

DENCRYPT A/S
ARNOLD NIELSENS BOULEVARD 72 - 74, 2650 HVIDOVRE
ANNUAL REPORT
1. JANUAR - 31. DECEMBER 2019

The Annual Report has been presented and
adopted at the Company's Annual General
Meeting on 15 April 2020

Jørgen Abild Andersen

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COMPANY DETAILS

Company	Dencrypt A/S Arnold Nielsens Boulevard 72 - 74 2650 Hvidovre
	CVR no.: 25 69 89 08
	Established: 20 December 2013
	Registered Office: Hvidovre
	Financial Year: 1 January - 31 December
Board of Directors	Kaj Juul-Pedersen, Chairman Thor Jespersen, Vice Chairman Lars Ramkilde Knudsen Jan Dinesen Jørgen Christian Abild Andersen
Board of Executives	Hans Kristian Hasselby-Andersen CEO Søren Sennels
Auditor	ERNST & YOUNG GODKENDT REVISIONSPARTNERSELSKAB Dirch Passers Allé 36, Postboks 250 2000 Frederiksberg
Bank	Nykredit Bank

STATEMENT BY BOARD OF DIRECTORS AND BOARD OF EXECUTIVES

Today the Board of Directors and Board of Executives have discussed and approved the Annual Report of Dencrypt A/S for the year 1 January - 31 December 2019.

The Annual Report is presented in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the the Company's financial position at 31 December 2019 and of the results of the the Company's operations for the financial year 1 January - 31 December 2019.

The Management's Review includes in our opinion a fair presentation of the matters dealt with in the review.

We recommend the Annual Report be approved at the Annual General Meeting.

Hvidovre, den 15. april 2020

Board of Executives

_____ Hans Kristian Hasselby-Andersen CEO	_____ Søren Sennels
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Board of Directors

Kaj Juul-Pedersen
Chairman

Thor Jespersen
Vice Chairman

Lars Ramkilde Knudsen

Jan Dinesen

Jørgen Christian Abild Andersen

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Dencrypt A/S

Opinion

We have audited the Financial Statements of Dencrypt A/S for the financial year 1 January - 31 December 2019, which comprise income statement, balance sheet, notes and a summary of significant 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 assets, liabilities and financial position of the Company at 31 December 2019 and of the results of the Company operations for the financial year 1 January - 31 December 2019 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 requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility 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 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 these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment 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 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 Financial Statements, including the 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 Management's Review.

Our opinion on the Financial Statements does not cover 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 Management's Review and, in doing so, consider whether 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 Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of Management's Review.

Copenhagen, 15 April 2020

ERNST & YOUNG GODKENDT REVISIONSPARTNERSELSKAB
CVR-nr. 30700228

Mogens Andreasen
State Authorised Public Accountant
MNE-nr. 28603

MANAGEMENT'S REVIEW

Principal activities

Dencrypt A/S develops and delivers secure communication solutions based on the principle of dynamic encryption.

Dencrypt's encrypted mobile communications solutions combine ease of use with advanced encryption technology and provide effective protection against espionage and eavesdropping. The products target governmental and defence organisations, public authorities, private companies and others for whom it is essential to protect confidential information, critical technology, and correspondence with trusted clients or partners.

Dencrypt also delivers encryption technology for integration into 3rd party products.

Dencrypt has offices in Copenhagen and Aalborg.

Dencrypt holds memberships of the trade associations Danish Business Association (DI Digital, DI FAD), CenSec, Naval Team Denmark and The Danish ICT Industry Association (IT-Branchen), where the company has representation in the IT security council.

Development in activities and financial position

During the year the company has delivered encryption technology for classified information to the Danish Ministry of Defense. Further, solutions for secure mobile communication have been delivered to international customers. This includes cloud-based as well as enterprise solutions with associated license and service level agreements.

The result for the year shows a net income of 5,9 MDKK. The result has been affected by a shift of some orders from 2018 to 2019.

Sales and Marketing

Dencrypt has increased its sales and marketing activities. Focus has been on further developing export markets as well as expanding the business in Denmark. The company has secured new orders on this basis.

