

Sky-Watch A/S

Østre Alle 6, 9530 Støvring

CVR no. 32 65 38 47

Annual report 2020

Approved at the Company's annual general meeting on 28 June 2021

Chair of the meeting:

.....
Julie Nielsen





Contents

| | |
|---|----|
| Statement by the Board of Directors and the Executive Board | 2 |
| Independent auditor's report | 3 |
| Management's review | 5 |
| Financial statements 1 January - 31 December | 8 |
| Income statement | 8 |
| Balance sheet | 9 |
| Statement of changes in equity | 11 |
| Notes to the financial statements | 12 |

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 Sky-Watch A/S for the financial year 1 January - 31 December 2020.

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 2020 and of the results of the Company's operations for the financial year 1 January - 31 December 2020.

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, 28 June 2021
Executive Board:

.....
Martin Schousboe

Board of Directors:

.....
Per-Erik Edvard Svehag
Chair

.....
Søren Pedersen

.....
Niels Jesper Jespersen
Jensen

Independent auditor's 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 2020, which comprise 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 2020 and of the results of the Company's operations for the financial year 1 January - 31 December 2020 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements regarding material uncertainty related to going concern.

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 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 as to 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 scepticism throughout the audit. We also:

Independent auditor's report

- ▶ 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 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 the 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 the work we have performed, 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.

Odense, 28 June 2021
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Morten Schougaard Sørensen
State Authorised Public Accountant
mne32129



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 | Martin Schousboe |
| Auditors | EY Godkendt Revisionspartnerselskab Englandsgade 25, P.O. Box 200, 5100 Odense C, Denmark |
| Bankers | Nordea |

Management's review

Business review

The purpose of Sky-Watch is to develop and commercialize market leading mini UAS (Unmanned Aerial Systems) for professional users, primarily in the Defense & Security segment. The company collaborates with world leading corporations to develop leading edge system components and solutions and serves a growing international customer base.

In FY 2020, the company experienced a further strengthening of the Defense & Security related sales pipeline but also saw delays on a few selected contract closure activities. Throughout 2020 Sky-Watch conducted many successful international demonstration activities and are both technically and commercially approved on several large-scale UAV programs. These are expected to contribute significantly to the revenue stream in the coming months and years.

Throughout 2020, and into 2021, the Sky-Watch product and technology platform has seen substantial progress on and increased range of defense & security features and value propositions.

Recognition and measurement uncertainties

Based on the early stage of the UAS technologies and the delay in sales due to Covid-19 the valuation of intangible assets is associated with uncertainty.

As a result of the uncertainty the company has decided to impair all intangible assets in relation to development projects to zero.

Impairment and depreciations of the intangible assets amounts to DKK 21,693 thousand after the corresponding funding has been recognized in the income statement.

Financial review

The Company continued its expansive investments in both technology and product development and positioning in the Defense & Security segment and incurred a loss after tax of DKK 39,057 thousand in the fiscal year 2020, after impairment and depreciation of development costs with the total amount of DKK 21,693 thousand.

In 2020 the shareholders increased the shareholder loan to cover the increased needs for net working capital the cumulated investments in tangible and intangible assets, and to strengthen the overall liquidity of the company, with the continued support from the majority shareholder, Dangroup ApS (a Danish Capital Fund/private equity company).

Equity and reserves are negative at the end of 2020 with DKK 78,670 thousand. The company has lost its capital. Management expects the capital to be regained over the coming years through positive earnings or through capital increase.

The Company expects operating losses and negative cash flows into the foreseeable future as it continues to develop and commercialize its products. These conditions, combined with the fact that, as of December 31, 2020, the Company's cash is not sufficient to fund operations for at least one year after issuance of this report, raised substantial doubt about the Company's ability to continue as a going concern.

Management's current goals include increasing the Company's revenue as well as working to align the working capital position with operations, market demand, and projected sales. If projected sales do not materialize, management may need to reduce expenses. It will be necessary to raise additional funds through the issuance of debt and equity financing. There can be no assurance that such financings will be available at terms acceptable to the Company, if at all. Failure to generate sufficient cash flows from operations, raise additional capital and reduce discretionary spending could have a material adverse effect on the Company's ability to achieve its intended business objectives. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Research and development activities

Development costs in 2020 relates to new technology to the Cumulus and Heidrun UAS platforms and to the twelve co-funded engineering projects.



