

# CensorNet A/S

Park Allé 350 D, 2605 Brøndby

CVR no. 21 78 03 40

## Annual report 2016

Approved at the annual general meeting of shareholders on 15 June 2017

Chairman:

  
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### Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of CensorNet A/S for the financial year 1 January - 31 December 2016.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

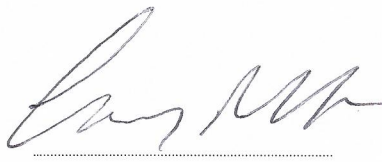
Brøndby, 15 June 2017  
Executive Board:

.....  
Lisa J. Davis

Board of Directors:

  
.....  
Edward O. Macnair  
Chairman

  
.....  
Lisa J. Davis

  
.....  
Craig Probert



## Independent auditor's report

To the shareholders of CensorNet A/S

### Opinion

We have audited the financial statements of CensorNet A/S for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements 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 in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act 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 in preparing the financial statements 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 and the additional requirements applicable in Denmark 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 the financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism 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.

## Independent auditor's report

- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements 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 conclusion is 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 financial statements, including the note disclosures, and whether the financial statements represent 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 internal control that we identify during our audit.

### Statement on Management's review

Management is responsible for the Management's review.

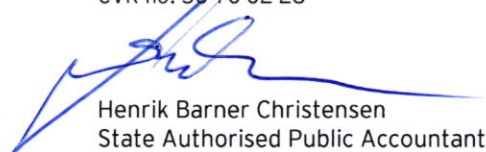
Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

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

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 15 June 2017  
ERNST & YOUNG  
Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28



Henrik Barner Christensen  
State Authorised Public Accountant



Anders Flymer-Dindler  
State Authorised Public Accountant



## Management's review

### Company details

Name	CensorNet A/S
Address, Postal code, City	Park Allé 350 D, 2605 Brøndby
CVR no.	21 78 03 40
Established	27 June 1999
Financial year	1 January - 31 December
Telephone	+45 70 22 55 33
Board of Directors	Edward O. Macnair, Chairman Lisa J. Davis Craig Probert
Executive Board	Lisa J. Davis
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvold Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark

## Management's review

### Management commentary

#### 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.

On 18 February 2016, CensorNet Limited, a UK company providing leading content security software, acquired the Danish holding company Mousquetaires ApS and its Danish trading subsidiary SMS Passcode A/S and its US based subsidiary SMS Passcode Corp.

The benefits of combining the companies creates a very exciting proposition and means that we can offer existing and new customers a complete unified cloud security solution that enables organisations to be protected from threats such as ransomware, phishing, malicious code and hacking. It also gives companies the ability to control who is able to access data and applications, from which device or location- enabling them to create policies that provide complete protection whilst enabling productivity.

Significant investment was made in 2017 to increase headcount in all functional areas and across Europe, Australia, and to expand the US operations. Further investment was also made in marketing to develop and enhance the combined message.

The new Multi-Factor-Authentication app was launched in Q4 2016. In addition, the new USS product was launched in Q2 2016. Creating the new platform provides greater opportunities for cross sell with our fully enterprise ready product suite.

This intensive investment has been supported by loans received in 2017 from the key shareholders of CensorNet Limited and a venture debt loan.

Combining 2 businesses successfully is always a challenging task but we believe we exited 2016 with a combined company that is in a much stronger position to leverage growth in 2017. After the significant investment in 2016, the focus is now on moving all companies in the group towards a positive EBITDA in 2018.

#### Financial review

The income statement for 2016 shows a loss of DKK 20,875 thousand against DKK 3,937 thousand last year, and the balance sheet at 31 December 2016 shows a negative equity of DKK 26,117 thousand.

The loss for 2016 is impacted by a loss of DKK 10.4 million deriving from the Company's operations in the US. The operations in the US are carried out through the fully-owned subsidiary CensorNet Inc. and the operations are financed through an inter group service agreement between the entities, under which CensorNet A/S covers the costs incurred by CensorNet Inc. During 2016, significant investments have been made to increase headcount in all functional areas across Europe and Australia and to expand the operations in the US.

