

CARDLAB ApS

Hørkær 14C, 1.

2730 Herlev

CVR no. 29 31 77 04

Annual report for 2021

(16th Financial year)

Adopted at the annual general meeting on
30 June 2022

Katrine Bjarni
chairman

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Statement by management on the annual report

The supervisory board and Managing Director have today discussed and approved the annual report of CARDLAB ApS for the financial year 1 January - 31 December 2021.

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 company's financial position at 31 December 2021 and of the results of the company's operations for the financial year 1 January - 31 December 2021.

In our opinion, management's review includes a fair review of the matters dealt with in the management's review.

Management recommends that the annual report should be approved by the company in general meeting.

Herlev, 30 June 2022

Managing Director

Frank Sandeløv
Managing Director

Supervisory board

Kim Wagner Jørgensen
chairman

Steen L. Hørdum

Søren Bruun Pedersen

Susan Ponthus Jackson

Independent auditor's report

To the shareholder of CARDLAB ApS

Opinion

We have audited the financial statements of CARDLAB ApS for the financial year 1 January - 31 December 2021, which comprise a summary of significant accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared under the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2021 and of the results of the company's operations for the financial year 1 January - 31 December 2021 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 and IESBA Code. 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

We wish to note that the Company's ability to continue as a going concern is associated with material uncertainty. We refer to note 7 in the financial statements, which reflects uncertainty as to whether binding commitments will be entered into for the financing of Cardlab Innovation ApS operations and the necessary investments in the coming years. However, as Management believes that such commitments will be entered into, the financial statements have been prepared on a going concern basis. We have not modified our opinion in respect of this matter.

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 the 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.

Independent auditor's report

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 these 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 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 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.

Independent auditor's report

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.

Frederiksberg, 30 June 2022

Revisionsfirmaet Albrechtsen
Statsautoriseret Revisionsaktieselskab
CVR no. 77 92 64 10

Bjarne Albrechtsen
statsautoriseret revisor
MNE no. mne12177

Company details

The company

CARDLAB ApS
Hørkær 14C, 1.
2730 Herlev

CVR no.: 29 31 77 04

Reporting period: 1 January - 31 December 2021

Domicile: Herlev

Supervisory board

Kim Wagner Jørgensen, chairman
Steen L. Hørdum
Søren Bruun Pedersen
Susan Ponthus Jackson

Managing Director

Frank Sandeløv

Auditors

Revisionsfirmaet Albrechtsen
Statsautoriseret Revisionsaktieselskab
Lindevangs Allé 4
2000 Frederiksberg

Management's review

Business review

The company's aim is to make investments and to hold investments in companies within trade and industry, including by ownership of patents and other intellectual property rights for the commercial exploitation, and any other related activities.

Significant events occurring after the end of the financial year

After the end of the financial year, the company have still experienced a considerable uncertainty around some customer's ability to complete their projects due to Covid-19 pandemic lockdown of significant parts of the world, causing uncertainty among both suppliers and customers and long delays on component supply. The company expect it still will be negatively affected in 2022, but increased customer projects and demand for CardLab standard biometric card products is expected to cause a strong increase in the Company's card production as soon as the component situation normalizes in the expected timeframe late 2022/ early 2023.

Development in activities and financial status

The company has in 2021 finalized moving production outside China and invested further in specialized production capacity in the subsidiary CardLab Thailand, where the turnover in 2021 in addition to development projects for CardLab Innovation customers also consisted of card production for other customers by the lamination factory in Thailand.

The company's activities are focused on application of new patents, maintenance and expansion of the patent portfolio, as well as coordination of group activities to support the planned development, production and sales activities in the subsidiary with the desired profitability and consistency of supply. CardLabs revenue base is henceforth royalties from clients based on the company's patents.

The funding process started in 2021 was ongoing at the end of the year with a signed term sheet but not yet having reached the closing stage. The process is still supported by a reputable international investment banker.