Management's review

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 1 January - 31 December

Income statement

| Note | DKK'000 | 2020 | 2019 |
|------|---|---------|---------|
| | Gross loss | -5,667 | -2,834 |
| 4 | Staff costs | -10,704 | -13,399 |
| | Amortisation/depreciation and impairment of intangible assets and property, plant and equipment | -22,012 | -4,014 |
| | Profit/loss before net financials | -38,383 | -20,247 |
| | Financial expenses, group enterprises | -2,925 | -2,168 |
| | Financial expenses | -102 | -309 |
| | Profit/loss before tax | -41,410 | -22,724 |
| 5 | Tax for the year | 2,353 | 2,483 |
| | Profit/loss for the year | -39,057 | -20,241 |
| | Recommended appropriation of profit/loss | | |
| | Other statutory reserves | -13,905 | -513 |
| | Retained earnings/accumulated loss | -25,152 | -19,728 |
| | | -39,057 | -20,241 |

Financial statements 1 January - 31 December

Balance sheet

| Note | DKK'000 | 2020 | 2019 |
|------|--|---------------|---------------|
| | ASSETS | | |
| | Fixed assets | | |
| 6 | Intangible assets | | |
| | Completed development projects | 0 | 16,639 |
| | Acquired intangible assets | 250 | 429 |
| | Development projects in progress and prepayments for intangible assets | 0 | 9,209 |
| | | <u>250</u> | <u>26,277</u> |
| 7 | Property, plant and equipment | | |
| | Plant and machinery | 208 | 185 |
| | Other fixtures and fittings, tools and equipment | 109 | 132 |
| | Leasehold improvements | 317 | 455 |
| | | <u>634</u> | <u>772</u> |
| | Total fixed assets | <u>884</u> | <u>27,049</u> |
| | Non-fixed assets | | |
| | Inventories | | |
| | Raw materials and consumables | 5,530 | 5,600 |
| | Finished goods and goods for resale | 316 | 0 |
| | | <u>5,846</u> | <u>5,600</u> |
| | Receivables | | |
| | Trade receivables | 316 | 79 |
| | Income taxes receivable | 2,351 | 2,935 |
| | Other receivables | 667 | 395 |
| | | <u>3,334</u> | <u>3,409</u> |
| | Cash | <u>28</u> | <u>39</u> |
| | Total non-fixed assets | <u>9,208</u> | <u>9,048</u> |
| | TOTAL ASSETS | <u>10,092</u> | <u>36,097</u> |

Financial statements 1 January - 31 December

Balance sheet

| Note | DKK'000 | 2020 | 2019 |
|------|--|----------------|----------------|
| | EQUITY AND LIABILITIES | | |
| | Equity | | |
| 8 | Share capital | 1,000 | 1,000 |
| | Reserve for development costs | 0 | 13,905 |
| | Retained earnings | -79,670 | -54,518 |
| | Total equity | -78,670 | -39,613 |
| | Provisions | | |
| | Other provisions | 4 | 19 |
| | Total provisions | 4 | 19 |
| | Liabilities other than provisions | | |
| | Non-current liabilities other than provisions | | |
| | Deferred income | 0 | 7,412 |
| | | 0 | 7,412 |
| | Current liabilities other than provisions | | |
| | Current portion of long-term liabilities | 0 | 867 |
| | Bank debt | 9,743 | 9,721 |
| | Prepayments received from customers | 32 | 0 |
| | Prepayments grant | 1,421 | 1,923 |
| | Trade payables | 854 | 775 |
| | Payables to group entities | 72,328 | 52,732 |
| | Other payables | 4,374 | 2,204 |
| | Deferred income | 6 | 57 |
| | | 88,758 | 68,279 |
| | Total liabilities other than provisions | 88,758 | 75,691 |
| | TOTAL EQUITY AND LIABILITIES | 10,092 | 36,097 |

- 1 Accounting policies
- 2 Going concern uncertainties
- 3 Recognition and measurement uncertainties
- 9 Contractual obligations and contingencies, etc.
- 10 Contingent assets
- 11 Collateral
- 12 Related parties

Financial statements 1 January - 31 December

Statement of changes in equity

| DKK'000 | Share capital | Reserve for development costs | Retained earnings | Total |
|--|---------------|-------------------------------|-------------------|----------------|
| Equity at 1 January 2019 | 1,000 | 14,418 | -34,790 | -19,372 |
| Transfer through appropriation of loss | 0 | -513 | -19,728 | -20,241 |
| Equity at 1 January 2020 | 1,000 | 13,905 | -54,518 | -39,613 |
| Transfer through appropriation of loss | 0 | -13,905 | -25,152 | -39,057 |
| Equity at 31 December 2020 | 1,000 | 0 | -79,670 | -78,670 |

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Sky-Watch A/S for 2020 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.