For 2017, the budget prepared by Management shows a loss of DKK 18.4 million. The budget is based on an expected growth in sales of 58% and a continued investment in the US operations. The continued investment in the US operations is expected to result in a loss of DKK 20.3 million in 2017.

We refer to note 2 to the financial statements "Going concern uncertainties", in which the basis for using the going concern assumption 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 reestablish its capital through a combination of a cash injection and future earnings.



## **Management's review**

### **Management commentary**

#### **Events after the balance sheet date**

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



## Financial statements for the period 1 January - 31 December

### Income statement

Note	DKK'000	2016	2015
	<b>Gross margin</b>	14,906	27,483
3	Staff costs	-36,242	-32,520
	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-540	-565
	<b>Profit/loss before net financials</b>	-21,876	-5,602
	Income from other investments, securities and receivables, that are fixed assets	117	249
4	Financial income	404	1,004
5	Financial expenses	-572	-770
	<b>Profit/loss before tax</b>	-21,927	-5,119
6	Tax for the year	1,052	1,182
	<b>Profit/loss for the year</b>	-20,875	-3,937
	<b>Recommended appropriation of profit/loss</b>		
	Net revaluation reserve according to the equity method	117	0
	Retained earnings/accumulated loss	-20,992	-3,937
		-20,875	-3,937

## Financial statements for the period 1 January - 31 December

### Balance sheet

Note	DKK'000	2016	2015
	<b>ASSETS</b>		
	<b>Fixed assets</b>		
7	<b>Intangible assets</b>		
	Acquired intangible assets	708	951
		<u>708</u>	<u>951</u>
8	<b>Property, plant and equipment</b>		
	Fixtures and fittings, other plant and equipment	201	485
	Leasehold improvements	90	177
		<u>291</u>	<u>662</u>
9	<b>Investments</b>		
	Investments in group entities	452	335
	Deposits, investments	199	246
		<u>651</u>	<u>581</u>
	<b>Total fixed assets</b>	<u>1,650</u>	<u>2,194</u>
	<b>Non-fixed assets</b>		
	<b>Receivables</b>		
	Trade receivables	15,603	12,095
	Receivables from group entities	3,076	923
	Corporation tax receivable	987	1,305
	Other receivables	2,113	1,764
		<u>21,779</u>	<u>16,087</u>
	<b>Securities and investments</b>		
	Other securities and investments	0	9,285
		<u>0</u>	<u>9,285</u>
	<b>Cash</b>	<u>2,120</u>	<u>7,611</u>
	<b>Total non-fixed assets</b>	<u>23,899</u>	<u>32,983</u>
	<b>TOTAL ASSETS</b>	<u>25,549</u>	<u>35,177</u>



## Financial statements for the period 1 January - 31 December

### Balance sheet

Note	DKK'000	2016	2015
	<b>EQUITY AND LIABILITIES</b>		
	<b>Equity</b>		
	Share capital	500	500
	Net revaluation reserve according to the equity method	452	335
	Retained earnings	-27,069	-6,077
	<b>Total equity</b>	<b>-26,117</b>	<b>-5,242</b>
	<b>Provisions</b>		
	Deferred tax	128	194
	<b>Total provisions</b>	<b>128</b>	<b>194</b>
	<b>Liabilities</b>		
	<b>Current liabilities</b>		
	Bank debt	169	315
	Prepayments received from customers	38,905	32,066
	Trade payables	1,711	1,657
	Payables to group entities	3,849	0
	Other payables	6,904	6,187
		<b>51,538</b>	<b>40,225</b>
	<b>Total liabilities other than provisions</b>	<b>51,538</b>	<b>40,225</b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>25,549</b>	<b>35,177</b>

- 1 Accounting policies
- 2 Going concern uncertainties
- 10 Contractual obligations and contingencies, etc.
- 11 Collateral
- 12 Related parties

## Financial statements for the period 1 January - 31 December

### Statement of changes in equity

DKK'000	Share capital	Net revaluation reserve according to the equity method	Retained earnings	Total
Equity at 1 January 2016	500	335	-6,077	-5,242
Transfer, see "Appropriation of loss"	0	117	-20,992	-20,875
<b>Equity at 31 December 2016</b>	<b>500</b>	<b>452</b>	<b>-27,069</b>	<b>-26,117</b>

The Company's equity is negative, and 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 reestablish its capital through a combination of a cash injection and future earnings.