The subsidiary company CardLab Innovation has maintained the focus on the biometric area with new biometric card customer projects and starting sale of the standard biometric to the extent customer meetings have been possible due to the Covid-19 related restrictions and inflicted delays on component deliveries. The biometric card focus is by the management still considered a safe road to stable growth, as we during 2021 have seen a steady and significant increase in customer interest for convenient, hygienic high security solutions for access, ID, Crypto and other areas.

Net profit of the company's earnings in 2021 showed a deficit of 2.261.815 tkr

Management's review

Future expectations

With reduced restrictions caused by the Covid-19 pandemic, the Companies technologies are expected to reach a higher commercial level during 2022, where a start of numerous customer pilots are agreed, followed by a volume based commercial breakthrough in 2023.

Liquidity and cash reserves

In 2021 CardLab received further capital injection from the existing investors. To start ramp up of production, based on the expected increase in sales volume in late 2022, a further capital injection is needed to be able to execute this production ramp up.

This capital increase is supported by the present shareholder and the new investment round launched in 2021 with a reputable international investment banker has attracted more investors and groups of investors, with term sheets submitted and now under consideration and negotiation to create the additional financial foundation for accelerating the company growth and production capacity.

As part of the investment negotiations a US subsidiary "CardLab Security Solutions Inc." was established for later expansion in support of the US market.

Income statement 1 January - 31 December

	Note	2021 DKK	2020 DKK
Gross profit		-1.066.610	-802.149
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	<u>-430.951</u>	<u>-3.777.477</u>
Profit/loss before net financials		-1.497.561	-4.579.626
Financial income	3	0	192.693
Financial costs	4	<u>-769.682</u>	<u>-582.514</u>
Profit/loss before tax		-2.267.243	-4.969.447
Tax on profit/loss for the year		<u>5.428</u>	<u>0</u>
Profit/loss for the year		<u>-2.261.815</u>	<u>-4.969.447</u>
Retained earnings		<u>-2.261.815</u>	<u>-4.969.447</u>
		<u>-2.261.815</u>	<u>-4.969.447</u>

Balance sheet 31 December

	<u>Note</u>	<u>2021</u> DKK	<u>2020</u> DKK
Assets			
Acquired patents		6.249.420	6.347.566
Intangible assets	5	<u>6.249.420</u>	<u>6.347.566</u>
Investments in subsidiaries		55.428.283	55.428.283
Deposits		15.554	15.554
Fixed asset investments		<u>55.443.837</u>	<u>55.443.837</u>
Total non-current assets		<u>61.693.257</u>	<u>61.791.403</u>
Receivables from subsidiaries		5.227.538	3.509.254
Other receivables		51.214	77.759
Corporation tax		289.961	289.962
Joint taxation contributions receivable		5.428	0
Prepayments		2.260	0
Receivables		<u>5.576.401</u>	<u>3.876.975</u>
Cash at bank and in hand		<u>326</u>	<u>117.782</u>
Total current assets		<u>5.576.727</u>	<u>3.994.757</u>
Total assets		<u><u>67.269.984</u></u>	<u><u>65.786.160</u></u>

Balance sheet 31 December

	Note	2021 DKK	2020 DKK
Equity and liabilities			
Share capital		6.717.943	6.717.943
Retained earnings		<u>29.415.767</u>	<u>31.677.582</u>
Equity		<u>36.133.710</u>	<u>38.395.525</u>
Financiell institute debts		2.779.080	2.738.691
Other credit institutions		21.492.507	21.192.272
Trade payables		0	689.256
Payables to subsidiaries		<u>4.919.119</u>	<u>1.534.530</u>
Total non-current liabilities	6	<u>29.190.706</u>	<u>26.154.749</u>
Trade payables		1.795.587	1.055.697
Other payables		<u>149.981</u>	<u>180.189</u>
Total current liabilities		<u>1.945.568</u>	<u>1.235.886</u>
Total liabilities		<u>31.136.274</u>	<u>27.390.635</u>
Total equity and liabilities		<u>67.269.984</u>	<u>65.786.160</u>
Uncertainties concerning recognition and measurement, Cash and capital resources	7		
Contingent liabilities	8		

