary and personnel expense | 0 | 0 |
| **Total payroll and related costs** | **20 872** | **20 413** |

* Salaries and holiday pay includes a cost reduction of USD 409 thousands in 2018 related to expected grants from Skattefunn. The grant is connected to research and development activities in 2018 that does not yet qualify for capitalization.

| | | |
|---|---|---|
| Full Time equivalent Employees as of 31.12 | 139 | 143 |

**Pensions**

The Norwegian companies in the Group are obligated to keep an occupational pension scheme pursuant to the Norwegian Mandatory Occupational Pensions Act. The Group's pension scheme satisfies these requirements.

Contributions are paid to pension insurance plans and charged to the income statement in the period to which the contributions relate. Once the contributions have been paid, there are no further payment obligations.

**Management and board remuneration**

*Amounts in USD thousand*

| Remuneration to management in 2019 | Salary | Performance-related bonus | Other remuneration | Total remuneration |
|---|---|---|---|---|
| Michael Canario - CEO | 450 | 306 | 73 | **829** |

**Benefits to the CEO**

Executive management takes part in the general pension scheme described above. Additionally, the CEO is part of the Group's ordinary bonus scheme and does also have the right to severance payment if the Group terminates the employment. CEO, executive management and the Board takes part in the Group's option programs as described in note 4.8.

| Remuneration to Board members in 2019 | Total remuneration |
|---|---|
| Board members | 0 |

In the General Meeting 2019 it was decided that no remuneration is paid to the board members.

At the end of the financial year, members of the Board and executive employees held shares in the parent company, Norsk Titanium AS. Reference is made to note 4.7 for disclosures on shareholdings.
The board members are not subject to agreements for severance pay, bonuses or profit-sharing. The second tranche of the shareholder loan of USD 2.9 mill. include USD 0.1 mill. participition from the board members. Reference is made to note 4.9 for disclosures on the shareholder loans.

## 2.6 Other operating expenses

*Amounts in USD thousand*

| **Other operating expenses** | **2019** | **2018** |
|---|---|---|
| Professional services | 3 836 | 4 018 |
| Travel expenses | 912 | 1 565 |
| Rental and leasing expenses | 213 | 315 |
| Other operating expenses | 1 834 | 4 739 |
| **Total other operating expenses** | **6 796** | **10 637** |

| **Auditor related fees** | **2019** | **2018** |
|---|---|---|
| Statutory audit | 221 | 205 |
| Other assurance services | 7 | 21 |
| Tax consultant services | 13 | 11 |
| **Total remuneration to the auditor** | **241** | **237** |

**Audit fee:**
The amounts above are excluding VAT.

## 2.7 Trade receivables and other current assets

*Amounts in USD thousand*

| **Trade receivables** | **31.12.2019** | **31.12.2018** |
|---|---|---|
| Trade receivables at nominal value | 907 | 3 955 |
| Provision for impairment of receivables | 0 | 0 |
| **Total trade receivables** | **907** | **3 955** |

No provision for bad debt has been recognised in 2019 or 2018.

| **Other current assets** | **31.12.2019** | **31.12.2018** |
|---|---|---|
| Pre-payments | 153 | 467 |
| Deposits | 527 | 526 |
| VAT | 245 | 433 |
| Short term financial receivables | 559 | 0 |
| Other receivables | 92 | 229 |
| **Total other receivables** | **1 577** | **1 655** |

As at 31 December 2019 the ageing analysis of trade receivables is, as follows:

| | | | **Past due but not impaired** | | | |
|---|---|---|---|---|---|---|
| **Aging analysis of trade receivables** | **Total** | **Not due** | **< 30 days** | **31-60 days** | **61-90 days** | **> 90 days** |
| Trade receivables at 31.12.2019 | **907** | 195 | 615 | (16) | 0 | 112 |

For details regarding the Group's procedures on managing credit risk, reference is made to note 4.6.

## 2.8 Trade and other payables

*Amounts in USD thousand*

| **Trade and other payables** | **31.12.2019** | **31.12.2018** |
|---|---|---|
| Accounts payables to related parties | 4 | 4 |
| Accounts payables | 1 810 | 2 542 |
| Withholding payroll taxes and social security | 576 | 562 |
| **Total trade and other payables** | **2 391** | **3 109** |

Trade payables are non-interest bearing and are normally settled on 30-day terms. For an overview of the term date of trade and other payables, reference is made to note 4.3.

## 3.1 Property, plant and equipment

| *Amounts in USD thousand* | **Machinery and equipment** | **Furniture and vehicles** | **Buildings, IT** | **Total** |
|---|---|---|---|---|
| **Acquisition cost 1.1.2018** | **9 802** | **277** | **2 921** | **13 001** |
| Additions | 421 | 168 | (1 166) | (577) |
| Currency translation effects with rates at 31.12.2018 | | | | 0 |
| **Acquisition cost 31.12.2018** | **10 223** | **445** | **1 755** | **12 424** |
| Additions | 195 | 3 | (143) | 56 |
| Currency translation effects with rates at 31.12.2019 | (107) | (5) | (18) | (130) |
| **Acquisition cost 31.12.2019** | **10 311** | **443** | **1 594** | **12 350** |
| | | | | |
| **Accumulated depreciation and impairment 1.1.2018** | **3 437** | **75** | **444** | **3 955** |
| Depreciation for the year | 864 | 99 | 38 | 1 001 |
| Currency translation effects with rates at 31.12.2018 | (228) | (31) | 11 | (248) |
| **Accumulated depreciation and impairment 31.12.2018** | **4 073** | **142** | **493** | **4 709** |
| Depreciation for the year | 1 004 | 105 | 254 | 1 364 |
| Impairment for the year | 713 | | | 713 |
| Currency translation effects with rates at 31.12.2019 | (156) | (22) | 15 | (163) |
| **Accumulated depreciation and impairment 31.12.2019** | **5 634** | **226** | **763** | **6 622** |
| | | | | |
| **Carrying amount 31.12.2018** | **6 150** | **302** | **1 262** | **7 715** |
| **Carrying amount 31.12.2019** | **4 678** | **218** | **831** | **5 728** |
| | | | | |
| Economic life | 5-20 years | 5 years | 5 years | |
| Depreciation plan | linear | linear | linear | |

An impairment loss of USD 713 thousand was recognised as Impairment of machinery and equipment in the consolidated statement of comprehensive income in 2019. Additionally, property, plant and equipment in the Consolidated statement of financial position has been written down by the same amount.

The impairment loss was related to a previous generation of the RPD™ machine. The third-generation machine (P01) has been in use for experiments, prototyping and technology development. The functionality will be replaced by a new G4 Large RPD™machine, which is under developement.

No indicators for impairment of property, plant and equipment were identified in 2018.

## 3.2 Intangible assets

*Amounts in USD thousand*

| Intangible assets | Development costs | Other intangible assets | Total |
|---|---|---|---|
| **Acquisition cost 1.1.2018** | **15 247** | **1 168** | **16 415** |
| Additions | 0 | 249 | 249 |
| Currency translation effects with rates at 31.12.2018 | (702) | 0 | (702) |
| **Acquisition cost 31.12.2018** | **14 545** | **1 417** | **15 962** |
| Additions | 0 | 156 | 156 |
| Currency translation effects with rates at 31.12.2019 | (152) | (15) | (167) |
| **Acquisition cost 31.12.2019** | **14 393** | **1 559** | **15 952** |
| | | | |
| **Accumulated amortisation and impairment 1.1.2018** | **3 974** | **240** | **4 214** |
| Amortisation for the year | 1 321 | 138 | 1 459 |
| Impairment for the year | 0 | 0 | 0 |
| Currency translation effects with rates at 31.12.2018 | (152) | (21) | (173) |
| **Accumulated depreciation and impairment 31.12.2018** | **5 143** | **357** | **5 500** |
| Amortisation for the year | 1 108 | 165 | 1 273 |
| Impairment for the year | | 0 | 0 |
| Currency translation effects with rates at 31.12.2019 | (54) | (4) | (58) |
| **Accumulated amortisation and impairment 31.12.2019** | **6 197** | **519** | **6 716** |
| | | | |
| **Carrying amount 31.12.2018** | **9 402** | **1 060** | **10 462** |
| **Carrying amount 31.12.2019** | **8 196** | **1 040** | **9 235** |
| | | | |
| Economic life | 10 years | 3-10 years | |
| Amortisation plan | Straight-line | Straight-line | |

Norsk Titanium has invested heavily in researching and developing the market-leading high-deposition rate additive manufacturing (AM) process. Based on available plasma welding technology NTi has developed an automated process for the production of “near net shape” titanium components with titanium wire and titanium substrate as the main feedstock.

**Development costs**
Norsk Titanium has capitalized technology development up until 2017 for development of the RPD Production Platform reflecting the deposition process and the associated qualification programs and fourth generation production machinery. The Group assess the Production platform and acquired patents as one Cash Generating Unit. Norsk Titanium estimates that the cash inflow from sale of RPD machines and commercial aerospace component sales are higher than the carrying value of the intangible assets.

**Impairment of intangible assets**
No impairment loss is recognised as impairment of intangible assets in the consolidated statement statements for 2018 and 2019.

**Other intangible assets**
Other intangible assets consist of software and acquired patents.

**Other Research and development**
A large part of the research and development in 2018 and 2019 has been related to Allowables programs, development of RPD database through design of experiments and specifications. Due to the restrictive nature in IAS 36 and IAS 38, specifically related to the demonstration of technical feasibility and demonstrating how the asset will generate future economic benefits, all R&D activities in 2018 and 2019 have been expensed. Future cost will be capitalized when the criteria are fulfilled.

The costs related to research and development in 2018 have been reduced by USD 533 thousand related to Skattefunn. R&D expenses and the cost reduction from Skattefunn has been recognised against Raw materials and consumables used, Employee benefit expenses and Other operating expenses.