## Financial statements for the period 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies

The annual report of CensorNet A/S for 2016 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

#### Income statement

##### Revenue

##### Gross margin

The items revenue and external expenses have been aggregated into one item in the income statement called gross margin in accordance with section 32 of the Danish Financial Statements Act.

##### External expenses

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 wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

##### Amortisation

Amortisation, depreciation and impairment losses relating to intangible assets and equipment comprise amortisation, depreciation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as equipment.

The basis of amortisation, which is calculated as cost less any residual value, is amortised on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Acquired intangible rights	10 years
Software	3 years
Leasehold improvements	5 years
Other fixtures and fittings, tools and equipment	3-5 years

##### Income from investments in group entities

The item includes the Company's proportionate share of the profit/loss for the year in subsidiaries after elimination of intra-group income or losses.

##### Financial income

Other financial income comprises interest income, including interest income on receivables from group entities, net capital gains on payables and transactions in foreign currencies, etc.

## Financial statements for the period 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

The entity is jointly taxed with other subsidiaries. The total Danish income tax charge is allocated between profit/loss-making Danish entities in proportion to their taxable income (full absorption).

Jointly taxed entities entitled to a tax refund are reimbursed by the management company based on the rates applicable to interest allowances, and jointly taxed entities which have paid too little tax pay a surcharge according to the rates applicable to interest surcharges to the management company.

##### Balance sheet

##### Intangible assets

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.

##### Property, plant and equipment

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.

##### Investments in subsidiaries

On initial recognition, investments in subsidiaries are measured at cost and subsequently at the proportionate share of the entities' net asset values calculated in accordance with the Parent Company's accounting policies. Subsidiaries with a negative net asset value are measured at DKK 0 (nil), and any amounts owed by such entities are written down by the Parent Company's share of the net asset value if the amount owed is deemed irrecoverable. If the negative net asset value exceeds the amounts owed, the remaining amount is recognised under provisions if the Parent Company has a legal or a constructive obligation to cover the entity's deficit. Net revaluations of investments in subsidiaries are transferred to the net revaluation reserve according to the equity method where the carrying amount exceeds the acquisition cost.

##### Other securities and investments

Securities and investments consisting of listed shares and bonds are measured at fair value (market price) at the balance sheet date.

##### Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.



## Financial statements for the period 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

#### Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

#### Securities and investments

Securities and investments consisting in listed shares and bonds are measured at fair value (market price) at the balance sheet date. Investments not admitted to trading on an active market are measured at cost.

#### Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax.

#### Liabilities

Other liabilities are measured at net realisable value.

#### 2 Going concern uncertainties

In 2016, the Company realised a loss of DKK 20.9 million and at 31 December 2016, equity was negative by DKK 26.1 million. The loss for 2016 is impacted by a loss of DKK 10.4 million deriving from the Company's operations in the US.

The operations in the US are carried out through the fully-owned subsidiary CensorNet Inc. and the operations are financed through an inter group service agreement between the entities, under which CensorNet A/S covers the costs incurred by CensorNet Inc.

During 2016, significant investments have been made to increase headcount in all functional areas across Europe and Australia and to expand the operations in the US.

For 2017, the budget prepared by Management shows a loss of DKK 18.4 million. The budget is based on an expected growth in sales of 58% and a continued investment in the US operations. The continued investment in the US operations is expected to result in a loss of DKK 20.3 million in 2017, which is included in the expected loss of DKK 18.4 million.

## Financial statements for the period 1 January - 31 December

### Notes to the financial statements

The revenue growth forecast is subject to uncertainty, however, based on the significant investments made in 2016 and the opportunity to cross sell the UK parent company's products into CensorNet A/S' customer base, Management believes the growth forecast is achievable. The opportunity for cross selling was one of the key rationales underlying the acquisition of CensorNet A/S in 2016.