Statement of changes in equity

	<u>Share capital</u>	<u>Retained ear- nings</u>	<u>Total</u>
Equity at 1 January 2021	6.717.943	31.677.582	38.395.525
Net profit/loss for the year	<u>0</u>	<u>-2.261.815</u>	<u>-2.261.815</u>
Equity at 31 December 2021	<u>6.717.943</u>	<u>29.415.767</u>	<u>36.133.710</u>

Accounting policies

The annual report of CARDLAB ApS for 2021 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B and the Accounting Standard on small enterprises, as well as provisions applying to reporting class C entities.

The accounting policies applied are consistent with those of last year.

The annual report for 2021 is presented in DKK

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any installments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

Income statement

Gross profit

In pursuance of section 32 of the Danish Financial Statements Act, the company does not disclose its revenue.

Gross profit reflects an aggregation of revenue, changes in inventories of finished goods and work in progress and other operating income less costs of raw materials and consumables and other external expenses.

Accounting policies

Other external expenses

Other external expenses include expenses related to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise the year's amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that relate to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities, liabilities and foreign currency transactions, amortisation of financial assets and liabilities and surcharges and allowances under the Danish Tax Prepayment Scheme, etc.

Tax on profit/loss for the year

The company is subject to the Danish rules on compulsory joint taxation of the Group's Danish subsidiaries. Subsidiaries participate in the joint taxation arrangement from the time when they are included in the consolidated financial statements and until the time when they withdraw from the consolidation.

On payment of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use tax losses to reduce their own taxable profits.

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Intangible assets

Patents

Development costs comprise costs, wages/salaries and amortisation losses that are directly and indirectly attributable to the company's development activities.

Development projects recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Following the completion of the development work, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually ten years.

Accounting policies

Patents are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining patent period.

Gains and losses on the disposal of patents are determined as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating expenses, respectively.

Investments in subsidiaries, associates and participating interests

Investment in subsidiaries, associates and participating interests are measured at cost. If cost exceeds the recoverable amount, a write-down is made to this lower value.

Impairment of fixed assets

The carrying amount of intangible assets, items of property, plant and equipment and investments in subsidiaries, associates and participating interests is tested annually for impairment, other than what is reflected through normal amortisation and depreciation.

Receivables

Receivables are measured at amortised cost.

Prepayments

Prepayments recognised under 'Current assets' comprises expenses incurred concerning subsequent financial years.

Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits at banks.

Income tax and deferred tax

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

The company and all its Danish group entities are taxed on a joint basis. The current income tax charge is allocated between the jointly taxed entities relative to their taxable income. Tax losses are allocated based on the full absorption method. The jointly taxed entities are eligible for the Danish Tax Prepayment Scheme.

Liabilities

Financial liabilities are recognised on the raising of the loan at the proceeds received net of transaction costs incurred. On subsequent recognition, the financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest method. Accordingly, the difference between the net proceeds and the nominal value is recognised in the income statement over the term of the loan.

Accounting policies

Financial liabilities also include the capitalised residual finance lease commitment.

Other liabilities, which include trade payables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses. If foreign currency instruments are considered cash flow hedges, any unrealised value adjustments are taken directly to a fair value reserve under 'Equity'.