The company maintains a strong focus on lead generation internationally and has significantly increased its participation in conferences and trade shows.

Development

Dencrypt has focused its development activities on extending and improving the Dencrypt Communication Solution product platform. Further, the company has developed and delivered custom cryptographic products for specific customers. Development resources have been added during the year to support these activities.

The company maintains close relations and collaboration with the Technical University of Denmark (DTU) within the area of cryptology. Dencrypt and DTU have entered into a joint project to develop methods and technology for future cryptographic products and solutions.

Dencrypt has further sought protection of its core technology through filing of new patent applications.

Significant events after the end of the financial year

The outbreak and spread of COVID-19 at the beginning of 2020 has not yet had a significant impact on the company's business situation, but it does, however, cause uncertainty as to the level of activity in 2020 and the company's 2020 goals may be affected. The impact from COVID-19 is not incorporated in the outlook for 2020. The situation is closely monitored.

No events other than the mentioned have occurred after the end of the year, which may affect the financial statements.

INCOME STATEMENT 1 JANUARY - 31 DECEMBER

	Note	2019 DKK	2018 DKK
GROSS PROFIT.....		17.273.104	4.056.399
Staff costs.....	1	-6.306.609	-3.570.514
Depreciation, amortisation and impairment.....		-3.064.540	-2.613.615
OPERATING PROFIT.....		7.901.955	-2.127.730
Other financial expenses.....		-286.104	-276.107
PROFIT BEFORE TAX.....		7.615.851	-2.403.837
Tax on profit/loss for the year.....	2	-1.754.513	528.528
PROFIT FOR THE YEAR.....		5.861.338	-1.875.309
PROPOSED DISTRIBUTION OF PROFIT			
Accumulated profit.....		5.861.338	-1.875.309
TOTAL.....		5.861.338	-1.875.309

BALANCE SHEET AT 31 DECEMBER

ASSETS	Note	2019 DKK	2018 DKK
Development projects completed.....		5.917.840	6.284.747
Development projects in progress and prepayments.....		4.699.745	3.533.864
Intangible fixed assets.....	3	10.617.585	9.818.611
Other plants, machinery, tools and equipment.....		179.220	249.016
Tangible fixed assets.....	4	179.220	249.016
Rent deposit and other receivables.....		185.596	185.596
Fixed asset investments.....	5	185.596	185.596
FIXED ASSETS.....		10.982.401	10.253.223
Trade receivables.....		6.426.394	4.115.201
Contract work in progress.....		2.927.637	1.687.384
Other receivables.....		2.387	154.918
Receivables corporation tax.....		0	749.528
Prepayments and accrued income.....		169.842	51.976
Receivables.....		9.526.260	6.759.007
Cash and cash equivalents.....		7.104.594	2.132.882
CURRENT ASSETS.....		16.630.854	8.891.889
ASSETS.....		27.613.255	19.145.112

BALANCE SHEET AT 31 DECEMBER

EQUITY AND LIABILITIES	Note	2019 DKK	2018 DKK
Share capital.....		764.280	764.280
Transfer to reserve for development costs.....		7.880.872	6.350.656
Retained profit.....		6.658.011	2.326.889
EQUITY.....	6	15.303.163	9.441.825
Provision for deferred tax.....		2.572.000	1.796.000
PROVISION FOR LIABILITIES.....		2.572.000	1.796.000
Mortgage debt.....		2.612.218	2.971.778
Other liabilities.....		250.311	0
Long-term liabilities.....	7	2.862.529	2.971.778
Short-term portion of long-term liabilities.....	7	779.680	390.000
Trade payables.....		326.873	503.996
Corporation tax.....		941.406	0
Other liabilities.....		4.575.122	1.289.525
Accruals and deferred income.....		252.482	2.751.988
Current liabilities.....		6.875.563	4.935.509
LIABILITIES.....		9.738.092	7.907.287
EQUITY AND LIABILITIES.....		27.613.255	19.145.112
 Contingencies etc.	 8		
Charges and securities	9		