## 4.1 Financial instruments

The following tables shows the various financial assets and liabilities, grouped in the different categories of financial instruments according to IAS 9:

*Amounts in USD thousand*

| **31.12.2019** | **Financial assets at amortised cost** | **Financial liabilities at amortised cost** | **Financial assets and liabilities** | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Trade receivables (note 2.7) | 907 | | | 907 |
| Other receivables (note 2.7) | 1 018 | | 559 | 1 577 |
| Cash and cash equivalents (note 4.4) | 2 145 | | | 2 145 |
| **Total financial assets** | **4 069** | **0** | **559** | **4 628** |
| | | | | |
| **Liabilities** | | | | |
| Interest bearing debt - Long term (note 4.2) | | (193) | 47 473 | 47 279 |
| Trade and other payables (note 2.8) | | 2 391 | | 2 391 |
| Contract liabilities | | 6 518 | | 6 518 |
| Long term liabilities (note 7.3) | | 1 657 | | 1 657 |
| Other current liabilities (note 7.1, 7.3) | | 4 594 | | 4 594 |
| Interest bearing debt - Short term (note 4.2) | | 74 | | 74 |
| **Total financial liabilities** | | **15 040** | **47 473** | **62 513** |

| **31.12.2018** | **Financial assets at amortised cost** | **Financial liabilities at amortised cost** | **Financial liabilities at fair value through profit and loss** | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Trade receivables (note 2.7) | 3 955 | | | 3 955 |
| Other receivables (note 2.7) | 1 655 | | | 1 655 |
| Cash and cash equivalents (note 4.4) | 19 402 | | | 19 402 |
| **Total financial assets** | **25 012** | **0** | **0** | **25 012** |
| | | | | |
| **Liabilities** | | | | |
| Interest bearing debt - Long term (note 4.2) | | (162) | 33 849 | 33 687 |
| Trade and other payables (note 2.8) | | 3 109 | | 3 109 |
| Long term liabilities | | 18 676 | | **18 676** |
| Interest bearing debt - Short term (note 4.2) | | 536 | | 536 |
| **Total financial liabilities** | | **22 159** | **33 849** | **56 008** |

**Financial assets at amortised cost**
When determining the classification for financial assets, the Group evaluates the investment related to the "SPPI" test and the "Business model" test. The "SPPI" test involves evaluating if the instruments consist of solely payments of principal and interest (hence, SPPI). If the instruments pass the "SPPI" test, the Group further evaluates the "Business model" test. When doing so, the Group evaluates the purpose of the investment. If the investment is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, the investments will be valued at amortized cost.

Financial assets at amortised cost includes cash and short-term deposits, trade receivables and contract assets.

**Financial liabilities at amortised cost**
Financial liabilities are measured either at fair value through profit or loss or at amortised cost.

Financial liabilities are measured at fair value through profit or loss when they meet the definition of held for trading, or when they are designated as such on initial recognition. Derivatives are always recognised at fair value through profit or loss. In addition, hybrid instruments (embedded derivative in a non-derivative host contract), are recognised at fair value through profit or loss when the Group choose not to separate the embedded derivative and account for the contract as a whole. All other financial liabilities, are generally classified as subsequently measured at amortised cost using the effective interest method.

**Financial liabilities at fair value through profit and loss**
See explanation above.

The loan agreements with shareholders (ref. note 4.2) is a hybrid instrument including several embedded derivatives. The Group has chosen not to separate the embedded derivatives from the non-derivative host contract and therefore, the whole contract is recognized at fair value through profit and loss.

## 4.2 Interest bearing debt

*Amounts in USD thousand*

| Non-current Interest bearing loans and borrowings | Effective interest rate | Maturity | 31.12.2019 | 31.12.2018 |
|---|---|---|---|---|
| Loan from Harbert European Growth Capital Fund* | 12.00% | 2019 | 0 | 0 |
| Loan from The Development Corp Clinton County NY | 3.50% | 2021 | 80 | 142 |
| Derivative financial liabilities - Warrants** | | 2021 | 6 665 | 15 011 |
| Loan from shareholders measured at fair value** | 30.64% | 2021 | 40 614 | 18 534 |
| **Total non-current interest bearing loans and borrowings** | | | **47 359** | **33 687** |

* The Lender has been granted warrants to purchase USD 1,200 thousand worth of the Issuer's stock.

**As part of the loan agreement in September 2018, the Lenders were in 2018 granted warrants to purchase 65,309 shares. The loan was extended from USD 32.9 million up to USD 42.5 million in 2019. Additional 13,422 warrants were granted related to the extension of the loan to USD 42.5 million. The strike price of the warrants granted was equal to the market value of shares as of September 2018. A second loan agreement was signed in December 2019 of USD 5 million, with the potential extension of the loan up to USD 10 million.The lenders have been granted warrants to purchase 10,000 shares in 2019.

The duration of the shareholder loan from September 2018 may be extended from 36 months up to 54 months (i.e. 18 months extension) at NTi's discretion. The additional shareholder loans expire at the same time as the first shareholder loan from September 2018. The shareholder loan from December 2019 carries an interest at a fixed 15 % per annum in arrears, compounded quarterly. The accrued interest shall be settled by converting to new shares in NTi.

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Short term portion of Loan from Harbert European Growth Capital Fund | 0 | 456 |
| Short term portion of Loan from The Development Corp Clinton County NY | 74 | 80 |
| **Interest bearing debt - Short term** | **74** | **536** |

**Assets pledged as security and guarantee liabilities**

| Secured balance sheet liabilities | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Intangible Assets | 9 235 | 10 462 |
| Property, plant and equipment | 5 728 | 7 715 |
| Inventories | 4 317 | 3 946 |
| Trade receivables | 907 | 3 955 |
| Other current assets | 1 577 | 1 655 |
| Cash and cash equivalents | 2 145 | 19 402 |
| **Total** | **23 907** | **47 135** |

The Group has not given any guarantees to or on behalf of third parties in the current and previous period.

**Covenant requirements**
The loan from Harbert European Growth Capital Fund has a financial covenant related to total indebtedness. Total indebtedness is limited to USD 10 million. It was no breach of the covenant in 2019. A waiwer from Harbert was received as part of the shareholder loan agreement. The Harbert European Growth Capital Fund has been repaid in 2019.

The Group aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the Harbert European Fund Advisors Ltd to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

## 4.3 Ageing of financial liabilities

*Amounts in USD thousand*

| 31.12.2019 | 1 year | 2 years | 3-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Interest bearing debt - Long term (note 4.2) | 0 | 40 654 | 6 705 | 0 | **47 359** |
| Trade and other payables (note 2.8) | 2 391 | 0 | 0 | 0 | **2 391** |
| Interest bearing debt - Short term (Note 4.2) | 74 | 0 | 0 | 0 | **74** |
| **Total** | **2 464** | **40 654** | **6 705** | 0 | **49 823** |

| 31.12.2018 | 1 year | 2 years | 3-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Interest bearing debt - Long term (note 4.2) | 0 | 71 | 15 082 | 0 | **15 153** |
| Trade and other payables (note 2.8) | 3 109 | 0 | 0 | 0 | **3 109** |
| Interest bearing debt - Short term (Note 4.2) | 536 | 0 | 0 | 0 | **536** |
| **Total** | **3 645** | **71** | **15 082** | 0 | **18 798** |

Reconciliation of changes in liabilities incurred as a result of financing activities.

| | | | Non-cash changes | | |
|---|---|---|---|---|---|
| | 01.01.2019 | Cash flow effect | Foreign exchange | Other changes | 31.12.2019 |
| Interest bearing debt - Long term(note 4.2) | 33 687 | 16 757 | (352) | (2 733) | **47 359** |
| Interest bearing debt - Short term (Note 4.2) | 536 | (457) | (6) | 0 | **74** |
| **Total liabilities from financing** | 34 223 | 16 301 | (358) | (2 733) | **47 433** |

## 4.4 Cash and cash equivalents

*Amounts in USD thousand*

| Cash and cash equivalents | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Bank deposits, unrestricted | 1 881 | 19 098 |
| Bank deposits, restricted* | 264 | 304 |
| **Total cash and cash equivalents** | **2 145** | **19 402** |

* Restricted bank deposits relates to cash for withholding taxes which may not be used for other purposes. Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

For more information on the Group's credit facilities see note 4.2.

## 4.5 Financial income and expenses

*Amounts in USD thousand*

| Financial income and expenses | 2019 | 2018 |
|---|---|---|
| **Financial income** | | |
| Interest income | 77 | 77 |
| Foreign exchange gains | 3 082 | 7 313 |
| Other financial income | 12 227 | 788 |
| **Total financial income** | **15 386** | **8 178** |
| **Financial expenses** | | |
| Interest expenses | (3) | (272) |
| Foreign exchange losses | (3 263) | (7 001) |
| Other financial expenses | (14 113) | (1 954) |
| **Financial expenses** | **(17 380)** | **(9 227)** |

Other finance income primarily comprise gain fair value derivative, while other finance expense primarily comprise loss fair value on loans and interest of IFRS 16 leases.

## 4.6 Financial risk and capital management

The Group is exposed to a range of risks affecting its financial performance, including market risk (interest rate risk and foreign exchange risk), liquidity risk and credit risk. The Group seeks to minimise potential adverse effects of such risks through sound business practices. Currently no derivatives are used to hedge risk exposures, which are summarized below.

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings and deposits.

*Interest rate risk*

The Group's interest bearing debt from Shareholder loan and The Development Corp Clinton County NY are all loans with a fixed interest rate, hence the Groups exposure to interest rate risk is limited.

*Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group’s exposure to the risk of changes in foreign exchange rates relates primarily to the Group’s operating activities (when revenue or expense is denominated in a foreign currency).

As the Group reports its consolidated results in USD, any change in exchange rates between USD and its subsidiaries' functional currencies, primarily with respect to changes in NOK, affects the consolidated financial statements when those subsidiaries are translated to USD for reporting purposes. The Group has a limited amount of loans and borrowings in other currencies than USD. The Group does not hedge currency exposure with financial instruments at the current time, but monitors the net exposure and may chose to use financial derivatives to manage this risk in the future.

**Liquidity risk and Going concern assumption**

In accordance with the Norwegian Accounting Act § 3-3a, we confirm that the financial statements have been prepared under the assumption of going concern. The Group is still in a commercial ramp-up phase with negative operating cash flow. During 2019, funding activities included shareholder loans, in total USD 19.6 million.

In December 2019, NTi shareholders approved funding of USD 5.0 million under a subordinated facility agreement and in January 2020, NTi shareholders approved funding of an added USD 5.0 million under an addendum to the subordinated facility agreement. The USD 10.0 million will enable NTi to meet its obligations through the first quarter of 2020.

A second addendum to the subordinated loan facility agreement is prepared, against which Lenders can make available up to USD 10.0 million, subject to approval in the general meeting in April 2020. In the absence of the COVID-19 impacts, Management believes NTi’s present cash balance, funding and forecasted operating cash flows can enable the company operations to continue through June 2020. However, operating cash flow has been reduced as a consequence of measures taken related to the outbreak of a novel strain of coronavirus, COVID-19T, reference to Note 7.5. NTi has closed its New York Plattsburgh operations and placed most employees on temporary furlough until 19 April, or further notice. The Eggemoen-based operations will be closed by 1 April 2020, for at least the same period of time as the Plattsburgh-based operations remain closed. With the expected reduced activity level and decreased cash outflows as a result of the outbreak of the coronavirus, Management believes NTi’s present cash balance, funding and forecasted operating cash flows can enable the company operations to continue through 2020. Although the outcome of such reduced activity level is uncertain.

In parallel, NTi has launched a financing process with J.P. Morgan contemplating convertible debt to raise funding that will enable the company to operate well into 2021. An outreach target list, strategy and draft term sheet have been developed and an outreach to financial sponsors and strategic parties is underway.

NTi is gradually moving from an R&D operation to a commercial business with manufacturing and sales of titanium components and of RPD™ equipment. The technology qualification process is making good progress and the Board of Directors believes that revenue and margins will increase significantly in the coming years. In the near-term, however, COVID-19 implications on the global economy present uncertainties that cannot be fully assessed or estimated relative to potential impacts on the Company’s future business, revenues, financial condition and results of operations.

**Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions.

Norsk Titanium is currently in a technology development stage but has accounts receivable at year end. The Group has currently few customers, which generally might imply a concentration of credit risk. However, major part of the limited revenues are related to governmental funding agreements and large firms in the aerospace industry with limited credit risk.

The company has not provided any guarantees for third parties liabilities. It is the management's opinion that there is no material credit risk connected to The Group's current assets. For an overview of the ageing of trade receivables, please refer to Note 2.7.

## 4.7 Equity and shareholders

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Groups' capital management is to ensure that it maintains a healthy cash flow to cover ongoing operations and maximise shareholder value over time.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may return capital to shareholders or issue new shares. Within net debt, the Group includes interest bearing loans and borrowings, less cash and cash deposits.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants related to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest bearing loans and borrowing in the current or previous period. Reference is made to note 4.2 for disclosed information regarding interest bearing liabilities and financial covenants.

*Amounts in USD thousand*

| **Net debt** | **31.12.2019** | **31.12.2018** |
|---|---|---|
| Interest bearing loans and borrowings | 47 433 | 34 223 |
| Less: cash and short-term deposits | (2 145) | (19 402) |
| **Net debt** | **45 288** | **14 821** |
| | | |
| Equity | (37 052) | (1 969) |
| **Capital and net debt** | **8 237** | **12 852** |
| Gearing ratio | 550% | 115% |
| Equity ratio | (450%) | (15%) |

**Issued capital and reserves:**

| **Share capital in Norsk Titanium AS at 12/31/2019** | **Number of shares** | **Nominal Value** | **Balance Sheet** |
|---|---|---|---|
| **At 31 December 2018** | **498 212** | **464** | **464** |
| Issuance of share capital | 0 | 0 | 0 |
| **At 31 December 2019** | **498 212** | **464** | **464** |

Each share have a nominal value of NOK 8. Included in ordinary shares outstanding, 10,498 treasury shares as of 31 December 2019 are included. All issued shares have equal voting rights and the right to receive dividend.

**Dividend distribution to shareholders**

The company has not paid dividend in 2019, and has proposed not to pay dividend for 2020.

## 4.7 Equity and shareholders (Continued)

**Treasury shares**

The background for having treasury shares is to facilitate that the company has sufficient holding of treasury shares for use in connection with inter alia employee share options and potential transactions with new investors. NTi has purchased 17 treasury shares during 2019, amounting to 0.0% of total shared capital.
NTi has also sold 800 treasury shares amounting to 0.2% of total shared capital.

The table below provides an overview of purchase and sale of treasury shares:

| | Number of shares | Transaction value (USD thousand) |
|---|---|---|
| Number of treasury shares as of 1 January 2019 | 11 281 | |
| | | |
| Purchase 15 January 2019 | 12 | 6 |
| Purchase 30 January 2019 | 5 | 3 |
| **Total purchases treasury shares 2019** | **17** | **9** |
| | | |
| Sale 20 August 2019 | (800) | (114) |
| **Total sales treasury shares 2019** | **(800)** | **(114)** |
| | | |
| **Number of treasury shares as of 31 December 2019** | **10 498** | |

**Ownership structure:**

| Main shareholders in Norsk Titanium AS as of 31 December 2019 | Total shares | Ownership | Shareholding/ Voting |
|---|---|---|---|
| Norsk Titanium Cayman Ltd. | 215 931 | 43.3 % | 43.3 % |
| NTi Holding AS | 92 687 | 18.6 % | 18.6 % |
| Triangle Holdings L.P. | 43 495 | 8.7 % | 8.7 % |
| MB Precision Investment Holdings LLC | 19 446 | 3.9 % | 3.9 % |
| Disruptive Innovation Fund L.P. | 16 667 | 3.3 % | 3.3 % |
| Orchard International Inc. | 13 011 | 2.6 % | 2.6 % |
| RTI Europe Ltd. | 12 691 | 2.5 % | 2.5 % |
| Norsk Titanium AS (treasury shares) | 10 498 | 2.1 % | 2.1 % |
| Applied Ventures | 8 699 | 1.7 % | 1.7 % |
| MP Pensjon PK | 7 911 | 1.6 % | 1.6 % |
| Other shareholders | 57 176 | 11.5 % | 11.5 % |
| **Total** | **498 212** | **100%** | **100%** |

Reconciliation of equity is shown in the statement of changes in equity.

At the end of the financial year, members of the Board and executive employees held shares in the parent company, representing the following ownership:

| Ownership interests held by Board members and Group Management: | Ownership |
|---|---|
| *Board of Directors:* | |
| John Andersen - Chairman of the board* | 0.00% |
| Bart Cornelus Gerardus van Aalst - member of the board | 1.16% |
| Timothy Mark Routley Lintott - member of the board | 0.52% |
| **Total** | **1.67%** |

* Closely related parties control 18.6% of the shares through NTi Holding AS.

## 4.8 Share option plan

NTi has a share option programme for employees in the company divided into 13 programmes. As of 31 December 2019, 124 employees were included in the option programme and 3 non-employees were included in the option programme. On average the option vests after approximately 3.6 years. 33,149 of the options have vested of which 1,200 (the 2011-2013 program) do not have an expiration date. 26,209 vested options are part of LTI programs that vest over a 4 or 5 year schedule and have a 10 year expiration term. Lastly, 4,117 vested options in the 2014-2015 program have expiration date that has been extended to June 2020.

In the event of termination of employment the company has the right, but not an obligation, to repurchase all shares purchased by the employees.

The fair value of the options is set on the traded price at grant date and expensed over the vesting period. Options granted in 2019 was granted 01 January 2019. USD 1,841 thousand have been expensed as payroll and USD 29 thousand have been reversed from previously expensed as social security tax , net impact of USD 1,812 thousand.

**Overview of outstanding options:**

| | Weighted average exercise price | Number of share options |
|---|---|---|
| Outstanding options as of 1 January 2018 | 378 | 44 741 |
| Options granted | 600 | 6 495 |
| Options forfeited | 593 | 428 |
| Options exercised | 146 | 800 |
| Options expired | 0 | 0 |
| **Outstanding options as of 31 December 2019** | **0** | **50 008** |
| Exercisable at 31 December | 405 | 33 149 |

* The weighted average share price at the date of exercise of these options was USD 600.

Assumptions used to determine fair value of the 13 option programs for the year ended 31 December 2019:

| Option programs | Expected life of options | Exercise price USD | Number of share options |
|---|---|---|---|
| 2011-2013 Program | 3.0 | 46 | 1 200 |
| 2014-2015 Program | 1.5 | 146 | 4 117 |
| 2015-LTI Program | 3.0 | 400 | 19 080 |
| 2016-LTI Program | 4.0 | 500 | 4 900 |
| 2017 LTI US/UK Program | 5.0 | 600 | 1 045 |
| 2017 STI NO2020 Program | 4.0 | 519 | 523 |
| 2017-STI NO2021 Program | 5.0 | 530 | 631 |
| 2018 LTI Program | 4.6 | 600 | 10 880 |
| 2018 STI NO 2021 Program | 3.0 | 600 | 928 |
| 2018 STI US 2021 Program | 3.0 | 600 | 209 |
| 2019 STI NO 2022 Program | 3.0 | 600 | 1 124 |
| 2019 STI US 2022 Program | 3.0 | 600 | 571 |
| 2019 LTI Program | 5.0 | 600 | 4 800 |
| **Weighted average at 31.12.2019** | **3.60** | **462** | **50 008** |

*Pricing model:*
The fair value of the options has been calculated using the Black-Scholes-Merton option-pricing model for european options.

*Share price on the grant date:*
The share price is set to 77.3% of the valuation price on the grant date. The share price was reduced by a liquidity discount of 22.7%.

*The strike price per option:*
The strike price is the share price on the grant date.

*Volatility:*
The expected volatility is set to 50 % based on a peer group analysis at the grant date.

*The term of the option:*
The expected life of the share options are based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. It is assumed that 100 % of the employees will exercise the options.

*Dividend:*
The estimated dividend per share is NOK 0 per annum.

*Risk-free interest rate:*
The risk-free interest rate is set equal to the interest rate on government bonds during the term of the option approximately 2.5%.

The weighted average fair value of options granted during the year was USD 180.
The weighted average remaining contractual life for the share options outstanding as at 31 December 2019 was 3.6 years.

| **Share options held by Board members and Senior Management:** | **Number of share options** | **% of total** |
|---|---|---|
| Board of Directors | 13 500 | 27% |
| Senior Management including Board of Directors | 27 400 | 55% |

## 4.9 Loan from shareholders

During 2018, NTi entered into a USD 30 million loan agreement with selected shareholders. As part of the loan agreement, the Lenders have been granted warrants to puchase 60,000 shares. The loan may be extended from USD 30 million, up to a principal amount of USD 42.5 million. A subscription right of an addional 25,000 warrants will be granted related to the potential extension of the loan to USD 42.5 million. As of 31.12.2018 the loan was extended with a second tranche of USD 2.9 million and 5 309 subsribtion rights. The strike price of the options granted is equal to the market value of shares on the grant date. The duration of the loan can be extended from 36 months up to 54 months (i.e. 18 months extension) at NTi's discretion. The loan carries an interest at a fixed 14 % per annum in arrears, compounded quarterly. At the Maturity Date, the interest will be repaid in shares (payment-in-kind), subject to necessary corporate approvals, and otherwise in cash. In case of payment in shares, the share price shall be the lower of USD 600 per share and the share price of the last substantial equity issuance (i.e. a share issue of USD 50,000,000 or more).

During 2019, NTi extended the loan from 2018 from USD 32.9 million loan up to the principal amount of USD 42.5 million with selected shareholders. As part of the loan agreement, the Lenders have been granted warrants to puchase 13,422 shares. The strike price of the options granted is equal to the market value of shares on the grant date. The duration of the loan can be extended from 36 months up to 54 months (i.e. 18 months extension) at NTi's discretion. The loan carries an interest at a fixed 14 % per annum in arrears, compounded quarterly. The accrued interest shall be settled by converting to new shares in NTi.

NTi entered into a new loan agreement of USD 5 million in December 2019 with selected shareholders. The loan agreement may be extended with an additional amount up to USD 5 million. As a part of the USD 5 million loan agreement, the Lenders have been granted warrants to purchase 10,000 shares. A subscription right of an addional 10,000 warrants will be granted related to the potential extension of the loan to USD 10 million. The expiration date of the loan is equal to the loan agreement from September 2018. The loan carries an interest at a fixed 15 % per annum in arrears, compounded quarterly. The accrued interest shall be settled by converting to new shares in NTi. The first tranche of USD 2 million was utilized in December 2019 and 10,000 related warrents were granted.