The expected loss for 2017 of DKK 18.4 million is negatively impacted by deferred revenue of DKK 19.9 million. The cash flow projection for 2017 show a positive cash flow of DKK 1,5 million. This includes a negative cash flow from the US operations of DKK 9.7 million.

If growth is not achieved, it is possible to adjust or terminate the US operations. The investment in the US operations is a strategic decision made by Management which is under continuous review. The US operations comprise primarily sales and marketing and could, if the decision was made, be terminated within one month. Without the US operations, the Company would not be loss making in 2017 and would generate a positive cash flow in 2017.

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 in 2017 can be achieved at a moderate growth in sales.

On this basis, the financial statements for 2016 for CensorNet A/S have been prepared on a going concern basis.

DKK'000	2016	2015
<b>3 Staff costs</b>		
Wages/salaries	30,941	28,074
Pensions	2,137	1,777
Other social security costs	957	504
Other staff costs	2,207	2,165
	<u>36,242</u>	<u>32,520</u>
<b>4 Financial income</b>		
Interest receivable, group entities	47	42
Other interest income	145	652
Exchange adjustments	212	53
Gain on the sale of financial instruments	0	257
	<u>404</u>	<u>1,004</u>
<b>5 Financial expenses</b>		
Loss on amounts owed by group entities	0	530
Interest expenses, group entities	0	18
Other interest expenses	6	2
Loss on the sale of financial instruments	422	0
Other financial expenses	144	220
	<u>572</u>	<u>770</u>



## Financial statements for the period 1 January - 31 December

### Notes to the financial statements

#### 6 Tax for the year

Estimated tax charge for the year	-987	-1,265
Deferred tax adjustments in the year	-65	83
	<u>-1,052</u>	<u>-1,182</u>

#### 7 Intangible assets

DKK'000	Acquired intangible assets
Cost at 1 January 2016	1,207
Cost at 31 December 2016	1,207
Impairment losses and amortisation at 1 January 2016	256
Amortisation for the year	243
Impairment losses and amortisation at 31 December 2016	499
Carrying amount at 31 December 2016	<u>708</u>

#### 8 Property, plant and equipment

DKK'000	Fixtures and fittings, other plant and equipment	Leasehold improvements	Total
Cost at 1 January 2016	2,137	515	2,652
Additions	73	0	73
Disposals	-501	0	-501
Cost at 31 December 2016	1,709	515	2,224
Value adjustments at 1 January 2016	0	0	0
Value adjustments at 31 December 2016	0	0	0
Impairment losses and depreciation at 1 January 2016	1,652	338	1,990
Depreciation	146	87	233
Depreciation and impairment of disposals	-290	0	-290
Impairment losses and depreciation at 31 December 2016	1,508	425	1,933
Carrying amount at 31 December 2016	<u>201</u>	<u>90</u>	<u>291</u>

#### 9 Investments

Name	Legal form	Domicile	Interest	Equity DKK'000	Profit/loss DKK'000
<b>Subsidiaries</b>					
CensorNet Inc	Corporation	US	100.00 %	452	117

#### 10 Contractual obligations and contingencies, etc.



## Financial statements for the period 1 January - 31 December

### Notes to the financial statements

#### Contingent liabilities

The Company participates in a Danish joint taxation arrangement in which Mousquetaires Holding ApS serves as the management company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable for income taxes etc. for the jointly taxed entities and any other tax obligations relating to the withholding of tax on interest, royalties and dividend for the jointly taxed entities.

#### Other financial obligations

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 DKK 254 thousand.

The Company has entered into operating as well as financial leases concerning leasing of cars, etc. The total lease obligation amounted to DKK 150 thousand at 31 December 2016.

#### 11 Collateral

The Company has issued an all-money mortgage of DKK 1,600 thousand providing company charge in simple claims, completely new vehicles, operating fixtures and equipment as well as intangible rights as security for bank debt.

#### 12 Related parties

##### Information about consolidated financial statements

###### Parent

Censornet Limited  
Mousquetaires Holding ApS

###### Domicile

Reading, UK  
Brøndby, Denmark