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CensorNet A/S

Park Allé 350 D, 2605 Brøndby

Company reg. no. 21 78 03 40

Annual report

1 January - 31 December 2017

The annual report have been submitted and approved by the general meeting on the 25 May 2018.



Edward O. Macnair
Chairman of the meeting

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Notes to users of the English version of this document:

- To ensure the greatest possible applicability of this document, British English terminology has been used.
- Please note that decimal points remain unchanged from the Danish version of the document. This means that for instance DKK 146.940 is the same as the English amount of DKK 146,940, and that 23,5 % is the same as the English 23.5 %.

Management's report

The board of directors and the managing director have today presented the annual report of CensorNet A/S for the financial year 1 January to 31 December 2017.

The annual report has been presented in accordance with the Danish Financial Statements Act.

We consider the accounting policies used appropriate, and in our opinion the annual accounts provide a true and fair view of the company's assets and liabilities and its financial position as on 31 December 2017 and of the company's results of its activities in the financial year 1 January to 31 December 2017.

We are of the opinion that the management's review includes a fair description of the issues dealt with.

The annual report is recommended for approval by the general meeting.

Brøndby, 25 May 2018

Managing Director

Lisa J. Davis

Board of directors



Edward O. Macnair



Lisa J. Davis



Craig Probert

Independent auditor's report

To the shareholders of CensorNet A/S

Opinion

We have audited the annual accounts of CensorNet A/S for the financial year 1 January to 31 December 2017, which comprise accounting policies used, profit and loss account, balance sheet and notes. The annual accounts are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the annual accounts give a true and fair view of the company's assets, liabilities and financial position at 31 December 2017 and of the results of the company's operations for the financial year 1 January to 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with international standards on auditing and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the below section "Auditor's responsibilities for the audit of the annual accounts". We are independent of the company in accordance with international ethics standards for accountants (IESBA's Code of Ethics) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these standards and requirements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

The management's responsibilities for the annual accounts

The management is responsible for the preparation of annual accounts that give a true and fair view in accordance with the Danish Financial Statements Act. The management is also responsible for such internal control as the management determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the management is responsible for evaluating the company's ability to continue as a going concern, and, when relevant, disclosing matters related to going concern and using the going concern basis of accounting when preparing the annual accounts, unless the management either intends to liquidate the company or to cease operations, or if it has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report including an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with international standards on auditing and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements may arise due to fraud or error and may be considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions made by users on the basis of the annual accounts.

As part of an audit conducted in accordance with international standards on auditing and the additional requirements applicable in Denmark, we exercise professional evaluations and maintain professional scepticism throughout the audit. We also:

Independent auditor's report

- Identify and assess the risks of material misstatement in the annual accounts, whether due to fraud or error, design and perform audit procedures in response 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 the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the 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 by the management and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's preparation of the annual accounts being based on the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may raise significant doubt about 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 annual accounts 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 contents of the annual accounts, including the disclosures in the notes, and whether the annual accounts reflect the underlying transactions and events in a manner that gives a true and fair view.

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 the internal control that we identify during our audit.

Statement on the management's review

The management is responsible for the management's review.

Our opinion on the annual accounts does not cover the management's review, and we do not express any kind of assurance opinion on the management's review.

In connection with our audit of the annual accounts, our responsibility is to read the management's review and in that connection consider whether the management's review is materially inconsistent with the annual accounts or our knowledge obtained during the audit, or whether it otherwise appears to contain material misstatement.

Independent auditor's report

Furthermore, it is our responsibility to consider whether the management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we believe that the management's review is in accordance with the annual accounts and that it has been prepared in accordance with the requirements of the Danish Financial Statement Acts. We did not find any material misstatement in the management's review.