The loan agreements contains several embedded derivatives. These components could be separated and accounted for separately. However, NTi has chosen the option in IFRS 9.4.3.5 not to separate the embedded derivatives, but instead account for the whole contract at fair value through profit and loss. Fair value of the warrants are calculated using a Black-Scholes-Merton option-pricing model (see input to pricing model below). The remaining part of the loan agreement is at initial recognition measured as the difference between the cash proceeds from the loan agreement fair value and the calculated value of the warrants.

Pricing model warrants:
The fair value of the warrants has been calculated using the Black-Scholes-Merton option-pricing model for European options.

Share price:
The share price is set to the fair value as of 31 December 2019.

The strike price per warrant:
The applied strike price USD 600 per share.

Volatility:
The expected volatility is set to 40% based on a peer group analysis as of 31 December 2019.

The term of the warrants:
The expected life of the warrants are based on historical data and current expectations and is not necessarily indicative of the exercise patterns that may occur. It is assumed that 100 % of the holders of the warrants will exercise the right to subscribe for shares.

Dividend:
The estimated dividend per share is NOK 0 per annum.

Risk-free interest rate:
The risk-free interest rate is set equal to the interest rate on government bonds during the term of the option approximately 1.69%.

## 4.10 Fair Value

**Determination of fair value**
The fair value of quoted financial assets classified as financial assets at fair value through profit or loss, or OCI is determined by reference to published price quotations in an active market. For unquoted financial assets the fair value has been estimated using a valuation technique based on assumptions that are not supported by observable market prices.

The following of the Group's financial instruments are not measured at fair value: cash and cash equivalents, accounts receivables, other current receivables and payables and bank loans.

The fair value of financial assets and liabilities recognised at their carrying amount is calculated as the present value of estimated cash flows discounted by the interest rate that applies to corresponding liabilities and assets at the end of the reporting period. This applies to:

**Fair value hierarchy**
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For recurring measurements, transfers between the levels in the fair value hierarchy are evaluated when reassessing the categories of the financial instruments at the end of the period.

The following groups of financial instruments were measured at fair value as of 31.12.2019:

| 31.12.2019 | Note | Total | markets (Level 1) | observable inputs (Level 2) | inputs (Level 3) |
|---|---|---|---|---|---|
| **Liabilities measured at fair value:** | | | | | |
| Derivative financial liabilities - Warrants | 4.2 | 6 665 | 0 | 0 | 6 665 |
| Debt instruments - Loan from shareholders | 4.2 | 40 614 | 0 | 0 | 40 614 |
| **Total financial liabilities** | | **47 279** | **0** | **0** | **47 279** |

**Balance sheet as of 31.12.2019**
During the reporting period there were no changes in the fair value measurement which caused transfers between level 1 and level 2, and no transfers to or from level 3. No changes in the fair value have been recognised in statement of comprehensive income.

**Valuation technique**
The valuation of financial instruments is done by the Groups finance department in cooperation with external advisor's. The valuation techniques used are individually adapted to each financial instrument and should take advantage of as much as possible of the available information in the market.

The valuation technique for financial instruments in level 3 are as follows:

**Share option plan (level 3)**
The fair value of the options has been calculated using the Black-Scholes-Merton option-pricing model for European options. For more information related the share option plan, se note 4.8.

**Loan from shareholders (level 3)**
Warrants and the residual value is based on level 3 valuation.
For more information related to the loan from shareholders, se note 4.2 and 4.9.

## 5.1 Taxes

| *Amounts in USD thousand* | 2019 | 2018 |
|---|---|---|
| **Current income tax expense:** | | |
| Tax payable | 48 | 29 |
| Change deferred tax/deferred tax assets | (92) | (243) |
| Adjustments in respect of current income tax of previous year | 52 | 89 |
| **Total income tax expense** | **7** | **(125)** |

| **Tax payable** | **2019** | **2018** |
|---|---|---|
| **Profit before taxes** | **(36 580)** | **(32 176)** |
| Permanent differences* | (1 566) | (878) |
| Change in temporary differences | 499 | 3 119 |
| Change in not recognized deferred tax assets | 37 679 | 29 390 |
| **Tax basis** | **33** | **(545)** |
| Current taxes according to statutory tax rate 23% (24% 2017) | 7 | (6 885) |

| **Deferred tax liabilities (assets):** | **2019** | **2018** |
|---|---|---|
| Property, plant and equipment | 0 | (570) |
| Other current assets | 0 | 990 |
| Losses carried forward (including tax credit) | (146 243) | (104 077) |
| **Basis for deferred tax liabilities (assets):** | **(146 243)** | **(103 658)** |

| | | |
|---|---|---|
| Calculated deferred tax recognised in balance sheet | 0 | 218 |
| Calculated deferred tax assets | (34 561) | 23 582 |
| - Deferred tax assets not recognised | 34 561 | (23 456) |
| Deferred tax assets recognised in balance sheet | 0 | 126 |
| **Net Deferred tax** | **0** | **92** |

The Group's operations are subject to income tax in various foreign jurisdictions. The statutory income tax rates vary from 19% to 22%, which results in a difference between the statutory income tax rate in Norway and the average tax rate applicable to the group. A reconciliation of the differences between the theoretical tax expense under the rate applicable in Norway and the actual tax expense is as follows:

| **Reconciliation of income tax expense** | **2019** | **2018** |
|---|---|---|
| **Profit before taxes** | (36 580) | (32 177) |
| Tax expense (Norway tax rate) | (8 048) | (7 401) |
| Permanent differences* | (344) | (189) |
| Effects of foreign tax rates | 207 | 356 |
| Effects of changes in tax rate** | 0 | 16 |
| Effect of deferred tax asset not recognised | 8 637 | 6 833 |
| Adjustments in respect of current income tax of previous years | 52 | 89 |
| Other changes | (497) | 169 |
| **Recognised income tax expense** | 7 | (125) |

* Permanent differences is related to "Skattefunn", costs related to capital increase, grants and non-deductible costs.

** The corporate tax rate in Norway was 23% in 2018 and is 22% from 2019. The United States changed the corporate tax rate from 35% in 2017 to 21% in 2018.

The Group has USD 146,243 thousand (2018: USD 104,077 thousand) of tax losses carried forward. These losses relate to a history of losses, do not expire, and may not be used to offset taxable income elsewhere in the Group. The subsidiaries neither have any taxable temporary difference nor any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. On this basis, the Group has determined that it cannot recognise deferred tax assets on the tax losses carried forward.

If the Group was able to recognise all unrecognised deferred tax assets, profit and equity would have increased by USD 34,989 thousand.

## 6.1 Interests in other Entities

The Group's interests in subsidiaries are presented below:

*Amounts in USD thousand*

| Consolidated entities | Office | CUR | Date of acquisition | Shareholding | Group's voting ownership share |
|---|---|---|---|---|---|
| Shares in Norsk Titanium Equipment AS | Norway | NOK | 2015/11/09 | 100% | 100% |
| Shares in NTi MH AS | Norway | NOK | 2015/07/10 | 100% | 100% |
| Shares in Norsk Titanium US Inc. | US | USD | 2015/07/07 | 100% | 100% |
| Shares in Norsk Titanium Services Ltd. | UK | GBP | 2016/12/01 | 100% | 100% |
| Shares in NTi Equipment Leasing (US) One LLC | US | USD | 2018/10/09 | 100% | 100% |

Norsk Titanium Equipment AS was established in 2015 and is the group's equipment sale company. NTi MH AS was established in 2015 and is the group's holding company for manufacturing subsidiaries. Norsk Titanium US Inc. was established in 2015 and is the group's company for US manufacturing. Norsk Titanium Services Ltd. was established in 2016. The company provides services to the group. NTi Equipment Leasing (US) One LLC is the Group's equipment leasing company. Norsk Titanium US Inc. and Norsk Titanium UK Services Ltd. have been financed with loans from Norsk Titanium AS.

All subsidiaries are included in the consolidated statement of financial position.

To comply with the audit exemption for UK subsidiary companies under section 479A of the Companies Act, the Parent company Norsk Titanium AS guarantees all outstanding liabilities of Norsk Titanium Services Ltd. for the year ended 31 December 2019.

## 7.1 Provisions and other liabilities

*Amounts in USD thousand*

| Other current liabilities | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Short-term lease liabilities | 863 | - |
| Accrued bonus | 2 159 | 1 207 |
| Unpaid holiday pay | 647 | 606 |
| Other accrued costs | 972 | 2 845 |
| **Total other current liabilities** | **4 641** | **4 658** |

## 7.2 Commitments and contingencies

*Amounts in USD thousand*

| Other contractual obligations* (non-cancellable) | 2020 | Matures within 1 year | Matures 2-5 years | Matures more than 5 years | Total |
|---|---|---|---|---|---|
| Contractual purchase obligations** | 1 640 | 1 640 | 0 | 0 | **3 280** |
| **Total non-cancellable contractual obligations** | **1 640** | **1 640** | 0 | 0 | **3 280** |

*For non cancelable operating leases, reference is made to Note 7.3.

** Purchase agreements for the building of the remaining  2 RPD machines. The RPD machines are funded under the Master Equipment Purchase Agreement with FSMC, where NTi shall build and sell 12 RPD machines to FSMC. The remaining 2 RPD machines commited to FSMC are subject to separate purchase agreements. The Group has committed itself to hiring a total of 383 employees during the 10 years period, see Note 1.2.

**Assets pledged as security and guarantee liabilities**
For assets pledged as security and guarantee liabilities, reference is made to note 4.2.

**Contingent assets and liabilities**
The Group has no contingent assets that meet the criteria for disclosure.

NTi AS has been in litigation with Clark Street Associates (CSA) since January 2018.  The claim is in relation to a consulting agreement entered between the parties in 2014, pursuant to which CSA was to provide consulting services to NTi.  CSA is seeking damages of up to USD 12.05 million.

The claim did not settle and the parties proceeded to a trial which took place in late 2019. A judgement is expected in 2020.  While the Company awaits a judgement, a wide range of possible outcomes exists.  As a consequence, it is not possible to evaluate what if any, payment the Company will ultimately be obligated to pay and, if any such amounts do become payable, at what time that would occur given the wide range of possible outcomes. No contingent liability has been recorded in the financial statement as of 31.12.2019.

