Sky-Watch A/S

Østre Alle 6, 9530 Støvring

CVR no. 32 65 38 47

Annual report 2016

Approved at the annual general meeting of shareholders on 6 April 2017

Chairman:

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Building a better working world

Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Sky-Watch 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 Company's financial position 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.

Støvring, 23 March 2017
Executive Board:

Henrik Bender Bendixen

Board of Directors:

Per-Erik Edvard Svehag Chairman	Søren Pedersen	Niels Jesper Jespersen Jensen

Independent auditors' report

To the shareholders of Sky-Watch A/S

Opinion

We have audited the financial statements of Sky-Watch 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 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 financial position of the Company at 31 December 2016, and of the results of the Company 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 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 auditors' 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 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.

Aalborg, 23 March 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Allan Terp
State Authorised Public Accountant

Management's review

Company details

Name	Sky-Watch A/S
Address, Postal code, City	Østre Alle 6, 9530 Støvring
CVR no.	32 65 38 47
Established	1 September 2009
Registered office	Aalborg
Financial year	1 January - 31 December
Board of Directors	Per-Erik Edvard Svehag, Chairman Søren Pedersen Niels Jesper Jespersen Jensen
Executive Board	Henrik Bender Bendixen
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Vestre Havnepromenade 1A, P.O. Box 710, 9100 Aalborg, Denmark
Bankers	Nordea

Management's review

Management commentary

Business review

The purpose of the Company is to develop and commercialize highly specialized UAS (Unmanned Aerial Systems) solutions for professional users who have a demand for high quality solutions. Our solutions apply the latest state-of-the art technologies within autonomy, data collection and data processing and are designed to be mobile and user-friendly.

In addition to its development & production of UAS, Sky-Watch A/S has an engineering department Sky-Watch Labs. Sky-Watch Labs develops the future UAS products and integration solutions in collaboration with several world leading companies.

In January 2016 Sky-Watch acquired the technology, production machinery and engineering staff of the company Little Smart Things ApS., in chapter 11, which added two new UAS products, Cumulus and Heidrun V1, to our product portfolio and enabling us to offer our loyal customers three highly advanced UAS platforms, Huginn X1 quadcopter, Cumulus fixed wing (mapper) and Heidrun V1 fixed wing (live video).

The acquisition also brought three Sky-Watch Labs engineering projects "BuDrone", "AutoDecent" and "EUDP", bringing our Sky-Watch Labs department up to a total of twelve ongoing co-funded, cutting-edge, technology projects in 2016.

In FY 2016, the company experienced a significant increase in sales of UAS products and in the number of customers. This is mainly due to a market that opens up, a broader product portfolio and the fact that Sky-Watch entered a number of new geographical markets in its continuous efforts to build a worldwide distribution network, today covering Europe, Africa, Asia and USA.

Financial review

The Company incurred a loss after tax of DKK -9,154 thousand in the 2016 financial year, after capitalization of development costs. The result is inferior to the 2016 budget but no surprise to the Management as it is primarily attributable to strategic investments in product development, production facilities, sales activities and strengthening of HR resources.

The Management assesses that the professional UAS market is evolving, still awaiting legislation in some countries. The 2016 product sales turnover reflect the company's expectation to a growing market, the company realizing a product sales turn over growth of 292 %.

The engineering department established a 171 % growth in turn over, and satisfactory increase in funded contributions to the capitalized developments costs. By YE 2016 the engineering department is working on eight Innovation Fund projects, one EU fund project, one BtC and two BtB funded projects. A growth in engineering projects of 100 %. These projects will contribute positively to the Company's operations the coming 2 - 3 years.

In 2016, the shareholders injected in total DKK 10,000 thousand cash as a share capital increase, in order to cover the cumulated 2016-losses and to strengthen the capital, equity and liquidity of the company.

The majority shareholder, Dangroup ApS (a Danish Capital Fund) back up the Company and are assuring that Sky-Watch has sufficient funds to run its activities.

Research and development activities

Capitalized development costs in 2016 relates to new technology to the Huginn X1; Cumulus and Heidrun V1 UAS platforms and to the twelve co-funded engineering projects.

Based on expectations of the technology in the three UAS platforms and in the twelve co-funded engineering projects Management assesses that income from the projects will flow to the Company at least corresponding to the carrying amount of the development project account.

Management's review

Management commentary

Events after the balance sheet date

Apart from disclosures made in the Management's review, no other significant events have occurred after the balance sheet date that affect the financial statements.

Outlook

Management expectations to FY2017:

- Sales of products, the three UAS platforms Huginn X1, Cumulus and Heidrun V1, combined with further user applications will grow product sales revenue with 211 %.
- Market coverage, the company will continue to expand its footprint and find specialized Agents and VAR's worldwide.
- Sky-Watch Labs, will engage in new technology partnerships with strategic partners.
- Positive EBITDA.
- The Average Annual Growth Rate (AAGR) from 2016 to 2020 is forecasted at 148.6 %.