Effective from the financial year 2020, the Company has implemented amending act no. 1716 of 27 December 2018 to the Danish Financial Statements Act. The implementation of the amending act has not affected the Company's accounting policies on recognition and measurement of assets and liabilities but has solely entailed a requirement for further disclosures. The accounting policies used in the preparation of the financial statements 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.

Gross loss

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 operating income

Other operating income comprise items of a secondary nature relative to the Company's core activities, including gains on the sale of fixed assets.

Other external expenses

Other external costs comprise costs of distribution, sale, advertising, administration, premises, etc.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Amortisation/depreciation and impairment

The item comprises amortisation/depreciation and impairment 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 |

Profit from investments in subsidiaries and associates

A proportionate share of the underlying entities' profit/loss after tax is recognised in the income statement according to the equity method. Shares of profit/loss after tax in subsidiaries and associates are presented as separate line items in the income statement.

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 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 group entities. 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

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 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Impairment of fixed 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).

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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

Cash comprise cash.

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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.

Prepayments received from customers

Deferred income

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

Financial statements 1 January - 31 December

Notes to the financial statements

2 Going concern uncertainties

Sky-Watch will, due to expected sales activity growth, and continued focus on research and development activities, still need further cash funding in 2021, to assure the financial situation.

Equity and reserves are negative at the end of 2020 with DKK 78,670 thousand. The company has lost its capital. Management expects the capital to be regained over the coming years through positive earnings or through capital increase.

The Company expects operating losses and negative cash flows into the foreseeable future as it continues to develop and commercialize its products. These conditions, combined with the fact that, as of December 31, 2020, the Company's cash is not sufficient to fund operations for at least one year after issuance of this report, raised substantial doubt about the Company's ability to continue as a going concern.

Management's current goals include increasing the Company's revenue as well as working to align the working capital position with operations, market demand, and projected sales. If projected sales do not materialize, management may need to reduce expenses. It will be necessary to raise additional funds through the issuance of debt and equity financing. There can be no assurance that such financings will be available at terms acceptable to the Company, if at all. Failure to generate sufficient cash flows from operations, raise additional capital and reduce discretionary spending could have a material adverse effect on the Company's ability to achieve its intended business objectives. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

3 Recognition and measurement uncertainties

Uncertainty related to valuation of intangible assets

Based on the early stage of the UAS technologies and the delay in sales due to Covid-19 the valuation of intangible assets is connected with uncertainty.

As a result of the uncertainty the company has decided to impair all intangible assets in relation to development projects to zero.

Impairment and depreciations of the intangible assets amounts to DKK 21,693 thousand after the corresponding funding has been recognized in the income statement.

| DKK'000 | 2020 | 2019 |
|---|---------------|---------------|
| 4 Staff costs | | |
| Wages/salaries | 14,715 | 17,779 |
| Pensions | 1,945 | 1,885 |
| Other social security costs | 198 | 249 |
| Other staff costs | 101 | 251 |
| Thereof capitalised under development projects and inventories/cost of goods sold | -6,255 | -6,765 |
| | <u>10,704</u> | <u>13,399</u> |
| Average number of full-time employees | <u>32</u> | <u>33</u> |
| 5 Tax for the year | | |
| Estimated tax charge for the year | -2,351 | -2,935 |
| Tax adjustments, prior years | -2 | 452 |
| | <u>-2,353</u> | <u>-2,483</u> |

Financial statements 1 January - 31 December

Notes to the financial statements

6 Intangible assets

| DKK'000 | Completed development projects | Acquired intangible assets | Development projects in progress and prepayments for intangible assets | Total |
|---|--------------------------------|----------------------------|--|--------|
| Cost at 1 January 2020 | 32,746 | 907 | 9,209 | 42,862 |
| Additions in the year | 0 | 0 | 5,164 | 5,164 |
| Disposals in the year | 0 | -150 | 0 | -150 |
| Transfer from other accounts | 3,022 | 0 | -3,022 | 0 |
| Cost at 31 December 2020 | 35,768 | 757 | 11,351 | 47,876 |
| Impairment losses and amortisation at 1 January 2020 | 16,107 | 478 | 0 | 16,585 |
| Impairment losses in the year | 14,764 | 0 | 11,351 | 26,115 |
| Amortisation/depreciation in the year | 4,897 | 179 | 0 | 5,076 |
| Reversal of amortisation/depreciation and impairment of disposals | 0 | -150 | 0 | -150 |
| Impairment losses and amortisation at 31 December 2020 | 35,768 | 507 | 11,351 | 47,626 |
| Carrying amount at 31 December 2020 | 0 | 250 | 0 | 250 |

Completed development projects and development projects in progress

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

Based on uncertainty related to expected future sales the assets have been impaired.