## 7.3 Leases

*Amounts in USD thousand*

| Right-of-use assets | Buildings | Machinery and equipment | Other equipment | Total |
|---|---|---|---|---|
| **Acquisition cost 1 January 2019** | **2 172** | **150** | **23** | **2 346** |
| Addition of right-of-use assets | | | 27 | **27** |
| Disposals | | | | **0** |
| Transfers and reclassifications | | | | **0** |
| Adjustments | | 22 | | **22** |
| Currency exchange differences | (12) | | | **-12** |
| **Acquisition cost 31 December 2019** | **2 160** | **172** | **50** | **2 382** |
| | | | | |
| **Accumulated depreciation and impairment 1 January 2019** | | | | |
| Depreciation | 707 | 67 | 10 | **785** |
| Impairment losses in the period | 1 | 0 | 0 | **1** |
| Disposals | | | | **0** |
| Transfers and reclassifications | | | | **0** |
| Currency exchange differences | (4) | | | **-4** |
| **Accumulated depreciation and impairment 31 December 20** | **704** | **67** | **10** | **781** |
| | | | | |
| **Carrying amount right-of-use assets 31 December 2019** | **1 457** | **105** | **39** | **1 601** |
| | | | | |
| Lower of remaining lease term or economic life | 1-10 years | 1-4 years | 1-3 years | |
| Depreciation method | Linear | Linear | Linear | |

**Lease liabilities**

| Undiscounted lease liabilities and maturity of cash outflows | Total |
|---|---|
| Less than 1 year | (899) |
| 1-2 years | (732) |
| 2-3 years | (260) |
| 3-4 years | (3) |
| 4-5 years | 0 |
| More than 5 years | 0 |
| **Total undiscounted lease liabilities at 31 December 2019** | **(1 894)** |

| Summary of the lease liabilities | Total |
|---|---|
| At initial application 01.01.2019 | 2 346 |
| New lease liabilities recognised in the year | 23 |
| Adjustments | 22 |
| Cash payments for the principal portion of the lease liability | (671) |
| Cash payments for the interest portion of the lease liability | (236) |
| Interest expense on lease liabilities | 236 |
| Currency exchange differences | (13) |
| **Total lease liabilities at 31 December 2019** | **1 706** |
| **Current lease liabilities** | 863 |
| **Non-current lease liabilities** | 843 |
| **Total cash outflows for leases** | 908 |

| Summary of other lease expenses recognised in | Total |
|---|---|
| Variable lease payments expensed in the period | **0** |
| Operating expenses in the period related to short-term leases (including short-term low value assets) | **209 619** |
| Operating expenses in the period related to low value assets (excluding short-term leases included above) | **3 043** |
| **Total lease expenses included in other operating expenses** | **212 662** |

## 7.4 Related party transactions

Related parties are Group companies, major shareholders, board and senior management in the parent company and the group subsidiaries. Note 6.1 provides information about the Group's structure, including details of the subsidiaries and the holding company. Management and board remuneration is disclosed in note 2.5.

All transactions within the Group or with other related parties are based on the principle of arm's length.

The following table provides the total amount of transactions that have been entered into with related parties (outside the Group) for the relevant financial year:

*Amounts in USD thousand*

| **Related party transactions** | **Relationship** | **Amounts owed to related parties** |
|---|---|---|
| Triangle Holdings L.P. | Shareholder | 15 000 |
| Norsk Titanium Cayman Ltd. | Shareholder | 13 504 |
| NTi Holding AS | Shareholder | 13 100 |

The amounts owed to related parties reflect nominal value of shareholder loans. Note 4.9 provides information about the shareholder loans. The second tranche of the shareholder loan in 2018 of USD 2.9 million include participion from the board and senior management.

## 7.5 Events after the reporting period

In December 2019, NTi shareholders approved funding of USD 5.0 million under a subordinated facility agreement and in January 2020, NTi shareholders approved funding of an added USD 5.0 million under an addendum to the subordinated facility agreement. A second addendum to the subordinated loan facility agreement is prepared, against which Lenders can make available up to USD 10.0 million, subject to approval in the general meeting in April 2020.

The outbreak of a novel strain of coronavirus, COVID-19, has severely restricted the level of activity around the world. The governments of many countries, states, cities and other geographic regions have taken preventative or protective actions. These actions have expanded significantly in the past several weeks and are expected to continue to expand in scope, type and impact.

The United States, State of New York and Norwegian government actions have directly impacted the Company's business. On 12 March 2020, Norway invoked emergency powers to close a wide range of public and private institutions. The State of New York's directed that 100% of the workforce (excluding essential services) must stay home beginning 22 March 2020; consequently, the Company has closed its New York Plattsburgh operations and placed most employees on temporary furlough until 19 April, or further notice. Because the Company cannot efficiently operate the Norway activities alone, it will close its Eggemoen-based operations by 1 April 2020, for at least the same period of time as the Plattsburgh-based operations remain closed.

The foregoing actions will affect the Company's ability to meet its customer and supplier commitments but not have a material impact on the Company's short-term financial results as the reduced spending will more than offset revenue impacts.

The Company intends to resume business and continuing fulfilling customer commitments after Government restrictions are lifted. However, the aforementioned uncertainties may result in: delays or modifications to these plans, ability of suppliers to operate, increases to operating costs, and availability of employees following temporary furloughs. These effects may negatively impact the Company's ability to meet its customer commitments.

For the reasons set forth above and other reasons that may come to light if this coronavirus outbreak and any associated protective or preventative measures expand, as of the date hereof, the Company cannot reasonably estimate the impact to its business, revenues, financial condition or results of operations; however, such impact could be significantly negative.

## 8.1 Changes in IFRS standards and interpretations

**Changes in account principles and disclosure requirements**

New and amended accounting standards and interpretations issued by the IASB may affect the Group's future financial reporting. The Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

The Consolidated Financial Statements for 2019 are based on the accounting standards applicable for annual periods beginning 1 January 2019. The following new and amended accounting standards and interpretations were first applied in 2019:

**IFRS 16 *Leases***

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet mode. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. IFRS 16 also requires entities to provide more extensive lease disclosures.

**Transition to IFRS 16**

The Group has adopted IFRS 16 from 1 January 1 2019 applying the modified retrospective method. The Group has elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group has therefore not applied the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Furthermore, the Group has elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value (below USD 5 000). The Group has also elected to exclude any initial direct costs from the measurement of the right-of-use asset.

NTi has previously classified leases as operating or finance leases based on an assessment of whether the arrangement and related transactions transferred significantly all of the risks and rewards of ownership of the underlying asset to NTi. All of NTi's leases were previously classified as operating leases under IAS 17 and related amendments. For leases previously classified as operating leases and applying the modified retrospective approach NTi is required to recognize a lease liability at the date of initial application and measure that lease liability at the present value of the remaining lease payments, discounted using NTi's incremental borrowing rate at the date of initial application. The right of use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

On transition to IFRS 16, the Group recognised USD 2.3 million in right-of-use assets and USD 2.3 million as lease liabilities.

The impact on the date of initial application is further presented below:

| **Reconciliation of lease commitments to lease liabilities** | **01.01.2019** |
|---|---|
| Finance lease liabilities at 31 December 2018 | |
| +/- Sublease reclassifications and short-term lease exemptions | |
| Non-cancellable operating lease commitments at 31 December 2018 | **2 282** |
| +/- Sublease reclassifications | **0** |
| + Extension options reasonably certain to be exercised | **277** |
| - Termination options reasonably certain to be exercised | **0** |
| - Practical expedient related to short-term leases | **209** |
| - Practical expedient related to low-value leases | **3** |
| - Residual value guarantees | |
| - Discounting using the incremental borrowing rate | |
| **Lease liabilities recognised at initial application** | **2 345** |
| The weighted average incremental borrowing rate applied: | 12.11% |

| | |
|---|---|
| **Right-of-use assets recognised at initial application** | **2 345** |

| | |
|---|---|
| **Amount recognised in retained earnings at initial application** | **0** |

In addition to IFRS 16, several amendments to IFRS have been implemented for the first time in 2019. The amendments did not have any material impact for the Group. In addition, several amendments to IFRS are issued up to the date of issuance of the consolidated financial statements but are not yet effective. The impact of applying the amendments is not expected to have a material impact on the Company's financial performance and financial position.

**Revenue from contracts with customers**

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

***Revenue from sale of goods***

The Group recognises revenue from the sale of goods at the point in time when control of the goods or servicesare transferred to the customer. Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the asset, and the ability to prevent others from directing the use of and receiving the benefits from the asset. Revenue is generally recognised on delivery of the goods or services.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components and consideration payable to the customer (if any).

***Sale of PPE***

Revenue from sale of property, plant and equipment items is presented net of the carrying amount at the time of sale.

***Interest income***

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as AFS, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit or loss.

***Dividends***

Revenue is recognized when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

**Taxes**

***Current income tax***

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

***Deferred tax***

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except:

When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

***VAT***

Expenses and assets are recognized net of the amount of sales tax, except: When vat incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable. When receivables and payables are stated with the amount of vat included. The net amount of vat recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

***Patents and licences***

The Group made upfront payments to purchase patents and licences. Amounts paid for patents and licences are capitalised and amortised in a straight line over the expected useful life.

**Property, plant and equipment**

Construction in progress, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

- Machinery and equiptment 5-20 years

- Furniture and vehicles 5 years

- Buildings and IT 5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

**Leases**

**Identifying a lease**
At the inception of a contract, The Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*The Group as a lessee*

**Separating components in the lease contract**
For contracts that constitute, or contain a lease, the Group separates lease components if it benefits from the use of each underlying asset either on its own or together with other resources that are readily available, and the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract. The Group then accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

**Recognition of leases and exemptions**
At the lease commencement date, the Group recognises a lease liability and corresponding right-of-use asset for all lease agreements in which it is the lessee, except for the exemptions for short-term leases (defined as 12 months or less) and low value assets.

For these leases, the Group recognises the lease payments as other operating expenses in the statement of profit or loss when they incur.

**Lease liabilities**
The lease liability is recognised at the commencement date of the lease. The Group measures the lease liability at the present value of the lease payments for the right to use the underlying asset during the lease term that are not paid at the commencement date. The lease term represents the non-cancellable period of the lease, together with periods covered by an option either to extend or to terminate the lease when the Group is reasonably certain to exercise this option.

The lease payments included in the measurement comprise of:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- Amount expected to be payable by the Group under residual value guarantees
- The exercise price of a purchase option, if the Group is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect adjustments in lease payments due to an adjustment in an index or rate.

The Group does not include variable lease payments in the lease liability. Instead, the Group recognises these variable lease expenses in profit or loss.
The Group presents its lease liabilities as separate line items in the statement of financial position.

**Right-of-use assets**
The Group measures the right-of use asset at cost, less any accumulated depreciation and impairment losses, adjusted for any remeasurement of lease liabilities. The cost of the right-of-use asset comprise:

- The amount of the initial measurement of the lease liability recognised
- Any lease payments made at or before the commencement date, less any incentives received

- Any initial direct costs incurred by the Group. An estimate of the costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The Group applies the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset, except that the right-of-use asset is depreciated from the commencement date to the earlier of the lease term and the remaining useful life of the right-of-use asset.
The Group applies IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

**Government grants**

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset. When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

**Inventories**

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

Raw materials: purchase cost on a first-in/first-out basis. Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs. Initial cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognized in OCI, in respect of the purchases of raw materials. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**Trade Receivables**

Trade receivables are recognized at their cost minus any write-downs.

**Cash and short-term deposits**

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group’s cash management.

**Statement of cash flows**

The company presents the statement of cash flow using the indirect method. Cash inflows and cash outflows are shown separately for investing and financing activities, while operating activities include both cash and non-cash items. Value added tax and other similar taxes are regarded as collection of tax on behalf of authorities and are reported net.