NOTES

	2019 DKK	2018 DKK	Note
Staff costs			1
Average number of employees 13 (2018: 10)			
Wages and salaries.....	5.983.202	3.378.987	
Pensions.....	80.374	37.602	
Social security costs.....	48.784	37.904	
Other staff costs.....	194.249	116.021	
	6.306.609	3.570.514	
Tax on profit/loss for the year			2
Calculated tax on taxable income of the year.....	978.513	-749.528	
Adjustment of deferred tax.....	776.000	221.000	
	1.754.513	-528.528	
Intangible fixed assets			3
	Development projects completed	Development projects in progress and prepayments	
Cost at 1 January 2019.....	12.519.076	3.533.864	
Transfer.....	2.103.864	-2.103.864	
Additions.....	466.210	3.269.745	
Cost at 31 December 2019.....	15.089.150	4.699.745	
Amortisation at 1 January 2019.....	6.234.330	0	
Depreciation for the year.....	2.936.980	0	
Depreciation at 31 December 2019.....	9.171.310	0	
Carrying amount at 31 December 2019.....	5.917.840	4.699.745	
Projects completed include the products Dencrypt Message v1 for iOS and Android platforms. The product is fully developed and is depreciated over a 5 year period. The management do not see a need for impairments.			

NOTES

				Note
Tangible fixed assets				4
			Other plants, machinery, tools and equipment	
Cost at 1 January 2019.....			533.387	
Additions.....			57.764	
Cost at 31 December 2019.....			591.151	
Depreciation and write-down at 1 January 2019.....			284.371	
Depreciation for the year.....			127.560	
Depreciation and write-down at 31 December 2019.....			411.931	
Carrying amount at 31 December 2019.....			179.220	
Fixed asset investments				5
			Rent deposit and other receivables	
Cost at 1 January 2019.....			185.596	
Cost at 31 December 2019.....			185.596	
Carrying amount at 31 December 2019.....			185.596	
Equity				6
	Share capital	Transfer to reserve for development costs	Retained profit	Total
Equity at 1 January 2019.....	764.280	6.350.656	2.326.889	9.441.825
Proposed distribution of profit.....			5.861.338	5.861.338
Transfer to reserve for development costs...		1.530.216	-1.530.216	
Equity at 31 December 2019.....	764.280	7.880.872	6.658.011	15.303.163
Long-term liabilities				7
	1/1 2019 total liabilities	31/12 2019 total liabilities	Repayment next year	Debt outstanding after 5 years
Mortgage debt.....	3.361.778	3.391.898	779.680	285.200
Other liabilities.....	0	250.311	0	0
	3.361.778	3.642.209	779.680	285.200

NOTES

	Note
Contingencies etc.	8
The company has entered into lease rental property, which can be terminated by 3 and 12 months notice. The Company has rental commitments for a total of DKK 403 thousand on the current lease rental property.	
Charges and securities	9
To secure debt to Nordjysk Lånefond, DKK 2,517 thousand, the company has provided a company mortgage of DKK 1,950 thousand.	
For the security of the payment guarantee from Nykredit, the company has provided a corporate mortgage of DKK 3,902 thousand.	
To secure debt to Nykredit, DKK 875 thousand, the company has provided a corporate mortgage of DKK 1,000 thousand.	

ACCOUNTING POLICIES

The annual report of Dencrypt A/S for 2019 has been presented in accordance with the provisions of the Danish Financial Statements Act for enterprises in reporting class B with opt-in from higher reporting classes.

The Annual Report is prepared consistently with the accounting principles used last year.

INCOME STATEMENT

Net revenue

Net revenue from sale of service contracts and license subscriptions is recognised in the Income Statement if supply and risk transfer to purchaser has taken place before the end of the year and if the income can be measured reliably and is expected to be received. Net revenue is recognised exclusive of VAT, duties and less discounts related to the sale.

Cost of sales

Cost of sales comprise costs incurred to achieve the net revenue for the year, including royalty, commission of agent agreements and external license.

Other external expenses

Other external expenses include cost of sales, advertising, administration, buildings, bad debts, operational lease expenses, etc.

Staff costs

Staff costs comprise wages and salaries, including holiday pay and pensions and other costs for social security etc. for the company's employees. Repayments from public authorities are deducted from staff costs.