Hillerød, 25 May 2018

Grant Thornton

State Authorized Public Accountants
Company reg. no. 34 20 99 36



Claus Koskelin
State Authorised Public Accountant
MNE-nr. 30140



Maibritt Nygaard Jensen
State Authorised Public Accountant
MNE-nr. 42813

Company data

The company	CensorNet A/S Park Allé 350 D 2605 Brøndby
	Company reg. no. 21 78 03 40 Established: 27 June 1999 Domicile: Brøndby Financial year: 1 January - 31 December
Board of directors	Edward O. Macnair Lisa J. Davis Craig Probert
Managing Director	Lisa J. Davis
Auditors	Grant Thornton, Statsautoriseret Revisionspartnerselskab Nordstensvej 11 3400 Hillerød
Parent company	Mousquetaires Holding ApS
Subsidiary	CensorNet Inc., USA

Management's review

The principal activities of the company

Business Review

CensorNet A/S is an internationally recognised and leading producer of software within the field of IT Security. The Company produces and sells IT Security Software which protects employees against identity theft through multi-factor authentication when using remote access systems and cloud applications etc. The product is sold globally through distributors and resellers.

CensorNet A/S became part of the CensorNet Limited Group in February 2016. The combination of the companies has extended the product range available to customers to offer a complete security solution including web filtering, email filtering and CASB.

In 2017 the company launched its unified platform to provide a complete cloud security solution that enables organisations to be protected from threats such as ransomware, phishing, malicious code and hacking.

2017 was a period of consolidation with renewed focus on the Northern European markets especially the DACH region which saw significant growth.

Financial Review

The income statement shows a loss before tax of DKK 12,7 million against the previous year's loss of DKK 21,9 million.

This loss includes a net loss of DKK 9,6 million related to the US subsidiary in 2017. The operations in the US are carried out through the fully owned subsidiary CensorNet Inc and the operations are financed through an intergroup service agreement between the entities under which CensorNet A/S covers the costs incurred by CensorNet Inc.

The scale of operations in the US was reduced in the second half of 2017 when the decision was made to focus on the strengths of the business in Northern Europe. The net loss for 2018 for the US subsidiary is planned to be DKK 1,7 million.

The budget prepared by management for 2018 shows an EBITDA profit of DKK 3,4 million based on growing sales in Northern Europe and reduced costs in the US and ROW outside EMEA.

We refer to note 1 to the financial statements "Going Concern uncertainties" in which the basis for using the going concern is described.

As the Company's equity is negative, the Company is subject to the provisions in section 119 of the Danish Companies Act regarding capital loss. It is management's assessment that the Company will re-establish its capital through a combination of cash injection and future earnings.

Management's review

Events subsequent to the financial year

No events materially affecting the Company's financial position have occurred subsequent the financial year end.

Accounting policies used

The annual report for CensorNet A/S is presented in accordance with those regulations of the Danish Financial Statements Act concerning companies identified as class B enterprises. Furthermore, the company has chosen to comply with some of the rules applying for class C enterprises.

The accounting policies used are unchanged compared to last year except for minor changes in presentation, and the annual accounts are presented in Danish kroner (DKK).

Translation of foreign currency

Transactions in foreign currency are translated by using the exchange rate prevailing at the date of the transaction. Differences in the rate of exchange arising between the rate at the date of transaction and the rate at the date of payment are recognised in the profit and loss account as an item under net financials.

Debtors, creditors, and other monetary items in foreign currency are translated by using the closing rate. The difference between the closing rate and the rate at the time of the occurrence or the recognition in the latest annual accounts of the amount owed or the liability is recognised in the profit and loss account under financial income and expenses.

Fixed assets and other non-monetary assets acquired in foreign currency and which are not considered to be investment assets purchased in foreign currencies are measured at the exchange rate on the transaction date.

The profit and loss account

Gross profit

The gross profit comprises the net turnover, other operating income, and external costs.

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include salaries and wages including holiday allowances, pensions and other costs for social security etc. for staff members. Staff costs are less public reimbursements.

Depreciation, amortisation and writedown

Depreciation, amortisation and writedown comprise depreciation, amortisation and writedown for the year and gains and losses on disposal of intangible and tangible fixed assets.