**Treasury shares**

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in the share premium. Share options exercised during the reporting period are satisfied with treasury shares.

**Pensions and other post-employment benefits**

The Group operates a defined contribution pension plan in Norway, which requires contributions to be made to a separately administered fund. Contributions have been made to the pension plan for full-time. The pension premiums are charged to expenses as they are incurred.

**Share-based payments**

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments.

This program is measured at fair value at the date of the grant. The fair value at the grant date is expensed over the vesting period, based on the Company's estimate of the shares that will eventually vest, adjusted for the effect of non market-based vesting conditions.

The fair value share based program is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioral considerations.

Social security tax on options is recorded as a liability and is recognised over the estimated vesting period.

**Provisions**

***General***

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**Contingent liabilities and assets**

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions above or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

**Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial assets**

Financial assets within the scope of IFRS 9 are classified in the following categories:

- Financial assets at amortised cost

- Financial assets at fair value through OCI with recycling of cumulative gains and losses

- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition

- Financial assets at fair value through profit or loss

The classification is dependent on the type of instrument and the purpose for which the investments were acquired or originated. In order for a financial asset to be classified and measured at amortised cost or at fair value through OCI with recycling, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

*Financial assets at amortised cost*

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at amortized cost: Trade receivables and other current receivables

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are regarded as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also regarded as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

**Impairment of financial assets**

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

**Financial liabilities**

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, derivatives designated as hedging instruments in an effective hedge, as appropriate, or as derivatives at fair value through profit or loss. Derivatives are financial liabilities when the fair value is negative, accounted for similarly as derivatives as assets.

*Loans, borrowings and payables*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Payables are measured at their nominal amount when the effect of discounting is not material.

Loans and borrowings: Includes most of the Group’s financial liabilities including debt to credit institutions, accounts payable and other current and non-current liabilities.

*Derivatives embedded in a hybrid contract*

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

**De-recognition of financial instruments**

A financial asset is derecognized when the rights to receive cash flows from the asset have expired; or the Company has transferred its rights to receive cash flows from the asset and either (i) the Company has transferred substantially all the risks and rewards relating to the instrument, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards relating to the instrument, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this is treated as derecognition of the original liability and recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

**Cash flows**

The consolidated statements of cash flows are prepared using the indirect method. Cash flows in foreign currencies have been translated into NOK using the exchange rate at the cash flow date.

## Parent company statement of profit and loss

For the years ended 31 December

| NOK 1000 | Notes | 2019 | 2018 |
|---|---|---|---|
| Revenue | 2,19 | 4 046 | 61 021 |
| Other income | 3 | 0 | 2 828 |
| **Total revenues and other income** | | **4 046** | **63 849** |
| Raw materials and consumable used | | (25 343) | (29 682) |
| Employee benefits expense | 5 | (62 965) | (62 437) |
| Other operating expenses | 6 | (60 802) | (74 971) |
| Depreciation and amortisation | 9,1 | (18 361) | (18 346) |
| Impairment of intangible assets | 10 | (6 494) | 0 |
| **Operating profit** | | **(169 919)** | **(121 586)** |
| Financial income | 13 | 75 873 | 56 231 |
| Financial expenses | 13 | (73 347) | (54 035) |
| **Profit or loss before tax** | | **(167 393)** | **(119 390)** |
| Income tax expense | 16 | (2 218) | 1 986 |
| **Profit or loss for the year** | | **(169 611)** | **(117 404)** |
| | | | |
| **Transfers and allocations** | | | |
| Transferred to / (from) other equity | 14 | (169 611) | (117 404) |
| **Total transfers and allocations** | | **(169 611)** | **(117 404)** |

## Parent company statement of financial position

For the years ended 31 December

| NOK 1000 | Notes | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Deferred tax asset | 16 | 905 | 3 123 |
| Property, plant and equipment | 9 | 37 125 | 51 177 |
| Intangible assets | 10 | 81 083 | 90 901 |
| Investments in subsidiaries | 17 | 35 873 | 24 926 |
| Long term loan to subsidiary | 19 | 525 847 | 386 172 |
| **Total non-current assets** | | **680 833** | **556 299** |
| | | | |
| **Current assets** | | | |
| Inventories | 4 | 8 408 | 12 203 |
| Trade receivables | 7,19 | 1 646 | 2 204 |
| Other current assets | 7,19 | 19 319 | 30 874 |
| Cash and cash equivalents | 12 | 14 545 | 120 116 |
| **Total current assets** | | **43 918** | **165 397** |
| **TOTAL ASSETS** | | **724 752** | **721 696** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 14 | 3 986 | 3 986 |
| Share premium | 14 | 788 039 | 788 039 |
| Treasury shares | 14 | (84) | (90) |
| Other capital reserves | 14 | (25 423) | 16 051 |
| Other equity | 14 | (576 152) | (461 584) |
| **Total equity** | | **190 367** | **346 402** |
| **Non-current liabilities** | | | |
| Interest bearing debt | 11 | 448 225 | 291 985 |
| Intercompany debt | 19 | 33 329 | 0 |
| **Total non-current liabilities** | | **481 553** | **291 985** |
| **Current liabilities** | | | |
| Trade and other payables | 8,19 | 10 508 | 24 894 |
| Interest bearing debt - Short term | 11 | 110 | 4 100 |
| Other current liabilities | 18, 20 | 42 213 | 54 315 |
| **Total current liabilities** | | **52 832** | **83 309** |
| | | | |
| **Total liabilities** | | **534 385** | **375 294** |
| **TOTAL EQUITY AND LIABILITIES** | | **724 752** | **721 696** |

Eggemoen, March 25, 2020

John Andersen
Chairman of the Board

Timothy Mark Routley Lintott
Member of the Board

Bart Cornelus Gerardus Van Aalst
Member of the Board

Shan-E-Abbas Ashary
Member of the Board

Jeremy Francis Barnes
Member of the Board

Michael James Canario
Member of the Board

## Parent company statement of cash flows

For the years ended 31 December

| Cash flows from operating activities | Notes | 2019 | 2018 |
|---|---|---|---|
| **Profit before tax** | | **(167 393)** | **(119 390)** |
| Depreciation and amortisation | 9,10 | 18 361 | 18 346 |
| Impairment of intangible assets | 10 | 6 494 | 0 |
| Net financial income/expense included in financing activities | 13 | (2 526) | (2 196) |
| Elements without cash effect | 19 | 14 837 | 3 686 |
| | | | |
| *Working capital adjustment:* | | | |
| Changes in inventories | 4 | 3 794 | 461 |
| Changes in trade and other receivables | 7 | 558 | 9 702 |
| Changes in other current assets | 7 | 11 554 | 68 112 |
| Changes in trade and other payables | 8 | (14 385) | (49 310) |
| Changes in other current liabilities | 18 | (12 101) | 17 272 |
| **Net cash flows from operating activities** | | **(140 807)** | **(53 318)** |
| | | | |
| **Cash flows from investing activities** | | | |
| Net purchase of property, plant and equipment | 9 | (1 086) | (3 661) |
| Investment in intangible assets | 10 | (1 371) | (2 729) |
| Interest recieved | 13 | 697 | 8 852 |
| Investment in loans to subsidiaries | 19 | (66 413) | (202 832) |
| **Net cash flow from investing activities** | | **(68 173)** | **(200 370)** |
| | | | |
| **Cash flow from financing activities** | | | |
| Proceeds from issuance of share capital | 14 | 0 | 38 632 |
| Sale of treasury shares | 14 | 1 029 | 8 928 |
| Proceeds/repayment of debt | 11 | 102 441 | 271 591 |
| Net interests paid | 13 | (61) | (10 864) |
| **Net cash flow from financing activities** | | **103 409** | **308 286** |
| | | | |
| Net change in cash and cash equivalents | | (105 571) | 54 599 |
| Cash and cash equivalents, beginning of period | | 120 116 | 65 518 |
| **Cash and cash equivalents, end of period** | | **14 545** | **120 116** |

## Notes to the Parent company financial statements

## 1. General information and accounting policies

The separate financial statements for Norsk Titanium AS has been prepared in accordance with the Norwegian Accounting Act of 1988 and generally accepted accounting principles in Norway.

**Use of estimates**
The management has used estimates and assumptions that have affected assets, liabilities, incomes, expenses and information on potential liabilities in accordance with generally accepted accounting principles in Norway

**Foreign currency translation**
Transactions in foreign currency are translated at the rate applicable on the transaction date. Monetary items in a foreign currency are translated into NOK using the exchange rate applicable on the balance sheet date. Non-monetary items that are measured at their historical price expressed in a foreign currency are translated into NOK using the exchange rate applicable on the transaction date. Non-monetary items that are measured at their fair value expressed in a foreign currency are translated at the exchange rate applicable on the balance sheet date. Changes to exchange rates are recognised in the income statement as they occur during the accounting period.

**Revenue recognition**
Revenues from the sale of goods are recognised in the income statement once delivery has taken place and most of the risk and return has been transferred.

Revenues from the sale of services and long-term manufacturing projects are recognised in the income statement according to the project's level of completion provided the outcome of the transaction can be estimated reliably. Progress is measured as the number of hours spent compared to the total number of hours estimated. When the outcome of the transaction cannot be estimated reliably, only revenues equal to the project costs that have been incurred will be recognised as revenue. The total estimated loss on a contract will be recognised in the income statement during the period when it is identified that a project will generate a loss.

**Income tax**
The tax expense consists of the tax payable and changes to deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities. Deferred tax is calculated as 22 percent of temporary differences and the tax effect of tax losses carried forward. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilized. Taxes payable and deferred taxes are recognised directly in equity to the extent that they relate to equity transactions.

**Balance sheet classification**
Current assets and short term liabilities consist of receivables and payables due within one year, and items related to the inventory cycle. Other balance sheet items are classified as fixed assets / long term liabilities.
Current assets are valued at the lower of cost and fair value. Short term liabilities are recognized at nominal value.
Fixed assets are valued at cost, less depreciation and impairment losses. Long term liabilities are recognized at nominal value.

**Research and development**
Development costs are capitalized providing that a future economic benefit associated with development of the intangible asset can be established and costs can be measured reliably. Otherwise, the costs are expensed as incurred. Capitalized development costs is amortized linearly over its useful life. Research costs are expensed as incurred.

**Property, plant and equipment**
Property, plant and equipment is capitalized and depreciated linearly over the estimated useful life. Significant fixed assets which consist of substantial components with dissimilar economic life have been unbundled; depreciation of each component is based on the economic life of the component. Costs for maintenance are expensed as incurred, whereas costs for improving and upgrading property plant and equipment are added to the acquisition cost and depreciated with the related asset. If carrying value of a non-current asset exceeds the estimated recoverable amount, the asset is written down to the recoverable amount. The recoverable amount is the greater of the net realisable value and value in use. In assessing value in use, the discounted estimated future cash flows from the asset are discounted are used.