In 2020 received grants (deferred income) totaling DKK 9.497 thousand has been recognized as an income. The grants were related to the impaired assets.

Financial statements 1 January - 31 December

Notes to the financial statements

7 Property, plant and equipment

| DKK'000 | Plant and machinery | Other fixtures and fittings, tools and equipment | Leasehold improvements | Total |
|---|---------------------|--|------------------------|-------|
| Cost at 1 January 2020 | 538 | 745 | 814 | 2,097 |
| Additions in the year | 52 | 94 | 0 | 146 |
| Disposals in the year | -50 | -147 | 0 | -197 |
| Cost at 31 December 2020 | 540 | 692 | 814 | 2,046 |
| Impairment losses and depreciation at 1 January 2020 | 353 | 613 | 359 | 1,325 |
| Amortisation/depreciation in the year | 29 | 117 | 138 | 284 |
| Reversal of amortisation/depreciation and impairment of disposals | -50 | -147 | 0 | -197 |
| Impairment losses and depreciation at 31 December 2020 | 332 | 583 | 497 | 1,412 |
| Carrying amount at 31 December 2020 | 208 | 109 | 317 | 634 |

Financial statements 1 January - 31 December

Notes to the financial statements

| DKK'000 | 2020 | 2019 |
|---|--------------|--------------|
| 8 Share capital | | |
| Analysis of the share capital: | | |
| 1,000,000 shares of DKK 1.00 nominal value each | 1,000 | 1,000 |
| | <u>1,000</u> | <u>1,000</u> |

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

| DKK'000 | 2020 | 2019 | 2018 | 2017 | 2016 |
|-------------------|--------------|--------------|---------------|---------------|---------------|
| Opening balance | 1,000 | 1,000 | 15,562 | 15,574 | 15,574 |
| Capital increase | 0 | 0 | 15,562 | 15,574 | 15,574 |
| Capital reduction | 0 | 0 | 15,562 | 15,574 | 15,574 |
| | <u>1,000</u> | <u>1,000</u> | <u>46,686</u> | <u>46,722</u> | <u>46,722</u> |

9 Contractual obligations and contingencies, etc.

Other contingent liabilities

Share options comprising 30,900 shares have been granted to the Executive Board and employees. The subscription period expires upon termination of employment.

The Company is jointly taxed with the other Danish enterprises in Dangroup ApS. 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 | 2020 | 2019 |
|----------------------------|------------|------------|
| Rent and lease liabilities | 647 | 674 |
| | <u>647</u> | <u>674</u> |

10 Contingent assets

The company has a deferred tax asset of DKK 9,932 thousand that has not been capitalized.

Financial statements 1 January - 31 December

Notes to the financial statements

11 Collateral

The Company has issued mortgages registered to the owner of DKK 700 thousand, secured on property, plant and equipment with a carrying amount of DKK 634 thousand at 31 December 2020. The owner's mortgage has been deposited as collateral for an instrument of debt to Nordjysk Lånefond.

A company charge of DKK 3,400 thousand has been provided as collateral for amounts owed to credit institutions and banks.

12 Related parties

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:

| <u>Name</u> | <u>Domicile</u> |
|--------------|---|
| Dangroup ApS | Skodsborg Strandvej 182, 2942 Skodsborg |

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Martin Schousboe

Direktion

På vegne af: SkyWatch AS

Serienummer: PID:9208-2002-2-540702727603

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2021-06-28 12:11:41Z

NEM ID 

Niels Jesper Jespersen Jensen

Bestyrelse

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Serienummer: PID:9208-2002-2-085073257459

IP: 62.107.xxx.xxx

2021-06-28 13:00:20Z

NEM ID 

Per-Erik Edvard Svehag

Bestyrelse

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Serienummer: PID:9208-2002-2-781283037278

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NEM ID 

Søren Pedersen

Bestyrelse

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Serienummer: PID:9208-2002-2-889528945845

IP: 2.104.xxx.xxx

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NEM ID 

Morten Schougaard Soerensen

Statsautoriseret revisor

På vegne af: EY Godkendt Revisionspartnerselskab

Serienummer: CVR:30700228-RID:40820229

IP: 145.62.xxx.xxx

2021-06-28 14:53:39Z

NEM ID 

Julie Nielsen

Dirigent

På vegne af: SkyWatch AS

Serienummer: PID:9208-2002-2-685254796041

IP: 77.243.xxx.xxx

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