Financial statements for the period 1 January - 31 December

Income statement

Note	DKK'000	2016	2015
	Gross margin	1,806	-2,193
2	Staff costs	-10,453	-7,829
	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-2,613	-2,466
	Profit/loss before net financials	-11,260	-12,488
	Income from investments in group entities	-86	-443
	Financial expenses, group enterprises	-200	-155
	Financial expenses	-159	-190
	Profit/loss before tax	-11,705	-13,276
3	Tax for the year	2,551	2,988
	Profit/loss for the year	-9,154	-10,288

		2016	2015
	Proposed profit appropriation/distribution of loss		
	Other statutory reserves	4,812	0
	Retained earnings/accumulated loss	-13,966	-10,288
		-9,154	-10,288

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2016	2015
	ASSETS		
	Fixed assets		
4	**Intangible assets**		
	Completed development projects	3,363	5,570
	Acquired intangible assets	276	70
	Development projects in progress and prepayments for intangible assets	10,068	2,059
		13,707	7,699
5	**Property, plant and equipment**		
	Plant and machinery	367	240
	Other fixtures and fittings, tools and equipment	275	125
	Leasehold improvements	138	131
		780	496
6	**Investments**		
	Investments in group entities, net asset value	1,922	2,008
		1,922	2,008
	Total fixed assets	16,409	10,203
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	1,928	1,835
		1,928	1,835
	Receivables		
	Trade receivables	146	5
	Receivables from group entities	0	139
9	Deferred tax assets	295	1,200
	Income taxes receivable	3,456	2,779
	Other receivables	1,417	774
	Deferred income	43	129
		5,357	5,026
	Cash at bank and in hand	8	10
	Total non-fixed assets	7,293	6,871
	TOTAL ASSETS	23,702	17,074

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2016	2015
	EQUITY AND LIABILITIES		
	Equity		
7	Share capital	25,562	15,562
	Reserve for development costs	4,812	0
	Retained earnings	-19,438	-5,472
	Total equity	10,936	10,090
	Provisions		
	Other provisions	83	76
	Total provisions	83	76
	Liabilities other than provisions		
8	**Non-current liabilities other than provisions**		
	Other credit institutions	922	1,500
		922	1,500
	Current liabilities other than provisions		
8	Current portion of long-term liabilities	604	614
	Bank debt	1,488	252
	Prepayments received from customers	172	0
	Prepayments on work in progress	1,326	0
	Trade payables	498	274
	Payables to group entities	1,204	1,149
	Other payables	2,241	1,175
	Deferred income	4,228	1,944
		11,761	5,408
	Total liabilities other than provisions	12,683	6,908
	TOTAL EQUITY AND LIABILITIES	23,702	17,074

1 Accounting policies
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	Reserve for development costs	Retained earnings	Total
Equity at 1 January 2016	15,562	0	-5,472	10,090
Capital increase	10,000	0	0	10,000
Profit/loss for the year	0	4,812	-13,966	-9,154
Equity at 31 December 2016	25,562	4,812	-19,438	10,936

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 **Accounting policies**

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

In accordance with §112(1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements. The financial statements of Sky-Watch A/S and subsidiaries are included in the consolidated financial statements of Dangroup ApS.

Effective 1 January 2016, the Company has early adopted act no. 738 of 1 July 2015. This implies changes in the recognition and measurement in the following areas:

- 1. Reserve for development costs

Re 1: An amount corresponding to development costs recognised are in future tied up in a special reserve under equity called "Reserve for development costs". The amount is tied up in a special reserve, which cannot be used to distribute dividend or cover losses. If the development costs recognised are sold or in some other way no longer form part of the Company's operations, the reserve will be dissolved or reduced by a transfer directly to distributable reserves under equity. If the recognised development costs are written down, part of the reserve for development costs must be reversed. The reversed portion corresponds to the write-down of the development costs. If a write-down of the development costs is subsequently reversed, the reserve for development costs must be re-established. The reserve for development costs is also reduced by amortisation charges. In doing so, the equity reserve will not exceed the amount recognised in the balance sheet as development costs.

None of the above changes affects the income statement or the balance sheet for 2016 or the comparative figures.

Apart from the above new and changed presentation and disclosure requirements, which follow from act. no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

Foreign currency translation

Transactions denominated in foreign currencies are translated at 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. Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses. Non-current assets acquired in foreign currencies are measured at the exchange rate at the transaction date.

Income statement

Revenue

Income from the sale of goods and services is recognised in the income statement when delivery and transfer of risk to the buyer have taken place before year end and provided that the income can be reliably measured and is expected to be received. Revenue is measured at the fair value of the agreed consideration ex. VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

Gross margin

The items revenue, cost of sales, other external costs and other operating income have been aggregated into one item called gross profit/loss in accordance with section 32 of the Danish Financial Statements Act.