## 1. General information and accounting policies (Continued)

**Subsidiaries and investment in associates**
Subsidiaries and investments in associates are valued at cost in the company accounts. The investment is valued as cost of the shares in the subsidiary, less any impairment losses An impairment loss is recognised if the impairment is not considered temporary, in accordance with generally accepted accounting principles. Impairment losses are reversed if the reason for the impairment loss disappears in a lather period.
Dividends, group contributions and other distributions from subsidiaries are recognised in the same year as they are recognised in the financial statement of the provider. If dividends / group contribution exceed withheld profits after the acquisition date, the excess amount represents repayment of invested capital, and the distribution will be deducted from the recorded value of the acquisition in the balance sheet for the parent company.

**Inventories**
Inventories are recognised at the lowest of cost and net selling price. The net selling price is the estimated selling price in the case of ordinary operations minus the estimated completion, marketing and distribution costs. The cost is arrived at using the FIFO method and includes the costs incurred in acquiring the goods and the costs of bringing the goods to their current state and location.

**Trade and other receivables**
Accounts receivable and other current receivables are recorded in the balance sheet at nominal value less provisions for doubtful accounts. Provisions for doubtful accounts are based on an individual assessment of the different receivables. For the remaining receivables, a general provision is estimated based on expected loss.

**Short term investments**
Short term investments (stocks and shares seen as current assets) are valued at the lower of acquisition cost and fair value at the balance sheet date. Dividends and other distributions are recognized as other financial income.

**Cash flow statement**
The cash flow statement is presented using the indirect method. Cash and cash equivalents includes cash, bank deposits and other short term, highly liquid investments with maturities of three months or less.

**Share based payment**
Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity-settled transactions with employees at the grant date, the assumptions and models used for estimating the fair value are disclosed in note 4.8 in the consolidated financial statements.

**Treasury shares**
Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in the share premium. Share options exercised during the reporting period are satisfied with treasury shares.

**Pensions and other post-employment benefits**
The Company has a defined contribution pension plan in Norway, which requires contributions to be made to a separately administered fund. Contributions have been made to the pension plan for full-time. The pension premiums are charged to expenses as they are incurred.

**Government grants**
Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset. When the Company receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

## 2. Revenues

*Amounts in NOK thousand*

| **Revenues** | **2019** | **2018** |
|---|---|---|
| Sale of goods and services | 4 046 | 61 021 |
| **Total revenues** | **4 046** | **61 021** |

| **Geographic information** | **2019** | **2018** |
|---|---|---|
| Norway | 3 838 | 56 181 |
| Europe | 0 | (19) |
| USA | 208 | 4 858 |
| **Total revenues** | **4 046** | **61 021** |

## 3. Government grants

*Amounts in NOK thousand*

| **Other income** | **2019** | **2018** |
|---|---|---|
| Award from International Titanium Association | 0 | 169 |
| Grants from Amaze | 0 | (241) |
| Grants from European Society of Anaesthesiology (ESA) | 0 | 2 901 |
| **Total other income** | **0** | **2 828** |

*Amounts in NOK thousand*

| **Skattefunn** | **2019** | **2018** |
|---|---|---|
| Employee benefits expense | 0 | 3 252 |
| Raw materials and consumable | 0 | 1 002 |
| Other operating expenses | 0 | 246 |
| **Total cost reduction from SkatteFUNN** | 0 | **4 500** |

The company did not receive any government grants in 2019.

## 4. Inventories

*Amounts in NOK thousand*

| **Inventories** | **31.12.2019** | **31.12.2018** |
|---|---|---|
| Raw materials | 6 065 | 9 938 |
| Work in progress | 2 344 | 2 204 |
| Finished goods | 0 | 60 |
| **Total inventories** | **8 408** | **12 203** |

Work in progress consist of manufacturing of production machines, for own or external use, in addition to titanium components in progress. Inventories consists of wire, argon and substrate for production of titanium components as well as spare parts for production machines.

## 5. Employee benefit expenses

*Amounts in NOK thousand*

| **Employee benefit expenses** | **2019** | **2018** |
|---|---|---|
| Salaries and holiday pay | 44 762 | 45 327 |
| Social security tax | 8 083 | 8 310 |
| Pension costs defined contribution plans | 4 533 | 3 743 |
| Cost of share-based payment | 4 340 | 419 |
| Other personnel costs | 1 248 | 4 639 |
| **Total payroll and related costs** | **62 965** | **62 437** |
| | | |
| Full Time equivalent Employees as of 31.12 | 80 | 80 |

**Pensions**

The Norwegian companies in the Group are obligated to keep an occupational pension scheme pursuant to the Norwegian Mandatory Occupational Pensions Act. The Group's pension scheme satisfies these requirements.

Contributions are paid to pension insurance plans and charged to the income statement in the period to which the contributions relate. Once the contributions have been paid, there are no further payment obligations.

**Management and board remuneration**

*Amounts in NOK thousand*

| **Remuneration to management in 2019** | **Salary** | **Performance- related bonus** | **Other remuneration** | **Sum remuneration** |
|---|---|---|---|---|
| CEO | 3 962 | 3 962 | 0 | **7 923** |

**Benefits to the CEO**

Executive management takes part in the general pension scheme described above. For further information regarding compensation of key management, loans to employees and pensions, see note 2.4 in the consolidated financial statements.

The CEO is employed in the 100% owned subsidiary Norsk Titanium US, and the remuneration to the CEO is partly charged to the parent company Norsk Titanium AS.

| **Remuneration to Board members in 2019** | |
|---|---|
| Board of Directors | **0** |

At the end of the financial year, members of the Board and executive employees held shares in the parent company, Norsk Titanium AS. Reference is made to note 4.7 in the consolidated financial statements for disclosures on shareholdings.

## 6. Other operating expenses

*Amounts in NOK thousand*

| Other operating expenses | 2018 | 2018 |
|---|---|---|
| Professional services | 29 934 | 24 730 |
| Travel expenses | 1 694 | 3 993 |
| Rental and leasing expenses | 2 826 | 4 471 |
| Other operating expenses | 26 347 | 41 777 |
| **Total other operating expenses** | **60 802** | **74 971** |

| Auditor related fees | 2019 | 2018 |
|---|---|---|
| Statutory audit | 1 492 | 1 384 |
| Other assurance services | 118 | 94 |
| Tax consultant services | 62 | 182 |
| **Total remuneration to the auditor** | **1 671** | **1 660** |

**Audit fee:**
The amounts above are excluding VAT.

## 7. Trade receivables and other current assets

*Amounts in NOK thousand*

| Trade receivables | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Receivable to external parties | 1 646 | 2 204 |
| **Total trade receivables** | **1 646** | **2 204** |

No provision for bad debt has been recognised in 2019 or 2018.

| Other current assets | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Earned not invoiced revenue | 0 | 0 |
| Pre-payments | 936 | 1 408 |
| Charges to subsidiaries, not invoiced | 0 | 5 077 |
| Deposits | 966 | 965 |
| VAT | 2 153 | 1 993 |
| Other receivables | 15 265 | 4 861 |
| Group contribution | 0 | 16 569 |
| **Total other receivables** | **19 319** | **30 874** |

## 8. Trade and other payables

*Amounts in NOK thousand*

| Trade and other payables | 31.12.2018 | 31.12.2018 |
|---|---|---|
| Accounts payable to related parties | 0 | 10 135 |
| Accounts payable | 10 508 | 10 016 |
| Withholding payroll taxes and social security | 0 | 4 743 |
| VAT | 0 | 0 |
| **Total trade and other payables** | **10 508** | **24 894** |

## 9. Property, plant and equipment

| *Amounts in NOK thousand* | Machinery and equipment | Furniture and vehicles | Buildings, IT | Total |
|---|---|---|---|---|
| **Acquisition cost 31.12.2018** | **75 154** | **3 260** | **9 241** | **87 655** |
| Additions | 1 061 | 24 | 0 | 1 086 |
| Disposals | 0 | 0 | 0 | 0 |
| **Acquisition cost 31.12.2019** | **76 216** | **3 284** | **9 241** | **88 741** |
| | | | | |
| **Accumulated depreciation and impairment 1.1.2019** | **33 568** | **1 404** | **1 507** | **36 479** |
| Depreciation for the year | 6 148 | 814 | 1 680 | 8 643 |
| Impairment for the year | 6 494 | 0 | 0 | 6 494 |
| **Accumulated depreciation and impairment 31.12.2019** | **46 211** | **2 218** | **3 187** | **51 616** |
| | | | | |
| **Carrying amount 1.1.2019** | **41 586** | **1 856** | **7 734** | **51 176** |
| **Carrying amount 31.12.2019** | **30 005** | **1 066** | **6 054** | **37 125** |
| | | | | |
| Economic life | 5-20 years | 5 years | 5 years | |
| Depreciation plan | linear | linear | linear | |

**Impairment of Property, plant and equipment**

An impairment loss of NOK 6 494 thousand was recognised as Impairment of machinery and equipment in the consolidated statement of comprehensive income in 2019. Additionally, property, plant and equipment in the Consolidated statement of financial position has been written down by the same amount.

The impairment loss was related to a previous generation of the RPDTM machine. The third-generation machine (P01) has been in use for experiments, prototyping and technology development. The functionality will be replaced by a new G4 Large RPDTMmachine, which is under developement.

## 10. Intangible assets

*Amounts in NOK thousand*

| Intangible assets | Development costs | Other intangible assets | Total |
|---|---|---|---|
| **Acquisition cost 1.1.2019** | **103 431** | **12 315** | **115 746** |
| Additions | 0 | 1 371 | 1 371 |
| **Acquisition cost 31.12.2019** | **103 431** | **13 686** | **117 117** |
| | | | |
| **Accumulated amortisation and impairment 1.1.2019** | **21 739** | **3 105** | **24 844** |
| Amortisation for the year | 9 728 | 1 462 | 11 189 |
| Impairment for the year | | 0 | 0 |
| **Accumulated amortisation and impairment 31.12.2019** | **31 467** | **4 567** | **36 034** |
| | | | |
| **Carrying amount 1.1.2019** | **81 692** | **9 210** | **90 902** |
| **Carrying amount 31.12.2019** | **71 964** | **9 119** | **81 083** |
| | | | |
| Economic life | 10 years | 3-10 years | |
| Amortisation plan | Straight-line | Straight-line | |

**Impairment of intangible assets**
No impairment loss is recognised as impairment of intangible assets in the financial statements in 2018 and 2019.

**Other intangible assets**
Other intangible assets consist of software and aquired patents.

Reference to note 3.2 in the consolidated financial statements  for further information on research and development.

## 11. Interest bearing debt

*Amounts in NOK thousand*

| Interest bearing loans and borrowings | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Non-current Interest bearing debt | 448 225 | 291 985 |
| Current portion of interest bearing debt | 0 | 0 |
| **Total Interest bearing loans and borrowings** | **448 225** | **291 985** |

Interest bearing debt consists of shareholder loans. Reference to note 4.2 in the consolidated financial statements for additional disclosures related to the loan.