Accounting policies used

Net financials

Net financials comprise interest, realised and unrealised capital gains and losses concerning financial assets and liabilities, amortisation of financial assets and liabilities, additions and reimbursements under the Danish tax prepayment scheme, etc. Financial income and expenses are recognised in the profit and loss account with the amounts that concerns the financial year.

Results from equity investments in group enterprises

After full elimination of intercompany profit or loss and deduction of amortisation of consolidated goodwill, the equity investment in the individual group enterprises are recognised in the profit and loss account at a proportional share of the group enterprises' results after tax.

Dividend from equity investments is recognised in the financial year where the dividend is declared.

Results from equity investments in group enterprises

After full elimination of intercompany profit or loss and deduction of amortisation of consolidated goodwill, the equity investment in the individual group enterprises are recognised in the profit and loss account at a proportional share of the group enterprises' results after tax.

Tax of the results for the year

The tax for the year comprises the current tax for the year and the changes in deferred tax, and it is recognised in the profit and loss account with the share referring to the results for the year and directly in the equity with the share referring to entries directly on the equity.

The company is subject to the Danish legislation concerning compulsory joint taxation with the Danish group enterprises.

The current Danish corporate tax is allocated among the jointly taxed companies in proportion to their respective taxable income (full allocation with reimbursement of tax losses).

The balance sheet

Intangible fixed assets

Patents and licences

Items of intangible assets comprise patents and software and are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Patents are measured at cost with deduction of accrued amortisation. Patents are amortised on a straight-line basis over the remaining patent period, and licenses are amortised over the contract period, however, for a maximum of 10 years.

Accounting policies used

Tangible fixed assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

The basis of depreciation is cost with the addition of revaluations at fair value and with the deduction of expected residual value after the end of the useful life of the asset.

Reversal of previous revaluations and recognised deferred taxes concerning revaluations are recognised directly in the company's equity.

Other tangible fixed assets are measured at cost with deduction of accrued depreciation and writedown.

The basis of depreciation is cost with deduction of any expected residual value after the end of the useful life of the asset. The amortisation period and the residual value are determined at the acquisition date and reassessed annually. If the residual value exceeds the book value, the amortisation discontinues.

Depreciation takes place on a straight line basis and based on an evaluation of the expected useful life :

	<i>Useful life</i>
<i>Other fixtures and fittings, tools and equipment</i>	<i>3-5 years</i>

Minor assets with an expected useful life of less than 1 year are recognised as costs in the profit and loss account in the year of acquisition.

Financial fixed assets

Equity investments in group enterprises

Equity investments in group enterprises are recognised in the balance sheet at a proportional share under the equity method, the value being calculated on the basis of the accounting policies of the parent company by the deduction or addition of unrealised intercompany profits and losses, and with the addition or deduction of residual value of positive or negative goodwill measured by applying the acquisition method.

Group enterprises and associated enterprises with negative equity are recognised without any value, and to the extent they are considered irrevocable, amounts owed by these companies are written down by the parent's share of the equity. If the negative equity exceeds the debtors, the residual amount is recognised under liability provisions to the extent the parent has a legal or actual liability to cover the negative equity of the subsidiary.

Debtors

Debtors are measured at amortised cost which usually corresponds to face value. In order to meet expected losses, writedown takes place at the net realisable value.

Accounting policies used

Available funds

Available funds comprise cash at bank and in hand.

Equity

Reserves for net revaluation as per the equity method

Reserves for net revaluation as per the equity method comprise net revaluation of equity investments in subsidiaries and associates in proportion to cost.

The reserves may be eliminated in case of losses, realisation of equity investments or changes in the financial estimates. It is not possible to recognise the reserves with a negative amount.

Corporate tax and deferred tax

Current tax receivable and tax liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on previous years' taxable income and prepaid taxes. Tax receivable and tax liabilities are set off to the extent that legal right of set-off exists and if the items are expected to be settled net or simultaneously.