Other external expenses

Other external costs comprise costs of distribution, sale, advertising, administration, premises, 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/depreciation

The item comprises amortisation/depreciation of intangible assets and property, plant and equipment.

The cost of completed development projects and intellectual property rights acquired is amortised on a straight-line basis over the expected useful life.

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:

Completed development projects	3 - 5 years
Acquired intangible assets	3 - 5 years

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

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

Plant and machinery	5 - 10 years
Other fixtures and fittings, tools and equipment	3 - 8 years
Leasehold improvements	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 and net of amortisation and impairment of goodwill and other excess values at the time of acquisition.

Financial expenses

Financial income and expenses comprise interest income and expense, costs, payables and transactions denominated in foreign currencies as well as surcharges and refunds under the on-account tax scheme, 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 Company and its Danish group entities are jointly taxed. The Danish income tax charge is allocated between profit making and loss making Danish entities in proportion to their taxable income).

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

On initial recognition, intangible assets are measured at cost.

Development costs comprise costs, salaries and amortisation directly or indirectly attributable to the Company's development activities.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities in the Company are evidenced, and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

Development costs that are 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 five years.

Gains and losses on the disposal of development projects are determined as the difference between the selling price less selling costs 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 costs, respectively.

Property, plant and equipment

On initial recognition, property, plant and equipment are measured at cost.

Plant and machinery and fixtures and fittings, other plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The basis of depreciation is based on the residual value of the asset at the end of its useful life and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

Gains and losses on the disposal of property, plant and equipment are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as depreciation.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Investments in subsidiaries

On initial recognition, investments in subsidiaries and associates are measured at cost and subsequently at the proportionate share of the enterprises' net asset values calculated in accordance with the parent company's accounting policies less or plus any residual value of positive or negative goodwill determined in accordance with the acquisition method. Subsidiaries and associates with a negative net asset value are measured at DKK 0 (nil), and any amounts owed by such enterprises 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 enterprise's deficit. Net revaluations of investments in subsidiaries and associates are transferred to the net revaluation reserve according to the equity method in so far as the carrying amount exceeds the acquisition cost.

Enterprises acquired or formed during the year are recognised in the financial statements from the date of acquisition or formation. Enterprises disposed of are recognised up to the date of disposal.

Acquisitions of new subsidiaries and associates are accounted for using the purchase method, according to which the assets and liabilities acquired are measured at their fair values at the date of acquisition. Provision is made for costs related to adopted plans to restructure the acquired enterprise in connection with the acquisition. The tax effect of revaluations made is taken into account.

Impairment of non-current assets

The carrying amount of intangible assets and property, plant and equipment is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where net realisable value is lower than cost, inventories are written down to this lower value.

Cost comprises the purchase price plus delivery costs.

The net realisable value of inventories is determined as the selling price less costs of completion and costs incurred to effect the sale, taking into account marketability, obsolescence and developments in the expected selling price.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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 comprise costs incurred concerning subsequent financial years.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short term securities which are readily convertible into cash and subject only to minor risks of changes in value.

Equity

Reserve for net revaluation according to the equity method

The net revaluation reserve according to the equity method includes net revaluations of investments in subsidiaries relative to cost. The reserve may be eliminated in case of losses, realisation of investments or a change in accounting estimates. The reserve cannot be recognised at a negative amount.

Reserve for development costs

The reserve for development costs comprises recognised development costs. The reserve cannot be used to distribute dividends or cover losses. The reserve will be reduced or dissolved if the recognised development costs are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

Provisions

Provisions comprise anticipated costs related to warranties. Provisions are recognised when, as a result of past events, the Company has a legal or constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation.

Provisions are measured at net realisable value or at fair value if the obligation is expected to be settled far into the future.

Income taxes

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities.

Deferred tax assets, including the tax value of tax loss carryforwards, are measured at the expected value of their realisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity.

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. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities

Financial liabilities comprising amounts owed to credit institutions, trade payables and payables to external lenders are recognised at the date of borrowing at cost, corresponding to the proceeds received less transaction costs paid. In subsequent periods, financial liabilities are measured at amortised cost.

Other liabilities are measured at net realisable value.

Deferred income

Deferred income comprises payments received concerning income in subsequent years and received grants concerning ongoing development projects.