## 12. Cash and cash equivalents

*Amounts in NOK thousand*

| Cash and cash equivalents | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Bank deposits, unrestricted | 12 229 | 117 474 |
| Bank deposits, restricted* | 2 316 | 2 642 |
| **Total cash and cash equivalents** | **14 545** | **120 116** |

* Restricted bank deposits relates to cash for withholding taxes which may not be used for other purposes.

## 13. Financial income and expenses

*Amounts in NOK thousand*

| Financial income and expenses | 2019 | 2018 |
|---|---|---|
| **Financial income** | | |
| Interest income | 53 180 | 8 852 |
| Foreign exchange gains | 18 580 | 27 903 |
| Group contribution | 4 114 | 19 476 |
| **Total financial income** | **75 873** | **56 231** |
| **Financial expenses** | | |
| Interest expenses | (49 140) | (10 864) |
| Foreign exchange losses | (21 816) | (38 735) |
| Other financial expenses | (2 391) | (4 436) |
| **Financial expenses** | **(73 347)** | **(54 035)** |

## 14. Equity and shareholders

| *Amounts in NOK thousand* | Share capital | Share premium | Treasury shares | Other paid in capital | Other equity | Total equity |
|---|---|---|---|---|---|---|
| **Balance as of 31 December 2018** | **3 986** | **788 039** | **(90)** | **16 050** | **(461 583)** | **346 402** |
| Correction of prior year misstatements | | | | | | 0 |
| Profit (loss) for the year | | | | | (169 611) | (169 611) |
| Issue of share capital | | | | | | 0 |
| Sales of treasury shares | | | 6 | | 1 023 | 1 029 |
| Shared-based payment | | | | | 12 547 | 12 547 |
| **Balance as of 31 December 2019** | **3 986** | **788 039** | **(84)** | **16 050** | **(617 625)** | **190 367** |

For further information regarding share capital, shareholders, treasury shares and shares owned by the board and executive employees, see note 4.7 in the consolidated financial statements.

## 15. Share option plan

Reference to note 4.8 in the consolidated financial statements for information related to the Company's option program vesting and number of vested options, total outstanding options, number of options granted, forfeited and excercised in the year, weighted average strike price and assumptions used to compute fair value of the options granted.

The fair value of the options is set on the traded price at grant date and expensed over the vesting period. NOK 12,547 thousand and NOK 3,542 thousand have been expensed as payroll and social security tax respectively.

The weighted average fair value of the 6,795 options granted during the year was NOK 1,555. The weighted average share price at the date of the 800 exercised options were NOK 1,286.

Reference to note 4.8 for disclosures on share options held by management and the board of directors in the Company.

## 16. Taxes

| *Amounts in NOK thousand* | 2019 | 2018 |
|---|---|---|
| **Current income tax expense:** | | |
| Tax payable | 0 | 0 |
| Change deferred tax/deferred tax assets | 2 218 | (1 986) |
| **Total income tax expense** | **2 218** | **(1 986)** |

| **Tax payable** | **2019** | **2018** |
|---|---|---|
| **Profit before taxes** | **(167 393)** | **(119 390)** |
| Permanent differences* | (1 151) | (7 138) |
| Change in temporary differences | 903 | 9 252 |
| Adjustments in respect of current income tax of previous years | 0 | (2 907) |
| **Tax basis** | **(167 641)** | **(120 184)** |
| Current taxes according to statutory tax rate 22% (23% in 2018) | (38 558) | (27 642) |

| **Deferred tax liabilities (assets)** | **2019** | **31.12.2018** |
|---|---|---|
| Property, plant and equipment | (12 701) | (4 640) |
| Other differences | (2 400) | (9 557) |
| Losses carried forward (including tax credit) | (708 994) | (535 539) |
| **Basis for deferred tax liabilities (assets)** | **(724 094)** | **(549 736)** |
| | | |
| Calculated deferred tax assets | (159 301) | (120 942) |
| Deferred tax assets not recognised | (158 396) | (117 819) |
| **Deferred tax recognised in balance sheet** | **(905)** | **(3 123)** |

Deferred tax assets of NOK 158,396 thousands related to losses carried forward are not recorded in the balance sheet as it is more likely than not that the tax assets will be utilized. The unrecognised tax asset may offset future taxable income.

| **Reconciliation of income tax expense** | **2019** | **2018** |
|---|---|---|
| **Profit before taxes** | **(167 393)** | **(119 390)** |
| Tax expense 22% (23%) | (36 826) | (27 460) |
| Permanent differences* | (253) | (1 642) |
| Effects of changes in tax rate | 0 | 142 |
| Effect of deferred tax asset not recognised | 39 298 | 26 305 |
| Other changes** | 0 | (669) |
| **Recognised income tax expense** | **2 218** | **(3 323)** |

* Permanent differences is related to "employee options and non-deductible costs".
** Other changes is related to adjustments in respect of current income tax of previous years

## 17. Investments in subsidiaries

*Amounts in NOK thousand*

| Investments in subsidiaries | Office | Date of aquistion | Shareholding/ voting rights | Equity | Carrying amount 31.12.2019 |
|---|---|---|---|---|---|
| Shares in Norsk Titanium Equipment AS | Norway | 2015/11/09 | 100% | 4 144 | 30 |
| Shares in NTi MH AS | Norway | 2015/07/10 | 100% | 2 | 30 |
| Shares in Norsk Titanium US Inc. | US | 2015/07/07 | 100% | (513 330) | 31 809 |
| Shares in Norsk Titanium Services Ltd. | UK | 2016/12/01 | 100% | 7 068 | 4 004 |
| **Total Investments in subsidiaries** | | | | **(502 117)** | **35 873** |

Additional disclosures related to investments in subsidiaries and exemption from audit for subsidiery companies in the UK are presented in note 6.1 in the consolidated financial statements.

The Company provides funding to its US subsidiary durings its commercial ramp-up phase. Upon further commercialization and production, the Company will receive royalty payments (use of technology) from its US subsidiary. If the Company does not succeed in further commercialization, this might result of significant write-down of its loan receivable.

## 18. Other current liabilities

*Amounts in NOK thousand*

| Other current liabilities | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Prepaid revenues | 27 860 | 30 210 |
| Accrued bonus | 0 | 0 |
| Unpaid holiday pay | 5 683 | 5 264 |
| Other accrued costs | 8 671 | 18 842 |
| **Total other current liabilities** | **42 213** | **54 316** |

## 19. Related parties transactions and balances

| Related parties | Shareholder/Subsidiary | Ownership interest |
|---|---|---|
| Norsk Titanium Cayman Ltd | Shareholder | 43.3 % |
| Nti Holding AS | Shareholder | 18.6 % |
| Scatec AS | Shareholder | 0.1 % |
| Board of Directors | Shareholder | 1.7 % |
| Norsk Titanium Equipment AS | Subsidiary | 100% |
| Norsk Titanium US Inc. | Subsidiary | 100% |
| Norsk Titanium Services Ltd | Subsidiary | 100% |
| NTi MH AS | Subsidiary | 100% |

**Amounts receivable (payable) to subsidiaries:**

*Amounts in NOK thousand*

| Included in the balance sheet 31.12.2019 | Norsk Titanium Equipment AS | Norsk Titanium US Inc. | Norsk Titanium Services Ltd | Board of directors | Norsk Titanium Cayman Ltd | 31.12.2019 | 31.12.2018 |
|---|---|---|---|---|---|---|---|
| Long term loan to subsidiary* | | 525 847 | | | | 525 847 | 386 172 |
| Other current assets | | | | | | 0 | 21 647 |
| Trade and other payables** | (21 032) | | | | | (21 032) | (10 135) |
| Debt to subsidiaries*** | | | (12 296) | | | (12 296) | |
| **Net receivable (payable)** | **(21 032)** | **525 847** | **(12 296)** | **0** | **0** | **492 519** | **397 684** |

* Long term loan to subsidiary in 2019 is related to Norsk Titanium US Inc.
** Trade and other payables in 2019 is related to Norsk Titanium Equipment AS and Norsk Titanium Services Ltd.
*** Debt to subsidiaries is related to Norsk Titanium Services Ltd.

**Income from related parties / (expenses to related parties):**

| Included in profit and loss 2019 | Norsk Titanium Equipment AS | Norsk Titanium US Inc. | Norsk Titanium Services Ltd | Board of directors | 31.12.2019 |
|---|---|---|---|---|---|
| Revenue | 2 117 | 1 929 | | | 4 046 |
| Raw materials and consumable used | | | | | 0 |
| Employee benefits expense | | (10 058) | (935) | 0 | (10 992) |
| Other operating expenses | | (3 808) | (9 411) | | (13 218) |
| Financial income | | 52 483 | (330) | | 52 152 |
| **Net profit and loss** | **2 117** | **40 547** | **(10 676)** | **0** | **31 988** |

## 20. Commitments and contingencies

*Amounts in NOK thousand*

| Minimum lease payments (non-cancellable operating leases) | 2019 | Matures within 1 year | Matures 2-5 years | Matures more than 5 years | Total |
|---|---|---|---|---|---|
| Buildings and argon tank lease | 2 733 | 1 960 | 0 | 0 | **4 693** |
| **Total non-cancellable operating leases** | **2 733** | **1 960** | **0** | **0** | **4 693** |

**Assets pledged as security and guarantee liabilities**
For assets pledged as security and guarantee liabilities, reference is made to note 4.2 in the consolidated financial statement.

**Contingent assets and liabilities**
The company has no contingent assets that meet the criteria for disclosure.

The company is involved in ongoing claims negotiations. Reference is made to note 7.2 in the consolidated financial statement regarding ongoing claims processes.

## 21. Going concern assumption

Reference to note 4.6 in the consolidated financial statements for disclosures on financial risk and capital management for the company.

## 22. Subsequent events

Reference to note 7.5 in the consolidated financial statements for disclosures on subsequent events for the company.

Statsautoriserte revisorer
Ernst & Young AS

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Medlemmer av Den norske revisorforening

**INDEPENDENT AUDITOR'S REPORT**

To the Annual Shareholders' Meeting of Norsk Titanium AS

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of Norsk Titanium AS comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the statement of financial position as at 31 December 2019, statement of profit and loss, statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the statement of financial position as at 31 December 2019, the statements of total comprehensive income, cash flows and statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU

### Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material uncertainty related to going concern

The Group incurred a net loss of USD 36.6 million for the year ended 31 December 2019. According to Note 4.6 under "Liquidity risk and going concern" in the consolidated financial statements and the going concern section in the Board of Director's report, the Group and the Company is dependent on raising additional funding and/or a significant reduction in cash outflows from operations, to meet its obligations as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's and the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

### Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## Report on other legal and regulatory requirements

### Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

### Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 26 March 2020
ERNST & YOUNG AS

Magnus H. Birkeland

Magnus H. Birkeland
State Authorised Public Accountant (Norway)