Notes

	<u>2021</u> DKK	<u>2020</u> DKK
1 Staff costs		
Average number of employees	<u>0</u>	<u>0</u>
2 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Depreciation intangible assets	430.951	782.383
Impairment intangible assets	<u>0</u>	<u>2.995.094</u>
	<u>430.951</u>	<u>3.777.477</u>
	<u>2021</u> DKK	<u>2020</u> DKK
3 Financial income		
Interest received from subsidiaries	0	134.971
Exchange adjustments	<u>0</u>	<u>57.722</u>
	<u>0</u>	<u>192.693</u>
	<u>2021</u> DKK	<u>2020</u> DKK
4 Financial costs		
Other financial costs	761.996	578.997
Exchange adjustments costs	2.846	3.517
Exchange loss	<u>4.840</u>	<u>0</u>
	<u>769.682</u>	<u>582.514</u>

Notes**5 Intangible assets**

	<u>Acquired pa- tents</u>
Cost at 1 January 2021	17.440.124
Additions for the year	<u>332.804</u>
Cost at 31 December 2021	<u>17.772.928</u>
Revaluations at 31 December 2021	<u>0</u>
Impairment losses and amortisation at 1 January 2021	11.092.557
Amortisation for the year	<u>430.951</u>
Impairment losses and amortisation at 31 December 2021	<u>11.523.508</u>
Carrying amount at 31 December 2021	<u><u>6.249.420</u></u>

Notes

6 Long term debt

	<u>2021</u>	<u>2020</u>
	DKK	DKK
Financial institute debts		
Between 1 and 5 years	<u>2.779.080</u>	<u>2.738.691</u>
Non-current portion	2.779.080	2.738.691
Within 1 year	<u>0</u>	<u>0</u>
Current portion	<u>0</u>	<u>0</u>
	<u>2.779.080</u>	<u>2.738.691</u>
Other credit institutions		
Between 1 and 5 years	<u>21.492.507</u>	<u>21.192.272</u>
Non-current portion	21.492.507	21.192.272
Within 1 year	<u>0</u>	<u>0</u>
Current portion	<u>0</u>	<u>0</u>
	<u>21.492.507</u>	<u>21.192.272</u>
Trade payables		
Between 1 and 5 years	<u>0</u>	<u>689.256</u>
Non-current portion	0	689.256
Other short-term trade payables	<u>1.795.587</u>	<u>1.055.697</u>
Current portion	<u>1.795.587</u>	<u>1.055.697</u>
	<u>1.795.587</u>	<u>1.744.953</u>
Payables to subsidiaries		
Between 1 and 5 years	<u>4.919.119</u>	<u>1.534.530</u>
Non-current portion	4.919.119	1.534.530
Within 1 year	<u>0</u>	<u>0</u>
Current portion	<u>0</u>	<u>0</u>
	<u>4.919.119</u>	<u>1.534.530</u>

Notes

7 Uncertainties concerning recognition and measurement, Cash and capital resources

Investment in development activities is in nature related with risk, and the assessment of the investments made is therefore related with some uncertainty.

It is Management's assessment that investment in equity in group enterprises, intangible assets and amounts owed by group enterprises as a minimum have a value corresponding to the value accounted for in the financial statements.

The intangible assets, equity investments in equity in group enterprise and amounts owed by group enterprises are related with some uncertainty, as it is a prerequisite for these assets that the company can increase its earnings considerably.

Notes

8 Contingent liabilities

Charges and security

For bank loans, DKK 4.800 thousand, the company has provided security in company assets representing a nominal value of DKK 2.400 thousand. This security comprises the assets below, stating the carrying amounts:

Acquired concensions, patents, licenses, trademarks and similar rights
DKK 6.249 thousand

Joint taxation

With Memetech A/S, company reg. no 24208788 as administration company, the company is subject to the Danish scheme of joint taxation and is proportionally liable for tax claims within the joint taxation scheme.

The company is proportionally liable for any obligations to withhold tax on interest, royalties, and dividends of the jointly taxed companies.

The liabilities amount to a maximum amount corresponding to the share of the company capital, which is owned directly or indirectly by the ultimate parent company.

Any subsequent adjustments of corporate taxes or withholding tax, etc., may result in changes in the company's liabilities.