According to the rules of joint taxation, CensorNet A/S is unlimited, jointly and severally liable towards the Danish tax authorities for the total corporation tax, including withholding tax on interest, royalties and dividends, arising within the jointly taxed group of companies.

Deferred tax is measured on the basis of all temporary differences in assets and liabilities with a balance sheet focus.

Deferred tax assets, including the tax value of tax losses eligible for carry over, are recognised at the value at which they are expected to be realisable, either by settlement against tax of future earnings or by set-off in deferred tax liabilities within the same legal tax unit.

Deferred tax is measured based on the tax rules and tax rates applying under the legislation on the balance sheet date and prevailing when the deferred tax is expected to be released as current tax.

Liabilities

Financial liabilities related to borrowings are recognised at the received proceeds with the deduction of transaction costs incurred. In following periods, the financial liabilities are recognised at amortised cost, corresponding to the capitalised value by use of the effective interest. The difference between the proceeds and the nominal value is recognised in the profit and loss account during the term of the loan.

Other liabilities are measured at amortised cost which usually corresponds to the nominal value.

Profit and loss account 1 January - 31 December

Amounts concerning 2017: DKK.

Amounts concerning 2016: DKK in thousands.

<u>Note</u>	<u>2017</u>	<u>2016</u>
Gross profit	24.297.922	14.906
2 Staff costs	-36.966.340	-36.243
Depreciation and writedown relating to fixed assets	-346.514	-540
Operating profit	-13.014.932	-21.877
Income from equity investments in group enterprises	284.449	117
Other financial income from group enterprises	0	48
Other financial income	458.753	357
3 Other financial costs	-439.867	-572
Results before tax	-12.711.597	-21.927
Tax on ordinary results	1.087.243	1.052
Results for the year	-11.624.354	-20.875
Proposed distribution of the results:		
Reserves for net revaluation as per the equity method	284.449	117
Allocated from results brought forward	-11.908.803	-20.992
Distribution in total	-11.624.354	-20.875

Balance sheet 31 December

Amounts concerning 2017: DKK.

Amounts concerning 2016: DKK in thousands.

<u>Note</u>	<u>2017</u>	<u>2016</u>
Assets		
Fixed assets		
Acquired intangible assets	665.750	709
Intangible fixed assets in total	<u>665.750</u>	<u>709</u>
Other plants, operating assets, and fixtures and furniture	123.258	200
Leasehold improvements	18.843	90
Tangible fixed assets in total	<u>142.101</u>	<u>290</u>
Equity investments in group enterprises	737.146	452
Deposits	147.690	199
Financial fixed assets in total	<u>884.836</u>	<u>651</u>
Fixed assets in total	<u>1.692.687</u>	<u>1.650</u>
Current assets		
Trade debtors	16.746.047	15.603
Amounts owed by group enterprises	61.196	3.076
Receivable corporate tax	1.040.000	987
Other debtors	578.308	2.113
Debtors in total	<u>18.425.551</u>	<u>21.779</u>
Available funds	<u>4.106.507</u>	<u>2.120</u>
Current assets in total	<u>22.532.058</u>	<u>23.899</u>
Assets in total	<u>24.224.745</u>	<u>25.549</u>

Balance sheet 31 December

Amounts concerning 2017: DKK.

Amounts concerning 2016: DKK in thousands.

<u>Note</u>	<u>2017</u>	<u>2016</u>
Equity and liabilities		
Equity		
	500.000	500
4	736.449	452
	-38.975.501	-27.067
	-37.739.052	-26.115
Provisions		
	0	128
	0	128
Liabilities		
	152.205	169
	45.964.403	38.905
	1.503.782	1.708
	8.063.135	3.849
	6.280.272	6.905
	61.963.797	51.536
	61.963.797	51.536
	24.224.745	25.549

1 Uncertainties concerning the enterprise's ability to continue as a going concern**5** Mortgage and securities**6** Contingencies

Notes

Amounts concerning 2017: DKK.