	DKK'000	2016	2015
2	**Staff costs**		
	Wages/salaries	14,655	8,263
	Pensions	1,236	935
	Other social security costs	126	63
	Other staff costs	205	158
	Staff costs transferred to non-current assets	-5,769	-1,590
		10,453	7,829
	Average number of full-time employees	30	19
3	**Tax for the year**		
	Estimated tax charge for the year	-3,456	-2,779
	Deferred tax adjustments in the year	905	-209
		-2,551	-2,988

Financial statements for the period 1 January - 31 December

Notes to the financial statements

4 Intangible assets

DKK'000	Completed development projects	Acquired intangible assets	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2016	11,691	150	2,059	13,900
Additions in the year	0	292	8,009	8,301
Cost at 31 December 2016	11,691	442	10,068	22,201
Impairment losses and amortisation at 1 January 2016	6,121	80	0	6,201
Amortisation/depreciation in the year	2,207	86	0	2,293
Impairment losses and amortisation at 31 December 2016	8,328	166	0	8,494
Carrying amount at 31 December 2016	3,363	276	10,068	13,707

Intellectual property rights acquired comprise software.

Completed development projects

Completed development consists primarily of Huginn X1. Huginn X1 is one of Sky-Watch A/S' drones. Huginn X1 is amortized over 5 years.

Management is optimistic for the future and there is no indications of impairment in relation to the carrying value of the product.

Development projects in progress

Development projects in progress mainly consist of two large projects, Heidrun and SmartUAV. The management is optimistic for the company's product portfolio, and has not found any indication of impairment in relation to the carrying value.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

5 Property, plant and equipment

DKK'000	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Total
Cost at 1 January 2016	752	341	206	1,299
Additions in the year	286	267	50	603
Cost at 31 December 2016	1,038	608	256	1,902
Impairment losses and depreciation at 1 January 2016	512	216	75	803
Amortisation/depreciation in the year	159	117	43	319
Impairment losses and depreciation at 31 December 2016	671	333	118	1,122
Carrying amount at 31 December 2016	367	275	138	780

6 Investments

DKK'000	Investments in group entities, net asset value
Cost at 1 January 2016	2,451
Cost at 31 December 2016	2,451
Value adjustments at 1 January 2016	-443
Share of the profit/loss for the year	-86
Value adjustments at 31 December 2016	-529
Carrying amount at 31 December 2016	1,922

DKK'000	Legal form	Domicile	Interest	Equity	Profit/loss
Subsidiaries					
Anthea Technologies ApS	ApS	Svendborg	100.00 %	1,112	13

Additions in the year includes goodwill, t.DKK 990, which will be depreciated in 10 years.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

DKK'000	2016	2015
7 Share capital		
Analysis of the share capital:		
25,561,736 shares of DKK 1.00 nominal value each	25,562	15,562
	25,562	15,562

Analysis of changes in the share capital over the past 5 years:

DKK'000	2016	2015	2014	2013	2012
Opening balance	15,562	15,574	15,574	3,869	3,869
Capital increase	10,000	13,111	0	11,705	0
Capital reduction	0	-13,123	0	0	0
	25,562	15,562	15,574	15,574	3,869

8 Long-term liabilities

DKK'000	Total debt at 31/12 2016	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Other credit institutions	1,526	604	922	0
	1,526	604	922	0

9 Deferred tax

The total tax asset amounted to DKK 295 thousand at 31 December 2016.

The tax asset is capitalised based on the Company's expectations for the future, including the utilisation potential for the development projects. The Company expects to report positive results for 2017 and onwards, and accordingly, the tax asset is expected to be utilised within 2-3 years.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

10 Contractual obligations and contingencies, etc.

Other contingent liabilities

Share options comprising 225,000 shares have been granted to the Executive Board. The subscription period expires upon termination of employment.

The Board is authorized to issue warrants to its CEO with the right to subscribe up to a total nominal amount of DKK 311,235 of company shares without pre-emptive rights for other shareholders in the company. The authorization expires November 20, 2020.

The Company is jointly taxed with the other Danish consolidated enterprises. As a consolidated enterprise, together with the other consolidated enterprises included in the joint taxation, the Company has joint and several unlimited liability for Danish corporation taxes. The jointly taxed enterprises' total known net liabilities to SKAT are stated in the financial statements of the administrative company, Dangroup ApS, CVR No. 29 93 07 59. Any subsequent corrections of joint taxation income, etc., may entail that the Company's liability will increase.

Other financial obligations

Other rent and lease liabilities:

DKK'000	2016	2015
Rent and lease liabilities	1,071	475

11 Collateral

The Company has issued mortgages registered to the owner of DKK 700 thousand, secured on plant and machinery with a carrying amount of DKK 779 thousand at 31 December 2016. The owner's mortgage has been deposited as collateral for an instrument of debt to Nordjysk Lånefond.

A company charge of DKK 4,919 thousand has been provided as collateral for amounts owed to credit institutions and banks.

12 Related parties

Sky-Watch A/S' related parties comprise the following:

Ownership

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the votes or minimum 5% of the share capital:

Name	Domicile
Dangroup ApS Sky-Watch A/S is included in the consolidated financial statements of Dangroup ApS.	Englandsvej 14, 5700 Svendborg