Financial income and expenses in general

Financial income and expenses include interest income and expenses, financial expenses of finance leases, realised and unrealised gains and losses arising from investments in financial assets, debt and transactions in foreign currencies, amortisation of financial assets and liabilities as well as charges and allowances under the tax-on-account scheme etc. Financial income and expenses are recognised in the income statement by the amounts that relate to the financial year.

Tax on profit for the year

The tax for the year, which consists of the current tax for the year and changes in deferred tax, is recognised in the income statement by the portion that may be attributed to the profit for the year, and is recognised directly in the equity by the portion that may be attributed to entries directly to the equity.

BALANCE SHEET

Intangible fixed assets

Development costs comprise costs, including wages and salaries, and amortisation, which directly or indirectly can be related to the company's development activities and which fulfil the criteria for recognition.

Capitalised development costs are measured at the lower of cost less accumulated amortisation or recoverable amount.

Capitalised development costs are amortised on a straight-line basis over the estimated useful life after completion of the development work. The amortisation period is 5 years.

Intangible fixed assets are generally written down to the lower of recoverable value and carrying amount.

ACCOUNTING POLICIES

Profit or loss from sale of intangible fixed assets is calculated at the difference between the sales price and the carrying amount at the time of the sale. Profit and loss are recognised in the Income Statement under other operating income or other operating expenses.

Tangible fixed assets

Other plants, fixtures and equipment are measured at cost less accumulated depreciation and write-down.

The depreciation base is cost less estimated residual value after end of useful life.

The cost includes the acquisition price and costs incurred directly in connection with the acquisition until the time when the asset is ready to be used. As regards self-manufactured assets, the cost price includes cost of materials, components, subcontractors, direct payroll and indirect production costs.

Straight-line depreciation is provided on the basis of an assessment of the expected useful lives of the assets and their residual value:

	Useful life	Residual value
Other plants, fixtures and equipment.....	2-5 years	0 %

Profit or loss on disposal of tangible fixed assets is stated as the difference between the sales price less selling costs and the carrying amount at the time of sale. Profit or loss is recognised in the income statement as other operating income or other operating expenses.

Fixed asset investments

Deposits include rental deposits which are recognised and measured at amortised cost. Deposits are not depreciated.

Impairment of fixed assets

The carrying amount of intangible and tangible fixed assets together with investments, which are not measured at fair value, are valued on an annual basis for indications of impairment other than that reflected by amortisation and depreciation.

In the event of impairment indications, an impairment test is made for each asset or group of assets, respectively. If the net realisable value is lower than the carrying amount, write-down is provided to the lower value.

The recoverable amount is calculated at the higher of net selling price and capital value. The capital value is determined as the fair value of the expected net cash flows from the use of the asset or group of assets and the expected net cash flows from sale of the asset or group of assets after the end of its useful life.

Receivables

Receivables are measured at amortised cost which usually corresponds to nominal value. The value is reduced by write-down to meet expected losses.

Contract work in progress

Work in progress on contract is measured at the sales value of the work performed. The sales value is measured on the basis of the degree of completion on the balance sheet date and the total anticipated revenue related to the specific piece of work in progress.

Accruals, assets

Accruals recognised as assets include costs incurred relating to the subsequent financial year.

ACCOUNTING POLICIES

Tax payable and deferred tax

Current tax liabilities and receivable current tax are recognised in the balance sheet as the calculated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and taxes paid on account.

Deferred tax is measured on the temporary differences between the carrying amount and the tax value of assets and liabilities.

Deferred tax assets, including the tax value of tax loss carry-forwards, are measured at the expected realisable value of the asset, either by set-off against tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that under the legislation in force on the balance sheet date would be applicable when the deferred tax is expected to crystallise as current tax. Any changes in the deferred tax resulting from changes in tax rates, are recognised in the income statement, except from items recognised directly in equity.

Liabilities

Financial liabilities are recognised at the time of borrowing by the amount of proceeds received less borrowing costs. In subsequent periods, the financial liabilities are measured at amortised cost equal to the capitalised value when using the effective interest, the difference between the proceeds and the nominal value being recognised in the income statement over the term of loan.

Accruals, liabilities

Accruals recognised as liabilities include payments received regarding income in subsequent years.