Amounts concerning 2016: DKK in thousands.

1. Uncertainties concerning the enterprise's ability to continue as a going concern

In 2017, the Company realized a loss of DKK 11,6 million and at 31 December 2017 equity was negative by DKK 37,7 million. The loss for 2017 is impacted by a loss of DKK 9,6 million deriving from the Company's operations in the US.

This loss includes a net loss of DKK 9,6 million related to the US subsidiary in 2017. The operations in the US are carried out through the fully owned subsidiary CensorNet Inc and the operations are financed through an intergroup service agreement between the entities under which CensorNet A/S covers the costs incurred by CensorNet Inc.

The scale of operations in the US was reduced in the second half of 2017 when the decision was made to focus on the strengths of the business in Northern Europe. The net loss for 2018 for the US subsidiary is planned to be DKK 1,7 million.

The loss for 2017 is also impacted by an adjustment of DKK 7,1 million for deferred revenue for subscription and maintenance sales. These type of sales have increased in 2017 as part of a deliberate strategy for the business. While this has a negative impact on profitability it does not impact cashflow as payment is received upfront for the term of the subscription or maintenance.

The budget prepared by management for 2018 shows an EBITDA profit of DKK 3,4 million based on growing sales in Northern Europe and reduced costs in the US and ROW outside EMEA. The budget also shows a positive cashflow of DKK 9,9 million.

The Parent Company CensorNet Limited has committed to provide the funds necessary for the Company to continue to support its operations and confirmed that it will not require the Company to repay any debt to the Parent Company if calling in these liabilities causes financial strain on the Company.

Based on the commitment from the Parent Company, a positive cash flow can be achieved at a moderate growth in sales.

On this basis the financial statement for 2017 for CensorNet A/S have been prepared on a going concern basis.

Notes

Amounts concerning 2017: DKK.

Amounts concerning 2016: DKK in thousands.

	<u>2017</u>	<u>2016</u>
2. Staff costs		
Salaries and wages	33.856.844	30.904
Pension costs	830.701	2.137
Other costs for social security	1.326.725	923
Other staff costs	952.070	2.279
	<u>36.966.340</u>	<u>36.243</u>
Average number of employees	<u>38</u>	<u>40</u>
3. Other financial costs		
Financial costs, group enterprises	43.995	0
Other financial costs	395.872	572
	<u>439.867</u>	<u>572</u>
4. Reserves for net revaluation as per the equity method		
Reserves for net revaluation 1 January 2017	452.000	335
Share of results	284.449	117
	<u>736.449</u>	<u>452</u>
5. Mortgage and securities		
The company has issued an all-money mortgage of t.DKK 1.600 providing company charge in simple claims, completely new vehicles, operating fixtures and equipment as well as intangible rights as security for bank debt.		
6. Contingencies		
Contingent liabilities		
Leasing liabilities		
The Company has entered into a lease agreement on the premises at Park Allé 350 D, 2. in Brøndby. The lease agreement is terminable at six' months notice. The Annual rent amounts to t.DKK 256.		

Notes

Amounts concerning 2017: DKK.

Amounts concerning 2016: DKK in thousands.

• **Contingencies (continued)**

Contingent liabilities (continued)

The Company has entered into operating as well as financial leases concerning leasing of cars. The total lease obligation amounted to t.DKK 78 at 31 December 2017.

Joint taxation

Mousquetaires Holding ApS, company reg. no 25 08 20 01 being the administration company, the company is subject to the Danish scheme of joint taxation and unlimited jointly and severally liable with the other jointly taxed companies for the total corporation tax.

The company is unlimited jointly and severally liable with the other jointly taxed companies for any obligation to withhold tax on interest, royalties and dividends.

The jointly taxed enterprises' total, known net liability to the Danish tax authorities appears from the annual accounts of the administration company.

Any subsequent adjustments of corporate taxes or withheld taxes etc. may cause changes in the company's liabilities.